LOWES COMPANIES INC
Form 10-K
April 02, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 1, 2019
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to _________
Commission file number 1-7898
LOWE'S COMPANIES, INC.
(Exact name of registrant as specified in its charter)

NORTH CAROLINA	56-0578072
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Lowe's Blvd., Mooresville, NC	28117
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 704-758-1000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.50 Par Value	New York Stock Exchange (NYSE)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. o Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

As of August 3, 2018, the last business day of the Company’s most recent second quarter, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $79.2 billion based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT 3/29/2019
Common Stock, $0.50 par value	795,922,717

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for Lowe’s 2019 Annual Meeting of Shareholders	Part III

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Part I

Item 1 - Business

General Information

Lowe’s Companies, Inc. and subsidiaries (the Company or Lowe’s) is a Fortune® 50 company and the world’s second largest home improvement retailer. As of February 1, 2019, Lowe’s operated 2,015 home improvement and hardware stores, representing approximately 209 million square feet of retail selling space. These operations included 1,723 stores located across 50 U.S. states, as well as 279 stores in Canada. In addition, as of February 1, 2019, Lowe’s operated 13 stores in Mexico; however, on November 20, 2018, the Company announced its plans to exit its retail operations in Mexico and is currently exploring exit alternatives.

The Canadian stores include RONA inc. (RONA) which was acquired by Lowe’s in 2016. RONA operates 212 stores in Canada as of February 1, 2019, as well as services approximately 231 dealer-owned stores. The RONA stores represent various complementary store formats operating under various banners.

Lowe’s was incorporated in North Carolina in 1952 and has been publicly held since 1961. The Company’s common stock is listed on the New York Stock Exchange - ticker symbol “LOW”.

See Item 6, “Selected Financial Data”, of this Annual Report on Form 10-K (Annual Report), for historical revenues, profits and identifiable assets. For additional information about the Company’s performance and financial condition, see also Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, of this Annual Report.

Customers, Market and Competition

Our Customers

We serve homeowners, renters, and professional customers (Pro customers). Individual homeowners and renters complete a wide array of projects and vary along the spectrum of do-it-yourself (DIY) and do-it-for-me (DIFM). The Pro customer consists of two broad categories: construction trades; and maintenance, repair & operations.

Our Market

The U.S. market remains our predominant market, accounting for approximately 92% of consolidated sales for the fiscal year ended February 1, 2019. We are among the many businesses, including home centers, paint stores, hardware stores, lumber yards and garden centers, whose revenues are included in the Building Material and Garden Equipment and Supplies Dealers Subsector (444) of the Retail Trade Sector of the North American Industry Classification System (NAICS), the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

NAICS 444 represents roughly half of what we consider the total U.S. market for our products and services. The broader market in which Lowe’s operates includes home-related sales through a variety of companies beyond those in NAICS 444. These consist of other companies in the retail sector, including mass retailers, home goods specialty stores, and online retailers, as well as wholesalers that provide home-related products and services to homeowners, businesses, and the government.

There are many variables that affect consumer demand for the home improvement products and services Lowe's offers. Key indicators we monitor include real disposable personal income, employment, home prices, and housing turnover. We also monitor demographic and societal trends that shape home improvement industry growth.

Our Competition

The home improvement industry includes a broad competitive landscape. We compete with other national and international home improvement warehouse chains and lumberyards in most of our trade areas. We also compete with traditional hardware, plumbing, electrical, home supply retailers, and maintenance and repair organizations. In addition, we compete with general merchandise retailers, warehouse clubs, and online and other specialty retailers as well as service providers that install home improvement products. Location of stores continues to be a key competitive factor in our industry; however, the increasing use of technology and the simplicity of online shopping also underscore the importance of omni-channel capabilities as a

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competitive factor. We differentiate ourselves from our competitors by providing better customer experiences while delivering superior value in products and service. See further discussion of competition in Item 1A, “Risk Factors”, of this Annual Report.

Products and Services

Our Products

Product Selection

To meet customers’ varying needs, we offer a complete line of products for construction, maintenance, repair, remodeling, and decorating. We offer home improvement products in the following categories: Lumber & Building Materials, Appliances, Seasonal & Outdoor Living, Tools & Hardware, Fashion Fixtures, Rough Plumbing & Electrical, Paint, Millwork, Lawn & Garden, Flooring, and Kitchens. A typical Lowe’s-branded home improvement store stocks approximately 34,000 items, with hundreds of thousands of additional items available through our Special Order Sales system and various online selling channels. See Note 19 of the Notes to Consolidated Financial Statements included in Item 8, “Financial Statements and Supplementary Data”, of this Annual Report for historical revenues by product category for each of the last three fiscal years.

We are committed to offering a wide selection of national brand-name merchandise complemented by our selection of private brands. In addition, we are dedicated to ensuring the products we sell are sourced in a socially responsible, efficient, and cost effective manner.

National Brand-Name Merchandise

In many product categories, customers look for a familiar and trusted national brand to instill confidence in their purchase. Lowe’s home improvement stores carry a wide selection of national brand-name merchandise such as Whirlpool®, GE®, LG®, and Samsung® appliances, Stainmaster® carpets, Sherwin-Williams® and Valspar® paints and stains, Pella® windows and doors, Pergo® hardwood flooring, Dewalt® power tools, Hitachi® pneumatic tools, Weber® and Char-Broil® grills, Owens Corning® insulation and roofing, GAF® roofing, James Hardie® fiber cement siding, Marshalltown® masonry tools and concrete, Husqvarna® outdoor power equipment, John Deere® riding lawn mowers, Werner® ladders, Quoizel® lighting, Nest® products, SharkBite® plumbing products, A. O. Smith® water heaters, Norton® abrasives, and many more. In 2018, we welcomed CRAFTSMAN® to our portfolio of brands offering a variety of tools, storage and outdoor power equipment. We also expanded our partnership with Sherwin Williams® becoming the only national home center to offer Krylon® spray paint, Minwax® stains and finishes, Cabot® stains, Thompson’s Water Seal® stains and waterproofing, and Purdy® paint brushes. In addition, we added brand name merchandise such as Estwing® hammers, Zoeller® pumps, MAPEI® tile-setting materials, and SMARTCORE® vinyl plank products to our portfolio. Our merchandise selection provides the retail and Pro customer a one-stop shop for a wide variety of national brand-name merchandise needed to complete home improvement, repair, maintenance, or construction projects.

Private Brands

Private brands are an important element of our overall portfolio, helping to provide significant value and coordinated style across core categories. We sell private brands in several of our product categories. Some of Lowe’s most important private brands include Kobalt® tools, allen+roth® home décor products, Blue Hawk® home improvement products, Project Source® basic value products, Portfolio® lighting products, Garden Treasures® lawn and patio products, Utilitech® electrical and utility products, Reliabilt® doors and windows, Aquasource® faucets, sinks and toilets, Harbor Breeze® ceiling fans, and Top Choice® lumber products.

Supply Chain

We source our products from vendors worldwide and believe that alternative and competitive suppliers are available for virtually all of our products. Whenever possible, we purchase directly from manufacturers to provide savings for customers and improve our gross margin.

To efficiently move product from our vendors to our stores and maintain in-stock levels, we own and operate distribution facilities that enable products to be received from vendors, stored and picked, or cross-docked, and then shipped to our retail locations or directly to customers. These facilities include 15 highly-automated regional distribution centers (RDC) and 15 flatbed distribution centers (FDC) in the United States. The FDCs distribute merchandise that requires special handling due to size or type of packaging such as lumber, boards, panel products, pipe, siding, ladders, and building materials. On average, each RDC and FDC serves approximately 115 stores. We also own and operate seven distribution centers, including four lumber yards, to serve our Canadian market.

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In addition to the RDCs and FDCs, we also operate coastal holding facilities, transload facilities, appliance distribution centers, and a direct fulfillment center focused on parcel post eligible products. Collectively, our facilities enable our import and e-commerce, as well as parcel post eligible products, to get to their destination as efficiently as possible. Most parcel post items can be ordered by a customer and delivered within two business days at standard shipping rates.

In fiscal 2018, on average, approximately 80% of the total dollar amount of stock merchandise we purchased was shipped through our distribution network, while the remaining portion was shipped directly to our stores from vendors.

Our Services

Installed Sales
We offer installation services through independent contractors in many of our product categories, with Appliances, Flooring, Kitchens, Lumber & Building Materials, and Millwork accounting for the majority of installed sales. Our Installed Sales model, which separates selling and project administration tasks, allows our sales associates to focus on project selling, while project managers ensure that the details related to installing the products are efficiently executed. Installed Sales, which includes both product and labor, accounted for approximately 7% of total sales in fiscal 2018.

Extended Protection Plans and Repair Services
We offer extended protection plans for various products within the Appliances, Kitchens, Fashion Fixtures, Millwork, Rough Plumbing & Electrical, Seasonal & Outdoor Living, and Tools & Hardware categories. These protection plans provide customers with product protection that enhances or extends coverage offered by the manufacturer’s warranty, and provides additional customer friendly benefits that go beyond the scope of a manufacturer’s warranty. The protection plans provide in-warranty and out-of-warranty repair services for major appliances, outdoor power equipment, tools, grills, fireplaces, air conditioners, water heaters, and other eligible products through our stores or in the home through the Lowe’s Authorized Service Repair Network. We offer replacement plans for products in most of these categories when priced below $300, or otherwise specified category-specific price points. Our contact center takes customers’ calls, assesses the problems, and facilitates resolutions, making after-sales service easier for our customers by managing the entire process.

Selling Channels

We are continuing to enhance our omni-channel capabilities, which allows our customers to move from channel to channel with simple and seamless transitions even within the same transaction. For example, for many projects, more than half of our customers conduct research online before making an in-store purchase. For purchases made on Lowes.com, customers may pick up their purchase in-store, have their purchase delivered from a store, or have their purchase parcel shipped. In addition, flexible fulfillment options are available for in-store purchases and those made through the contact center. Regardless of the channels through which customers choose to engage with us, we strive to provide them with a seamless experience across channels and an endless aisle of products, enabled by our flexible fulfillment capabilities. Our ability to sell products in-store, online, on-site, or through our contact centers speaks to our ability to leverage our existing infrastructure with the omni-channel capabilities we continue to introduce.

In-Store
Our 1,790 Lowe’s-branded home improvement stores, inclusive of 1,723 in the U.S. and 67 in Canada, are generally open seven days per week and average approximately 112,000 square feet of retail selling space, plus approximately 32,000 square feet of outdoor garden center selling space. The 212 RONA stores operate under various complementary store formats that address target customers and occasions. Our home improvement stores in the U.S.

and Canada offer similar products and services, with certain variations based on local market factors. We continue to develop and implement tools to make our sales associates more efficient and to integrate our order management and fulfillment processes. Our home improvement stores have Wi-Fi capabilities that provide customers with internet access, making information available quickly to further simplify the shopping experience.

Online

Through our websites and mobile applications, we seek to empower consumers by providing a 24/7 shopping experience, online product information, customer ratings and reviews, online buying guides and how-to videos and other information. These tools help consumers make more informed purchasing decisions and give them increased confidence to undertake home improvement projects. We enable customers to choose from a variety of fulfillment options, including buying online and picking up in-store as well as delivery or parcel shipment to their homes.

In addition, our LowesForPros.com online tool allows for easy online ordering for our Pro customers, and their choice of in-store pick-up or delivery, saving them time and money.

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On-Site
We have on-site specialists available for retail and Pro customers to assist them in selecting products and services for their projects. Our Account Executives ProServices meet with Pro customers at their place of business or on a job site and leverage stores within the area to ensure we meet customer needs for products and resources. In addition, our Project Specialist Exteriors (PSE) program is available in all U.S. Lowe’s home improvement stores to discuss exterior projects such as roofing, siding, fencing, and windows, whose characteristics lend themselves to an in-home consultative sales approach.

Contact Centers
Lowe’s operates three contact centers which are located in Wilkesboro, NC, Albuquerque, NM, and Indianapolis, IN. These contact centers help Lowe’s enable an omni-channel customer experience by providing the ability to tender sales, coordinate deliveries, manage after-sale installations, facilitate repair services for Appliances and Outdoor Power Equipment, and answer general customer questions via phone, mail, e-mail, live chat, and social media.

Employees

As of February 1, 2019, we employed approximately 190,000 full-time and 110,000 part-time employees. Certain employees in Canada are subject to collective bargaining agreements. No other employees are subject to collective bargaining agreements. Management considers its relations with employees to be good.

Seasonality and Working Capital

The retail business in general is subject to seasonal influences, and our business is, to some extent, seasonal. Historically, we have realized the highest volume of sales during our second fiscal quarter (May, June and July) and the lowest volume of sales during our fourth fiscal quarter (November, December and January). Accordingly, our working capital requirements have historically been greater during our fourth fiscal quarter as we build inventory in anticipation of the spring selling season and as we experience lower fourth fiscal quarter sales volumes. We fund our working capital requirements primarily through cash flows generated from operations, but also with short-term borrowings, as needed. For more detailed information, see the Financial Condition, Liquidity and Capital Resources section in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, of this Annual Report.

Intellectual Property

The name “Lowe’s” is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary and other wholly owned subsidiaries own and maintain various additional registered and unregistered trademarks, trade names and service marks, including but not limited to retail names “RONA” and “Reno Depot”, and private brand product names “Kobalt” and “allen+roth”. These subsidiaries also maintain various Internet domain names that are important to our business, and we also own registered and unregistered copyrights. In addition, we maintain patent portfolios related to some of our products and services and seek to patent or otherwise protect certain innovations that we incorporate into our products, services, or business operations.

Sustainability

Lowe’s is committed to leveraging our time, talents and resources to make our world better by making our communities stronger and making people want to connect with us as their partner in home improvement.

In fiscal 2018, the Board of Directors created a Sustainability Committee that oversees sustainability and environmental matters and monitors related trends and risks. The Company also has a Sustainability Council, led by senior executives. Our strategy focuses on responsible sourcing, offering safe and eco-friendly products, maintaining diverse, healthy, engaged, and skilled workforce, supporting our local communities, and operating ethically and responsibly. We also established new goals to advance our corporate responsibility efforts and intend to work towards achieving the following goals by 2025:

- Lowe’s and the Lowe’s Foundation intends to invest $350 million in local communities through partnerships and charitable contributions.
- Lowe’s will encourage employees to contribute more than three million volunteer hours to improve the communities where they live, work, and play.
- Lowe’s intends to ensure all strategic suppliers have sustainability goals.

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- Lowe’s intends to increase the number of eco-friendly products available to customers, with the goal of helping our customers save more than $40 billion in energy costs through the sale of ENERGY STAR® products.
- Lowe’s intends to have all wood products responsibly sourced.

We want our customers to feel good about the high-quality products they choose at Lowe’s. Our products undergo a rigorous selection process, beginning with our sourcing decisions. We give considerable attention to how our products are created and about the people who make them. Through collaboration and established management systems, we monitor our suppliers’ practices to ensure we are securing high quality products from suppliers who support worker rights and protect the environment. We are also including innovative, efficient and eco-certified products into our portfolio that provide health and environmental benefits to meet the needs of an increasing customer demand. We are continuing to work with local and regional utilities to offer customers assorted rebates for a variety of environmentally efficient products including ENERGY STAR® and WaterSense®.

As a responsible corporate citizen, Lowe’s takes environmental sustainability and product safety very seriously. In fiscal 2018, we published an updated wood sourcing policy to ensure that all wood products sold in our stores originate from well-managed, non-endangered forests and committed to achieve 100 percent Forest Stewardship Council (FSC) certification for all wood products sourced from identified regions at risk by 2020. To manage chemicals more responsibly, Lowe’s implemented a safer chemicals policy through a number of strategic actions and commitments. In addition, Lowe’s stopped the sale of all products containing methylene chloride and N-Methyl-2-Pyrrolidone (NMP) online and from our stores.

We are committed to reducing our climate impact through sustainable practices and conservation. In fiscal 2018, 399 retail locations upgraded to interior light-emitting diode (LED) lighting. We also replaced 104 aging HVAC units with high-efficiency units and added Variable Fan Drive systems in over 419 stores. We also signed our first renewable energy agreement comprised of 100 megawatts of renewable wind energy in 2018.

We are dedicated to promoting sustainable practices in the transportation industry, and we collaborate with the Environmental Protection Agency’s SmartWay program to reduce transportation emissions by managing and reducing fuel usage by creating incentives for freight contractors to improve efficiency and are proud to be the only retailer to achieve the Environmental Protection Agency SmartWay Excellence Award ten years in a row.

Lowe’s participates in the Carbon Disclosure Project’s climate, forestry, and water questionnaires to benchmark and quantify our environmental efforts. In fiscal 2018, Lowe’s also externally verified its greenhouse gas emissions data collection and analysis to validate our findings and increase confidence in our reporting. At a local level, store waste, including cardboard, broken appliances, wood pallets, and more, are recycled through national and regional partners, and we provide in-store recycling centers for our customers to bring in compact fluorescent lamp bulbs, plastic bags, and rechargeable batteries.

In addition, managing our water resources is essential, particularly in regions experiencing drought conditions. Our HydroPoint systems, which combine real-time weather data with site-specific information to reduce water consumption and save on utility costs, are now deployed to approximately 925 locations, covering all stores with operable irrigation systems.

For more information about Lowe’s sustainability efforts, please visit Newsroom.Lowes.com/Responsibility.

Investing in Our Communities

Lowe’s has a long and proud history of supporting local communities through volunteerism as well as public education and community improvement projects, beginning with the creation of the Lowe’s Foundation in 1957. In 2018, all U.S. Lowe’s stores completed at least one Lowe’s Heroes volunteer project, contributing approximately 200,000 hours to improve spaces in their local communities. Lowe’s and the Lowe’s Foundation donated approximately $46 million to schools and community organizations in the United States, Canada, and Mexico, including disaster relief and rebuilding efforts.

Lowe’s continues to work with national nonprofit partners to strengthen and stabilize neighborhoods across the country. In 2018, Lowe’s contributed $7 million and teamed with Habitat for Humanity and Rebuilding Together to provide housing solutions for families across the country. Lowe’s also supported nonprofits including the Hispanic Scholarship Fund, Thurgood Marshall Scholarship, United Negro College Fund, the Boys & Girls Clubs of America, SkillsUSA, The Nature Conservancy and Keep America Beautiful to improve communities and build tomorrow’s leaders.

Lowe’s is also committed to helping communities in the days leading up to and months following a natural disaster. In 2018, Lowe’s contributed more than $4 million to disaster relief and mobilized hundreds of volunteers to help communities recovering from storms like Hurricanes Florence and Michael. After Hurricane Florence made landfall, Lowe’s doubled the

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Company’s match for the Employee Relief Fund, which provides financial support to associates affected by natural disasters and other hardships. That match continued throughout the year. Together, Lowe’s and its generous associates raised over $4.0 million in 2018, helping approximately 3,100 associates in need.
Today, Lowe’s strategic philanthropic giving focuses on the critical needs affecting its associates, communities and industry by supporting safe, affordable housing initiatives as well as skilled trade education.
For more information on Lowe’s partnerships and latest community improvement projects, visit Newsroom.Lowes.com/Responsibility.

Available Information

Our Annual Report, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our internet website at www.Lowes.com/investor, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A - Risk Factors

We have developed a risk management process using periodic surveys, external research, planning processes, risk mapping, analytics and other tools to identify and evaluate the operational, financial, environmental, reputational, strategic and other risks that could adversely affect our business. For more information about our risk management framework, which is administered by our Chief Financial Officer and includes developing risk mitigation controls and procedures for the material risks we identify, see the description included in the definitive Proxy Statement for our 2019 annual meeting of shareholders (as defined in Item 10 of Part III of this Annual Report) under “Information About the Board of Directors and Committees of the Board - Board Meetings, Committees of the Board and Board Leadership Structure - Board’s Role in the Risk Management Process.”

We describe below certain risks that could adversely affect our results of operations, financial condition, business reputation or business prospects. These risk factors may change from time to time and may be amended, supplemented or superseded by updates to the risk factors contained in our future periodic reports on Form 10-K, Form 10-Q and reports on other forms we file with the Securities and Exchange Commission. All forward-looking statements about our future results of operations or other matters made by us in this Annual Report, in our Annual Report to Lowe’s Shareholders and in our subsequently filed reports to the Securities and Exchange Commission, as well as in our press releases and other public communications, are qualified by the risks described below.

You should read these risk factors in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and our consolidated financial statements and related notes in Item 8. There also may be other factors that we cannot anticipate or that are not described in this Annual Report generally because we do not currently perceive them to be material. Those factors could cause results to differ materially from our expectations.

We may be unable to adapt our business concept in a rapidly evolving retail environment to address the changing shopping habits, demands and demographics of our customers, or realize the intended benefits of organizational change initiatives.
The home improvement retail environment, like the retail environment generally, is rapidly evolving, and adapting our business concept to respond to our customers’ changing shopping habits and demands and their changing demographics is critical to our future success. Our success is dependent on our ability to identify and respond to the economic, social, style and other trends that affect demographic and consumer preferences in a variety of our

merchandise categories and service offerings. Customers' expectations about how they wish to research, purchase and receive products and services have also evolved. It is difficult to predict the mix of products and services that our customers will demand. Failure to identify such trends, adapt our business concept, and implement change, growth, and productivity initiatives successfully could negatively affect our relationship with our customers, the demand for the home improvement products and services we sell, the rate of growth of our business, our market share and results of operations.

We may not be able to realize the benefits of our strategic initiatives focused on omni-channel sales and marketing presence if we fail to deliver the capabilities required to execute on them.
Our interactions with customers has evolved into an omni-channel experience as they increasingly are using computers, tablets, mobile phones and other devices to shop in our stores and online and provide feedback and public commentary about all

aspects of our business. Omni-channel retail is quickly evolving, and we must anticipate and meet our customers' expectations and counteract new developments and technology investments by our competitors. Our customer-facing technology systems must appeal to our customers, function as designed and provide a consistent customer experience. The success of our strategic initiatives to adapt our business concept to our customers' changing shopping habits and demands and changing demographics will require us to deliver large, complex programs requiring more integrated planning, initiative prioritization and program sequencing. These initiatives will require new competencies in many positions, and our management, employees and contractors will have to adapt and learn new skills and capabilities. To the extent they are unable or unwilling to make these transformational changes, we may be unable to realize the full benefits of our strategic initiatives and expand our relevant market access. Our results of operations, financial condition or business prospects could also be adversely affected if we fail to provide a consistent experience for our customers, regardless of sales channel, if our technology systems do not meet our customers' expectations, if we are unable to counteract new developments and innovations implemented by our competitors or if we are unable to attract, retain and manage the talent succession of additional personnel at various levels of the Company who have the skills and capabilities we need to implement our strategic initiatives and drive the changes that are essential to successfully adapting our business concept in the rapidly changing retail environment.

Our business and our reputation could be adversely affected by cybersecurity incidents and the failure to protect customer, employee, vendor or Company information or to comply with evolving regulations relating to our obligation to protect our systems, assets and such information.

Cyber-attacks and tactics designed to gain access to and exploit sensitive information by breaching mission critical systems of large organizations are constantly evolving, and high profile security breaches leading to unauthorized release of sensitive customer information have occurred in recent years with increasing frequency at a number of major U.S. companies, including several large retailers, despite widespread recognition of the cyber-attack threat and improved data protection methods. As with many other retailers, we receive and store certain personal information about our customers, employees and vendors. Additionally, we use third-party service providers for certain services, such as authentication, content delivery, back-office support and other functions, and we provide such third-party service providers with personal information necessary for the services concerned. Despite our continued vigilance and investment in information security, we, like others in our industry, are subject to the risk that unauthorized parties may attempt to gain access to our systems or our information through fraud or other means of deceiving our associates, third party providers, or vendors, and we or our third-party service providers cannot guarantee that we or they are able to adequately anticipate or prevent a future breach in our or their systems that results in the unauthorized access to, destruction, misuse or release of personal information or other sensitive data. It can be difficult to preempt or detect ever-evolving forms of cyber-attacks. If a ransomware attack occurs, it is possible that we could be prevented from accessing our own data. Our information security or our service providers' information security may also be compromised because of human errors, including by employees, or system errors. Our systems and our service providers' systems are additionally vulnerable to a number of other causes, such as power outages, computer viruses, technology system failures or catastrophic events. In the event that our systems are breached or damaged for any reason, we may also suffer loss or unavailability of data and interruptions to our business operations while such breach or damage is being remedied. Should these events occur, the unauthorized disclosure, loss or unavailability of data and disruption to our business may have a material adverse effect on our reputation, drive existing and potential customers away and lead to financial losses from remedial actions, or potential liability, including possible litigation and punitive damages. A security breach resulting in the unauthorized release of data from our information systems or our third-party service providers' information systems could also materially increase the costs we already incur to protect against such risks and require dedication of substantial resources to manage the aftermath of such a breach. Data privacy and cybersecurity laws in the United States and internationally are constantly changing, and in the United States alone, we may be subject to regulation at both the federal and state level. In order to maintain our compliance with such laws as they come to fruition, we may sustain increased costs in order to continually evaluate our policies and processes and adapt to new requirements that are or become applicable to us. As the regulatory environment relating to retailers' and other companies' obligation to protect personal information becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines, other regulatory sanctions or government investigation, and potentially to lawsuits brought by private individuals, regulators or states' attorney general.

We could be adversely affected by the failure to adequately protect and maintain our intellectual property rights or claims by third parties that we infringe their intellectual property rights.
Our proprietary rights in our trademarks, trade names, service marks, domain names, copyrights, patents, trade secrets and other intellectual property rights are valuable assets of our business. We rely on a combination of trademark law, patent law, copyright law, trade secret protections and contractual arrangements, such as nondisclosure and confidentiality agreements, to protect our proprietary rights. Maintenance and, when necessary, enforcement of our intellectual property rights require expenditure of financial and managerial resources, and despite our efforts, we may not always be able to effectively protect all of such rights. We may not be able to prevent or even discover every instance of unauthorized third party uses of our intellectual property or dilution of our brand names, such as when a third party uses trademarks that are identical or similar to our own. Additionally, our trade secrets are vulnerable to public disclosure by our own employees or as a result of a breach of

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or damage to our systems, which could result in theft of our proprietary property. We may also be subject to intellectual property infringement lawsuits, brought by third parties against us claiming that our operations, products or services infringe third party rights (whether meritorious or not), including patent and trademark rights, which can be time consuming and costly to defend or settle and may cause significant diversion of management attention and result in substantial monetary damages, injunctive orders against us, unfavorable royalty-bearing licensing agreements or bad publicity.

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.
We accept payments using a variety of methods, including credit cards, debit cards, credit accounts, our private label and co-branded credit cards, gift cards, consumer invoicing and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, electronic checks, gift cards and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

As customer-facing technology systems become an increasingly important part of our omni-channel sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.
Access to the Internet from computers, tablets, smart phones and other mobile communication devices has empowered our customers and changed the way they shop and how we interact with them. Our websites, including Lowes.com and Lowesforpros.com, are a sales channel for our products, and are also a method of making product, project and other relevant information available to our customers that impacts our in-store sales. Additionally, we have multiple affiliated websites and mobile apps through which we seek to inspire, inform, cross-sell, establish online communities among and otherwise interact with our customers. Performance issues with these customer-facing technology systems, including temporary outages caused by distributed denial of service, ransomware or other cyber-attacks, or a complete failure of one or more of them without a disaster recovery plan that can be quickly implemented, could quickly destroy the positive benefits they provide to our home improvement business and negatively affect our customers' perceptions of Lowe's as a reliable online vendor and source of information about home improvement products and services.

If we fail to hire, train, manage and retain qualified sales associates and specialists with expanded skill sets or corporate support staff with the capabilities of delivering on strategic objectives, we could lose sales to our competitors, and our labor costs, resulting from operations or the execution of corporate strategies, could be negatively affected.
Our customers, whether they are homeowners, renters or commercial businesses, expect our sales associates and specialists to be well trained and knowledgeable about the products we sell and the home improvement services we provide. We compete with other retailers for many of our sales associates and specialists, and we invest significantly in them with respect to training and development to strive for high engagement. Increasingly, our sales associates and specialists must have expanded skill sets, including, in some instances, the ability to do in-home or telephone sales. A

challenge we face is attracting and retaining a sufficiently diverse workforce that can deliver relevant, culturally competent and differentiated experiences for a wide variety of culturally diverse customers. In fact, in many of our stores, our employees must be able to serve customers whose primary language and cultural traditions are different from their own. Additionally, in order to deliver on the omni-channel expectations of our customers, we rely on the specialized training and capabilities of corporate support staff, which are broadly sought after by our competitors. If we are unable to hire, train, manage and retain qualified sales associates and specialists, the quality of service we provide to our customers may decrease and our results of operations could be negatively affected. Furthermore, our ability to meet our labor needs, particularly in a competitive labor market, while controlling our costs is subject to a variety of external factors, including wage rates, the availability of and competition for talent, health care and other benefit costs, our brand image and reputation, changing demographics and adoption of new or revised immigration, employment, and labor laws and regulations. Periodically, we are subject to labor organizing efforts, and if we become subject to collective bargaining agreements in the future, it could adversely affect how we operate our business and adversely affect our labor costs and our ability to retain a qualified workforce.

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If we do not successfully manage the transitions associated with the appointment of a new Chairman, Chief Executive Officer and Chief Financial Officer and other members of our leadership team as part of a new leadership structure, it could have an adverse impact on our business operations as well as be viewed negatively by our customers and shareholders.

On May 20, 2018, the Board of Directors of the Company appointed Marvin R. Ellison as President and Chief Executive Officer and Richard R. Dreiling as Chairman of the Board of Directors, in each case, effective as of July 2, 2018. On July 2, 2018, Mr. Ellison assumed the office of President and Chief Executive Officer and joined the Board of Directors, and Mr. Dreiling became Chairman of the Board of Directors. Mr. Ellison and Mr. Dreiling succeeded Robert A. Niblock. who retired as Chairman, President and Chief Executive Officer of the Company and member of the Board of Directors effective July 2, 2018. On June 4, 2018, we announced that Marshall A. Croom planned to retire from the Company, effective October 5, 2018, and on August 22, 2018, we named David M. Denton as Executive Vice President, Chief Financial Officer, which appointment became effective on November 19, 2018. In addition, on July 9, 2018, we announced the implementation of a new leadership structure and named William P. Boltz as Executive Vice President, Merchandising effective August 15, 2018. On July 20, 2018, we named Joseph M. McFarland III as Executive Vice President, Stores, effective August 15, 2018. On August 7, 2018, we named Donald E. Frieson as Executive Vice President, Supply Chain, effective August 8, 2018. On November 2, 2018, the Company announced the appointment of Seemantini Godbole as Chief Information Officer, effective November 12, 2018. Such leadership transitions can be inherently difficult to manage, and an inadequate transition may cause disruption to our business, including to our relationships with our customers, suppliers, vendors and employees. It may also make it more difficult to hire and retain key employees.

Positively and effectively managing our public image and reputation is critical to our business success, and, if our public image and reputation are damaged, it could negatively impact our relationships with our customers, vendors and store associates and specialists and, consequently, our business and results of operations.

Our public image and reputation are critical to ensuring that our customers shop at Lowe’s, our vendors want to do business with Lowe’s and our sales associates and specialists want to work for Lowe’s. We must continue to manage, preserve and grow Lowe’s public image and reputation. Any negative incident can erode trust and confidence quickly, and adverse publicity about us could damage our reputation and brand image, undermine our customers’ confidence, reduce demand for our products and services, affect our relationships with current and future vendors, impact our results of operations and affect our ability to retain and recruit store associates and specialists. The significant expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by such negative incidents.

Strategic transactions, such as our acquisition of RONA and Maintenance Supply Headquarters, involve risks, and we may not realize the expected benefits because of numerous uncertainties and risks.

We regularly consider and enter into strategic transactions, including mergers, acquisitions, joint ventures, investments and other growth, market and geographic expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and other various benefits. Our ability to deliver the expected benefits from any strategic transaction is subject to numerous uncertainties and risks, including our ability to integrate personnel, labor models, financial, IT and other systems successfully; disruption of our ongoing business and distraction of management; hiring additional management and other critical personnel; and increasing the scope, geographic diversity and complexity of our operations. Effective internal controls are necessary to provide reliable and accurate financial reports, and the integration of businesses may create complexity in our financial systems and internal controls and make them more difficult to manage. Integration of businesses into our internal control system could cause us to fail to meet our financial reporting obligations. Additionally, any impairment of goodwill or other assets acquired or divested in a strategic transaction or charges to earnings associated with any strategic transaction, may materially reduce our earnings. For example, in the fourth quarter of fiscal 2018, we recognized a $952 million goodwill impairment charge on our Canadian business. Our shareholders may react unfavorably to our strategic transactions. We may not realize any anticipated benefits from such transactions, we may be exposed to additional liabilities of any acquired business or joint venture, and we may be exposed to litigation in connection with the strategic transaction. Further, we may finance these strategic transactions by incurring additional debt, which could increase leverage or impact our ability to access capital in the future.

Failure to achieve and maintain a high level of product and service quality could damage our image with customers and negatively impact our sales, profitability, cash flows and financial condition.
Product and service quality issues could result in a negative impact on customer confidence in Lowe’s and our brand image. If our product and service offerings do not meet applicable safety standards or our customers’ expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks. Actual, potential or perceived product safety concerns could expose us to litigation, as well as government enforcement action, and result in costly product recalls and other liabilities. As a result, Lowe’s reputation as a retailer of high quality products and services, including both national and Lowe’s private brands, could suffer and impact customer loyalty.

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We have many competitors who could take sales and market share from us if we fail to execute our merchandising, marketing and distribution strategies effectively, or if they develop a substantially more effective or lower cost means of meeting customer needs, resulting in a negative impact on our business and results of operations.
We operate in a highly competitive market for home improvement products and services and have numerous large and small, direct and indirect competitors. The principal competitive factors in our industry include convenience, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. We face growing competition from online and omni-channel retailers who have a similar product or service offering. Customers are increasingly able to quickly comparison shop and determine real-time product availability and price using digital tools. Further, online and omni-channel retailers continue to focus on delivery services, as customers are increasingly seeking faster, guaranteed delivery times and low-price or free shipping, and we must make investments to keep up with our customers' evolving shopping preferences. Our ability to be competitive on delivery times, delivery costs, and delivery options depends on many factors, including successful implementation of our initiatives related to supply chain transformation. Our failure to respond effectively to competitive pressures and changes in the markets for home improvement products and services could affect our financial performance. Moreover, changes in the promotional pricing and other practices of our competitors, including the effects of competitor liquidation activities, may impact our results.

Our inability to effectively and efficiently manage and maintain our relationships with selected suppliers of brand name products could negatively impact our business operations and financial results.
We form strategic relationships with selected suppliers to market and develop products under a variety of recognized and respected national and international brand names. We also have relationships with certain suppliers to enable us to sell proprietary products which differentiate us from other retailers. The inability to effectively and efficiently manage and maintain our relationships with these suppliers could negatively impact our business operations and financial results.

Failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business, financial condition and results of operations.
We rely upon a number of vendors as the sole or primary source of some of the products we sell. We also rely upon many independent service providers for technology solutions and other services that are important to many aspects of our business. Many of these vendors and service providers have certain products or specialized skills needed to support our business concept and our strategies. If these vendors or service providers discontinue operations or are unable to perform as expected or if we fail to manage them properly or we are unable to replace them quickly, our business could be adversely affected, at least temporarily, until we are able to replace them.

If our domestic or international supply chain or our fulfillment network for our products is ineffective or disrupted for any reason, or if these operations are subject to trade policy changes, our results of operations could be adversely affected.
We source, stock and sell products from domestic and international vendors, and their ability to reliably and efficiently fulfill our orders is critical to our business success. We source a large number of our products from foreign manufacturers, with China being the dominant import source. The current United States administration has signaled the possibility of major changes in certain tax and trade policies, tariffs and other regulations affecting trade between the United States and other countries, such as the imposition of additional tariffs or duties on imported products and the exit or renegotiation of certain trade agreements, including the North American Free Trade Act (NAFTA) and the rules of the World Trade Organization. Political developments in the United States, including possible termination of NAFTA, or failure to finalize and implement the United States-Mexico-Canada Agreement (USMCA), the proposed replacement for NAFTA, may have implications for the trade arrangements among the United States, Mexico, and Canada. While it is not possible to predict whether or when any such changes will occur or what form they may take, because we source a large percentage of our merchandise from outside the United States, major changes in tax or trade policies, tariffs or trade relations could adversely affect our business, results of operations, effective income tax rate,

liquidity and net income. In addition, other countries may change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in United States trade policy and regulations.

Financial instability among key vendors, political instability and labor unrest in source countries or elsewhere in our supply chain, changes in the total costs in our supply chain (fuel, labor and currency exchange rates), port labor disputes and security, the outbreak of pandemics, weather-related events, natural disasters, work stoppages, shipping capacity restraints, changes in trade policy, retaliatory trade restrictions imposed by either the United States or a major source country, tariffs or duties, fluctuations in currency exchange rates and transport availability, capacity and costs are beyond our control and could negatively impact our business if they seriously disrupted the movement of products through our supply chain or increased their costs. Additionally, as we add fulfillment capabilities or pursue strategies with different fulfillment requirements, our fulfillment network becomes increasingly complex and operating it becomes more challenging. If our fulfillment network does not operate properly or if a vendor fails to deliver on its commitments, we could experience delays in inventory, increased

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delivery costs or merchandise out-of-stocks that could lead to lost sales and decreased customer confidence, and adversely affect our results of operations.

Failure to effectively manage our third-party installers could result in increased operational and legal risks and negatively impact our business, financial condition and results of operations.
We use third-party installers to provide installation services to our customers, and, as the general contractor, we are subject to regulatory requirements and risks applicable to general contractors, including the management of the permitting, licensing and quality of our third-party installers. Our failure to effectively manage such requirements, the third-party installers, and our internal processes regarding installation services could result in lost sales, fines and lawsuits, as well as damage to our reputation, which could negatively affect our business.

Operating internationally presents unique challenges, including some that have required us to adapt our store operations, merchandising, marketing and distribution functions to serve customers in Canada and Mexico. Our business and results of operations could be negatively affected if we are unable to effectively address these challenges.
We operate stores in Canada and Mexico. We have previously announced our intent to exit our Mexican operations, and we are currently exploring exit alternatives. Expanding and operating internationally presents unique challenges that may increase the anticipated costs and risks of operation and expansion, and slow the anticipated rate of expansion. Our future operating results in these countries or in other countries or regions in which we currently operate or may operate in the future could be negatively affected by a variety of factors, including unfavorable political or economic factors, adverse tax consequences, volatility in foreign currency exchange rates, increased difficulty in enforcing intellectual property rights, costs and difficulties of managing international operations, challenges with identifying and contracting with local suppliers and other risks created as a result of differences in culture, laws and regulations. These factors could restrict our ability to operate our international businesses profitably and therefore have a negative impact on our results of operations and financial position. In addition, our reported results of operations and financial position could also be negatively affected by exchange rates when the activities and balances of our foreign operations are translated into U.S. dollars for financial reporting purposes.

We must comply with various and multiple laws and regulations that differ substantially in each area where we operate. Changes in existing or new laws and regulations or regulatory enforcement priorities, or our inability to comply with such laws and regulations, could adversely affect our business, financial condition and results of operations.
Laws and regulations at the local, regional, state, federal and international levels change frequently, and the changes can impose significant costs and other burdens of compliance on our business and our vendors. If we fail to comply with these laws, rules and regulations, or the manner in which they are interpreted or applied, we may be subject to government enforcement action, litigation, damage to our reputation, civil and criminal liability, damages, fines and penalties and increased cost of regulatory compliance, any of which could adversely affect our results of operations and financial performance. These laws, rules and regulations include, but are not limited to, import and export requirements, U.S. laws such as the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures to help ensure compliance with these laws, rules and regulations, there can be no certainty that our employees and third parties with whom we do business will not take actions in violation of our policies or laws. Many of these laws, rules and regulations are complex, evolving and are subject to varying interpretations and enforcement actions. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation could have an adverse impact, directly or indirectly, on our financial condition and results of operations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies as a result of enforcing existing laws and regulations or changes in enforcement priorities, which can occur in the ordinary course of business or which can result from increased scrutiny from a particular agency towards an industry, country or practice.

Future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements, negatively affecting our business, financial condition and results of operations.

We are, and in the future will become, involved in lawsuits, regulatory inquiries, and governmental and other legal proceedings arising out of the ordinary course of our business. Some of these proceedings may raise difficult and complicated factual and legal issues and can be subject to uncertainties and complexities. The timing of the final resolutions to lawsuits, regulatory inquiries and governmental and other legal proceedings is typically uncertain. Additionally, the possible outcomes of, or resolutions to, these proceedings could include adverse judgments or settlements, either of which could require substantial payments. Furthermore, defending against these proceedings may require a diversion of management's attention and resources. None of the legal proceedings in which we are currently involved, individually or collectively, are considered material.

Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.

Our efforts to provide an omni-channel experience for our customers include investing in, maintaining and making ongoing improvements of our existing management information systems that support operations, such as sales, inventory replenishment,

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merchandise ordering, project design and execution, transportation, receipt processing and fulfillment. Our systems are subject to damage or interruption as a result of catastrophic events, power outages, viruses, malicious attacks and telecommunications failures, and as a result we may incur significant expense, data loss as well as an erosion of customer confidence. Additionally, we continually make investments in our systems which may introduce disruption. Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.

Liquidity and access to capital rely on efficient, rational and open capital markets and are dependent on Lowe’s credit strength. Our inability to access capital markets could negatively affect our business, financial performance and results of operations.

We have relied on the public debt markets to fund portions of our capital investments and the commercial paper market and bank credit facilities to fund our working capital needs. Our access to these markets depends on our strong credit ratings, the overall condition of debt capital markets and our operating performance. Disruption in the financial markets or an erosion of our credit strength or declines on our credit rating could impact negatively our ability to meet capital requirements or fund working capital needs.

Discontinuation, reform or replacement of LIBOR and other benchmark rates, or uncertainty related to the potential for any of the foregoing, may adversely affect our business.

The U.K. Financial Conduct Authority announced in 2017 that it intends to phase out LIBOR by the end of 2021. In addition, other regulators have suggested reforming or replacing other benchmark rates. The discontinuation, reform or replacement of LIBOR or any other benchmark rates may have an unpredictable impact on contractual mechanics in the credit markets or cause disruption to the broader financial markets. Uncertainty as to the nature of such potential discontinuation, reform or replacement may negatively impact interest expense related to borrowings under our credit facilities. We may in the future pursue amendments to our credit facilities to provide for a transition mechanism or other reference rate in anticipation of LIBOR’s discontinuation, but we may not be able to reach agreement with our lenders on any such amendments. Further, certain of our current debt instruments limit the amount of indebtedness we and our subsidiaries may incur. As a result, additional financing to replace our LIBOR-based debt may be unavailable, more expensive or restricted by the terms of our outstanding indebtedness.

Our sales are dependent upon the health and stability of the general economy. Adverse changes in economic factors specific to the home improvement industry may negatively impact the rate of growth of our total sales and comparable sales.

Many U.S. and global economic factors may adversely affect our financial performance. These include, but are not limited to, periods of slow economic growth or recession, decreasing housing turnover or home price appreciation, volatility and/or lack of liquidity from time to time in U.S. and world financial markets and the consequent reduced availability and/or higher cost of borrowing to Lowe’s and its customers, slower rates of growth in real disposable personal income that could affect the rate of growth in consumer spending, high rates of unemployment, consumer debt levels, fluctuations in fuel and energy costs, inflation or deflation of commodity prices, natural disasters and acts of both domestic and international terrorism. Sales of many of our product categories and services are driven by the activity level of home improvement projects. Adverse development in these factors could result in a decrease in home improvement activity which could reduce demand for our products and services.

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Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

At February 1, 2019, our properties consisted of 2,002 stores in the U.S. and Canada with a total of approximately 209 million square feet of selling space. In addition, at February 1, 2019, our properties included 13 stores in Mexico; however, on November 20, 2018, the Company announced its plans to exit its retail operations in Mexico. Of the total stores operating at February 1, 2019, approximately 83% are owned, which includes stores on leased land, with the remainder being leased from third parties. We also operate regional distribution centers and other facilities to support distribution and fulfillment, as well as data centers and various support offices. Our executive offices are located in Mooresville, North Carolina.

Item 3 - Legal Proceedings

The Company is from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to such lawsuits, claims and proceedings, the Company records reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe that any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on its results of operations, financial position, or cash flows. The Company maintains liability insurance for certain risks that are subject to certain self-insurance limits.

Item 4 - Mine Safety Disclosures

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is a list of names and ages of the executive officers of the registrant indicating all positions and offices with the registrant held by each such person and each person's principal occupations or employment during the past five years. Each executive officer of the registrant is elected by the board of directors. Each executive officer of the registrant holds office from the date of election until a successor is elected or until his or her death, resignation or removal.

Name	Age	Title
Marvin R. Ellison	54	President and Chief Executive Officer since July 2018; Chairman of the Board and Chief Executive Officer, J.C. Penney Company, Inc. (a department store retailer), 2016 – June 2018; Chief Executive Officer, J.C. Penney Company, Inc., 2015 – 2016; President, J.C. Penney Company, Inc., 2014 – 2015; Executive Vice President – U.S. Stores, The Home Depot, Inc. (a home improvement retailer) 2008 – 2014.
William P. Boltz	56	Executive Vice President, Merchandising since August 2018; President and CEO, Chervon North America (a global power tool supplier), 2015-2018; President and owner of The Boltz Group, LLC (a retail consulting firm), 2013 – 2015; Senior Vice President, Merchandising, The Home Depot, Inc. (a home improvement retailer), 2006 – 2012.
David M. Denton	53	Executive Vice President and Chief Financial Officer since November 2018; Executive Vice President and Chief Financial Officer, CVS Health Corporation (a pharmacy innovation company), 2010 – November 2018.
Donald E. Frieson	60	Executive Vice President, Supply Chain since August 2018; Executive Vice President, Operations, Sam's Club (a general merchandise retailer), 2014 – 2017; Senior Vice President, Replenishment, Planning and Real Estate, Sam's Club, 2012 – 2014.
Seemantini Godbole	49	Executive Vice President, Chief Information Officer since November 2018; Senior Vice President, Technology and Digital, Target Corporation (a department store retailer), January 2017 – November 2018; Vice President, Technology and Digital, Target Corporation, 2013 – December 2016.
Matthew V. Hollifield	52	Senior Vice President and Chief Accounting Officer since 2005.
Ross W. McCanless	61	Executive Vice President, General Counsel and Corporate Secretary since 2017; Chief Legal Officer, Secretary and Chief Compliance Officer, 2016 – 2017; General Counsel, Secretary and Chief Compliance Officer, 2015 – 2016; Chief Legal Officer, Extended Stay America, Inc. (a hotel operating company) and ESH Hospitality, Inc. (a hotel real estate investment company), 2013 – 2014.
Joseph M. McFarland III	49	Executive Vice President, Stores since August 2018; Executive Vice President and Chief Customer Officer, J.C. Penney Company, Inc. (a department store retailer), March 2018 – August 2018; Executive Vice President, Stores, J.C. Penney Company, Inc., 2016 – March 2018; Divisional President, The Home Depot, Inc. (a home improvement retailer), 2007 – 2015.
Jennifer L. Weber	52	Executive Vice President and Chief Human Resources Officer since 2016; Executive Vice President, External Affairs and Strategic Policy, Duke Energy Corporation (an electric power

company), 2014 – 2016; Executive Vice President and Chief Human Resources Officer, Duke Energy Corporation, 2011 – 2014.

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Part II

Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Lowe's common stock is traded on the New York Stock Exchange (NYSE). The ticker symbol for Lowe's is "LOW". As of March 29, 2019, there were 22,326 holders of record of Lowe's common stock.

Total Return to Shareholders

The following information in Item 5 of this Annual Report is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following table and graph compare the total returns (assuming reinvestment of dividends) of the Company's common stock, the S&P 500 Index (S&P 500) and the S&P Retailing Industry Group Index (S&P Retail Index). The graph assumes $100 invested on January 31, 2014 in the Company's common stock and each of the indices.

	1/31/2014	1/30/2015	1/29/2016	2/3/2017	2/2/2018	2/1/2019
Lowe's	$ 100.00	$ 148.79	$ 159.77	$ 166.32	$ 234.64	$ 228.98
S&P 500	100.00	114.22	113.46	137.36	168.46	168.36
S&P Retail Index	$ 100.00	$ 118.75	$ 137.22	$ 159.62	$ 225.15	$ 241.71

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Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the fourth quarter of fiscal 2018:

	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
November 3, 2018 – November 30, 2018 [3]	3,421,699	$ 90.33	3,421,143	$ 4,123,763,667
December 1, 2018 – January 4, 2019	1,159,359	91.19	1,059,707	14,027,232,040
January 5, 2019 – February 1, 2019	872,707	94.56	872,036	13,944,777,229
As of February 1, 2019	5,453,765	$ 91.19	5,352,886	$ 13,944,777,229

[1] The total number of shares purchased includes shares withheld from employees to satisfy either the exercise price of stock options or the statutory withholding tax liability upon the vesting of share-based awards.

[2] On January 26, 2018, the Company announced that its Board of Directors authorized $5.0 billion of share repurchases with no expiration. On December 12, 2018, the Company announced that its Board of Directors authorized an additional $10.0 billion of share repurchases with no expiration.

[3] In November 2018, the Company entered into an Accelerated Share Repurchase (ASR) agreement with a third-party financial institution to repurchase $270 million of the Company's common stock. Pursuant to the agreement, the Company paid $270 million to the financial institution and received an initial delivery of 2.6 million shares. Subsequent to the end of the fourth quarter, in February 2019, the Company finalized the transaction and received an additional 0.3 million shares. The average price paid per share reflected in the table above was derived using the fair market value of the shares on the date the initial 2.6 million shares were delivered. See Note 11 to the consolidated financial statements included herein for additional information regarding share repurchases.

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Item 6 - Selected Financial Data

Selected Statement of Earnings Data (In millions, except per share data)	2018[1, 2]	2017[2]	2016[2, 3, 4]	2015[2]	2014[2]
Net sales	$71,309	$68,619	$65,017	$59,074	$56,223
Gross margin	22,908	22,434	21,674	19,933	18,987
Operating income	4,018	6,586	5,846	4,971	4,792
Net earnings	2,314	3,447	3,093	2,546	2,698
Basic earnings per common share	2.84	4.09	3.48	2.73	2.71
Diluted earnings per common share	2.84	4.09	3.47	2.73	2.71
Dividends per share	$1.85	$1.58	$1.33	$1.07	$0.87
Selected Balance Sheet Data					
Total assets	$34,508	$35,291	$34,408	$31,266	$31,721
Long-term debt, excluding current maturities	$14,391	$15,564	$14,394	$11,545	$10,806

1 Effective February 3, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and all related amendments, using the modified retrospective method. Therefore, results for reporting periods beginning after February 2, 2018 are presented under ASU 2014-09, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods. See Note 1 to the consolidated financial statements for additional information on the impacts of adopting this new revenue recognition guidance.

2 In the fourth quarter of fiscal 2018, the Company changed its method of accounting for shipping and handling costs from the Company’s stores, distribution centers, and other locations to customers. Under the new accounting principle, shipping and handling costs related to the delivery of products from the Company to customers are included in cost of sales, whereas they were previously presented in selling, general, and administrative expense, and depreciation and amortization. Amounts presented for fiscal years 2018, 2017, 2016, 2015, and 2014 reflect adjusted amounts in accordance with this accounting principle change. See Note 2 to the consolidated financial statements included herein for additional information on the accounting principle change.

3 Fiscal 2016 contained 53 weeks, while all other years contained 52 weeks.

4 Fiscal 2016 includes the acquisition of RONA inc. See Note 4 to the consolidated financial statements included in this Annual Report.

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Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three-year period ended February 1, 2019 (our fiscal years 2018, 2017 and 2016). Fiscal year 2016 contains 53 weeks of operating results compared to fiscal years 2018 and 2017 which contain 52 weeks. Unless otherwise noted, all references herein for the years 2018, 2017 and 2016 represent the fiscal years ended February 1, 2019, February 2, 2018 and February 3, 2017, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report that have been prepared in accordance with accounting principles generally accepted in the United States of America. This discussion and analysis is presented in six sections:

- Executive Overview
- Operations
- Financial Condition, Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations and Commercial Commitments
- Critical Accounting Policies and Estimates

During the fourth quarter of fiscal 2018, we changed our method of accounting related to the classification of customer delivery and shipping costs. Under our new accounting principle, shipping and handling costs related to the delivery of products from the Company to customers are included in costs of sales, whereas previously, they were included in selling, general and administrative expense as well as depreciation and amortization. Amounts presented for fiscal years 2018, 2017, and 2016 reflect adjusted amounts in accordance with this accounting principle change. See Note 2 to the consolidated financial statements included herein for additional information on the accounting principle change.

EXECUTIVE OVERVIEW

Net sales for fiscal 2018 increased 3.9% over fiscal year 2017 to $71.3 billion. The increase in total sales was driven by an increase in comparable sales, the adoption of the revenue recognition accounting standard update (ASU) 2014-09, and new stores. Comparable sales increased 2.4% over fiscal year 2017, driven by a comparable average ticket increase of 3.4%, offset by a decrease in comparable transactions of 1.1%. Net earnings for fiscal 2018 decreased 32.9% to $2.3 billion. Diluted earnings per common share decreased 30.5% in fiscal year 2018 to $2.84 from $4.09 in 2017. As further discussed below, during fiscal year 2018, we completed a strategic reassessment of the business resulting in total pre-tax charges of $1.1 billion, and we recognized a goodwill impairment charge of $952 million. The year to date pre-tax charges totaling $2.1 billion decreased diluted earnings per share by $2.27. Adjusting 2018 and 2017 amounts for certain significant discrete items not originally contemplated in the business outlooks for those respective years, adjusted diluted earnings per common share increased 16.4% in fiscal year 2018 to $5.11 from $4.39 in 2017 (see discussion on non-GAAP financial measures beginning on page 25).

For 2018, cash flows from operating activities were approximately $6.2 billion, with $1.2 billion used for capital expenditures. Continuing to deliver on our commitment to return excess cash to shareholders, the Company repurchased 31.2 million shares of stock through the share repurchase program for $3.0 billion and paid $1.5 billion in dividends during the year.

During the last six months of fiscal 2018, we have had a comprehensive reassessment of the business, established a new leadership team, and worked with that team to develop action plans to improve performance, improve in-stocks and drive a better customer experience. We have sharpened our focus on retail fundamentals, aligned our leadership team to improve our decision-making and execution, and aligned our portfolio to concentrate on our core home improvement business. We have rationalized our store inventory to remove clutter and reduce lower-performing inventory, and we are now investing in top-selling items in job lot quantities for our Pro customer.

The 2018 strategic reassessment of the business was part of our focus to build a sustainable foundation to position the Company for long-term success. During the third quarter of 2018, we committed to exit our Orchard Supply Hardware (Orchard) operations, as well as close 20 under-performing stores across the U.S. and 31 locations in Canada, including 27 stores and 4 other Canadian locations. In addition, we also made the decision to pursue an exit of certain non-core activities within our U.S. home improvement business, specifically Alacrity Renovation Services and Iris Smart Home. In the fourth quarter of 2018, we announced plans to pursue an exit of our Mexico retail operations consisting of 13 stores and are currently

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exploring exit alternatives. In addition, during the fourth quarter of 2018, we made the decision to eliminate our Project Specialists Interiors (PSI) position. Total pre-tax charges associated with these decisions were $1.1 billion for fiscal year 2018.

In addition, our fourth quarter annual goodwill impairment review resulted in a non-cash goodwill impairment charge of $952 million related to our Canadian operations (Canadian goodwill impairment). Given the softening outlook for the Canadian housing market, we determined that the book value of this business exceeded its fair market value. This write-down eliminated all goodwill associated with our Canadian business.

As we transition into 2019, we will remain focused on our mission of delivering the right home improvement products, with the best service and value, across every channel and community we serve. We intend to achieve this mission by winning in four key areas including driving merchandising excellence, transforming our supply chain, delivering operational efficiency, and intensifying customer engagement.

First, delivering merchandising excellence means having the right products in the right place at the right time so our customers can shop any way they choose. To do this, we are working to improve productivity, drive localization and streamline our reset process to improve execution, as well as improve digital experiences. Second, we intend to transform our supply chain to enhance the overall customer experience by advancing our fulfillment and delivery capabilities, and delivering operational excellence. We want to serve customers the way they want to be served. Third, to deliver operational efficiency, we intend to focus on simplifying store operations and work to improve our in-stock execution to better capitalize on the traffic we are driving to both our stores and online. And, as a company, we intend to become more operationally efficient. Finally, customer engagement is the fourth focus area and includes winning the Pro customer. We have significant opportunity to grow this portion of our business by focusing on competitive pricing, in-stocks, carrying the brands that are important to Pro customers, consistent service levels, and providing a differentiated experience.

Overall, we are making progress in our business. We are beginning to see positive results from merchandising pilots and improvement in performance in key categories, such as Paint, and are leveraging our improved reset process to better position us for the Spring selling season. In addition, we continue to see strong customer response to CRAFTSMAN® with market share gains in each product category since introducing the brand. We are also seeing positive results from our investment in job lot quantities to better meet the needs of the Pro customer. Although we still have work to do to transform this company, our 2019 four key focus areas demonstrate that we are aligned on the right initiatives to achieve our long-term targets.

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OPERATIONS

The following tables set forth the percentage relationship to net sales of each line item of the consolidated statements of earnings, as well as the percentage change in dollar amounts from the prior year. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

	2018[2]	2017[2]	Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year[1] 2018 vs. 2017		Percentage Increase / (Decrease) in Dollar Amounts from Prior Year[1] 2018 vs. 2017	
Net sales	100.00%	100.00%	N/A		3.9	%
Gross margin	32.12	32.69	(57	)	2.1	
Expenses:						
Selling, general and administrative	24.41	21.04	337		20.6	
Depreciation and amortization	2.07	2.05	2		5.2	
Operating income	5.64	9.60	(396	)	(39.0	)
Interest - net	0.88	0.92	(4	)	(1.3	)
Loss on extinguishment of debt	—	0.68	(68	)	(100.0	)
Pre-tax earnings	4.76	8.00	(324	)	(38.2	)
Income tax provision	1.52	2.98	(146	)	(47.1	)
Net earnings	3.24%	5.02%	(178	)	(32.9	)%

	2017[2]	2016[2]	Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year[1] 2017 vs. 2016		Percentage Increase / (Decrease) in Dollar Amounts from Prior Year[1] 2017 vs. 2016	
Net sales	100.00%	100.00%	N/A		5.5	%
Gross margin	32.69	33.34	(65	)	3.5	
Expenses:						
Selling, general and administrative	21.04	22.12	(108	)	0.5	
Depreciation and amortization	2.05	2.23	(18	)	(3.4	)
Operating income	9.60	8.99	61		12.6	
Interest - net	0.92	0.99	(7	)	(2.0	)
Loss on extinguishment of debt	0.68	—	68		N/A	
Pre-tax earnings	8.00	8.00	—		5.5	
Income tax provision	2.98	3.24	(26	)	(3.2	)
Net earnings	5.02%	4.76%	26		11.5	%

1 The fiscal year ended February 3, 2017 had 53 weeks. The fiscal years ended February 1, 2019 and February 2, 2018 had 52 weeks.

2 In the fourth quarter of fiscal 2018, we changed our method of accounting for shipping and handling costs from the Company's stores, distribution centers, and other locations to customers. Under the new accounting principle, shipping and handling costs related to the delivery of products from the Company to customers are included in costs of sales, whereas they were previously included in selling, general, and administrative expense, and depreciation and

amortization. Amounts presented for fiscal years 2018, 2017, and 2016 reflect adjusted amounts in accordance with this accounting principle change.

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Other Metrics	2018	2017	2016
Comparable sales increase [2]	2.4 %	4.0 %	4.2 %
Total customer transactions (in millions) [1]	941	953	945
Average ticket [3]	$75.79	$72.00	$68.83
At end of year:			
Number of stores	2,015	2,152	2,129
Sales floor square feet (in millions)	209	215	213
Average store size selling square feet (in thousands) [4]	104	100	100
Return on average assets [5]	6.4 %	9.5 %	8.9 %
Return on average shareholders' equity[6]	43.8 %	59.2 %	44.4 %
Return on invested capital [7]	12.8 %	18.8 %	15.8 %

1 The fiscal year ended February 3, 2017 had 53 weeks. The fiscal years ended February 1, 2019 and February 2, 2018 had 52 weeks.

2 A comparable location is defined as a retail location that has been open longer than 13 months. A location that is identified for relocation is no longer considered comparable in the month of its relocation. The relocated location must then remain open longer than 13 months to be considered comparable. A location we have decided to exit is no longer considered comparable as of the beginning of the month in which we announce its exit. Acquired locations are included in the comparable sales calculation beginning in the first full month following the first anniversary of the date of the acquisition. Comparable sales include online sales, which positively impacted fiscal 2018 and fiscal 2017 by approximately 80 basis points and 120 basis points, respectively. Online sales did not have a meaningful impact on fiscal 2016. The comparable store sales calculation for fiscal 2016 included in the preceding table was calculated using sales for a comparable 53-week period.

3 Average ticket is defined as net sales divided by the total number of customer transactions.

4 Average store size selling square feet is defined as sales floor square feet divided by the number of stores open at the end of the period. The average Lowe's-branded home improvement store has approximately 112,000 square feet of retail selling space.

5 Return on average assets is defined as net earnings divided by average total assets for the last five quarters.

6 Return on average shareholders' equity is defined as net earnings divided by average shareholders' equity for the last five quarters.

7 Return on invested capital is a non-GAAP financial measure. See below for additional information and a reconciliation to the most comparable GAAP measure.

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Non-GAAP Financial Measures

Return on Invested Capital

Return on Invested Capital (ROIC) is calculated using a non-GAAP financial measure. We believe ROIC is a meaningful metric for investors because it represents management's measure of how effectively the Company is using capital to generate profits. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management to calculate ROIC may differ from the methods other companies use to calculate their ROIC. We encourage you to understand the methods used by another company to calculate its ROIC before comparing its ROIC to ours.

We define ROIC as trailing four quarters' net operating profit after tax (NOPAT) divided by the average of ending debt and equity for the last five quarters. NOPAT is a non-GAAP financial measure, and net earnings is considered to be the most comparable GAAP financial measure to NOPAT. The calculation of ROIC, together with a reconciliation of NOPAT to net earnings, the most comparable GAAP financial measure, is as follows:

(In millions, except percentage data)	2018	2017	2016
Calculation of Return on Invested Capital			
Numerator			
Net earnings	$2,314	$3,447	$3,093
Plus:			
Interest expense - net	624	633	645
Loss on extinguishment of debt	—	464	—
Provision for income taxes	1,080	2,042	2,108
Net operating profit	4,018	6,586	5,846
Less:			
Income tax adjustment [1]	1,278	2,450	2,370
Net operating profit after tax	$2,740	$4,136	$3,476
Denominator			
Average debt and equity [2]	$21,381	$21,999	$21,958
Return on invested capital	12.8 %	18.8 %	15.8 %

1 Income tax adjustment is defined as net operating profit multiplied by the effective tax rate, which was 31.8%, 37.2%, and 40.5% for 2018, 2017, and 2016, respectively.

2 Average debt and equity is defined as average debt, including current maturities and short-term borrowings, plus total equity for the last five quarters.

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Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share is considered a non-GAAP financial measure. The Company believes this non-GAAP financial measure provides useful insight for analysts and investors in evaluating what management considers the Company's core financial performance. Adjusted diluted earnings per share excludes the impact of certain discrete items not contemplated in the Company's business outlooks for 2018, 2017, and 2016. Unless otherwise noted, the income tax effect of these adjustments is calculated using the marginal rates for the respective periods.

Adjusted diluted earnings per share should not be considered an alternative to, or more meaningful indicator of, the Company's diluted earnings per common share as prepared in accordance with GAAP. The Company's methods of determining this non-GAAP financial measure may differ from the method used by other companies for this or similar non-GAAP financial measures. Accordingly, these non-GAAP measures may not be comparable to the measures used by other companies.

	2018			2017		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			$ 2.84			$ 4.09
Non-GAAP Adjustments - per share impacts						
Canadian goodwill impairment[1]	1.17	(0.03)	1.14	—	—	—
Orchard Supply Hardware charges[2]	0.68	(0.17)	0.51	—	—	—
U.S. & Canada charges [3]	0.33	(0.08)	0.25	—	—	—
Mexico impairment charges [4]	0.30	0.01	0.31	—	—	—
Non-core activities charges [5]	0.06	(0.02)	0.04	—	—	—
Project Specialists Interiors charge [6]	0.02	—	0.02			
Impact of tax reform [7]	—	—	—	—	0.02	0.02
One-time cash bonus attributable to tax reform [8]	—	—	—	0.08	(0.03)	0.05
Gain on sale of interest in Australian joint venture [9]	—	—	—	(0.11)	—	(0.11)
Loss on extinguishment of debt [10]	—	—	—	0.55	(0.21)	0.34
Adjusted diluted earnings per share			$ 5.11			$ 4.39

1 Represents costs associated with the goodwill impairment of the Company's Canadian operations. The majority of the charge was non-deductible for tax purposes, and therefore, had an insignificant tax impact.

2 Represents costs associated with the Company's decision to close all Orchard Supply Hardware locations as part of a strategic reassessment of our business. Costs included long-lived asset impairments, discontinued projects, accelerated depreciation and amortization, severance and lease obligation costs.

3 Represents costs associated with the Company's decision to close 20 U.S. stores and 31 stores and other locations in Canada during 2018 as part of a strategic reassessment of our business. Costs included long-lived asset impairments, accelerated depreciation and amortization, severance and lease obligation costs.

4 Represents impairment charges associated with the Company's decision to exit its retail operations in Mexico as part of a strategic reassessment of our business. This decision resulted in negative tax impacts associated with the re-capture of previously deducted operating losses and other non-deductible amounts.

5 Represents costs associated with the Company's decision to exit certain non-core activities within its U.S. home improvement business as part of a strategic reassessment of our business. Costs included long-lived asset impairment, severance and lease obligation costs, and inventory write-down.

6 Represents severance obligations associated with the elimination of the Project Specialists Interiors position as part of a strategic reassessment of our business.

7 Represents the net impact related to the passage of the Tax Cuts and Jobs Act of 2017.

8 Represents the one-time cash bonus for eligible hourly employees attributable to the passage of the Tax Cuts and Jobs Act of 2017.

9

Represents the gain from the sale of the Company’s interest in its Australian joint venture with Woolworths. This gain had no impact on the Company’s income tax provision due to the reduction of a previously established deferred tax valuation allowance.

[10] Represents the loss on extinguishment of debt in connection with a $1.6 billion cash tender offer.

Fiscal 2018 Compared to Fiscal 2017

Net Sales – Net sales increased 3.9% to $71.3 billion in 2018. The increase in total sales was driven primarily by 2.4% comparable sales growth, the adoption of the revenue recognition accounting standard ASU 2014-09, which primarily resulted in a reclassification of profit sharing income associated with the proprietary credit program from SG&A to sales (+1.1%), and new stores (+0.5%). The comparable sales increase of 2.4% in 2018 was driven primarily by a 3.4% increase in comparable

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average ticket offset by a 1.1% decrease in comparable customer transactions. Comparable sales increases during each quarter of the fiscal year, as reported, were 0.6% in the first quarter, 5.2% in the second quarter, 1.5% in the third quarter, and 1.7% in the fourth quarter.

During 2018, we experienced comparable sales increases in eight of 11 product categories. We experienced low single-digit negative comparable sales in Flooring and Fashion Fixtures, primarily due to inventory out-of-stocks, poor reset execution, and assortment misalignment, as well as flat comparable sales in Paint. Comparable sales increases were above the company average in Appliances, Lumber & Building Materials, Lawn & Garden, and Rough Plumbing & Electrical. Strong brand and service advantages in Appliances drove strong comparable sales during the year. Lumber & Building Materials benefited from increased demand from the Pro customer. Strength in Lawn & Garden was driven primarily by lawn care, live goods, and landscape products. We also achieved strong comparable sales in Rough Plumbing & Electrical driven by continued improvements in brand relevance and demand from the Pro customer. Geographically, 12 of 14 U.S. regions experienced positive comparable sales with the strongest results in the South and North, with the remaining two regions experiencing approximately flat comparable sales.

During the fourth quarter of 2018, we experienced comparable sales increases in eight of 11 product categories. Comparable sales increases were above the company average in Lawn & Garden, Appliances, Tools & Hardware, Lumber & Building Materials, and Paint. Strength in Lawn & Garden was driven primarily by landscape products and live goods. Strong brand and service advantages in Appliances drove comparable sales during the quarter. Strength in Tools & Hardware was primarily driven by promotional activity as well as strong customer response to the roll-out of CRAFTSMAN® products. We achieved strong comparable sales in Lumber & Building materials driven by continued recovery efforts from hurricane activity and strong demand from the Pro customer. Performance in Paint was supported by our focus on retail fundamentals, as well as our exclusive partnership with Sherwin Williams®. We experienced low single-digit negative comparable sales in Flooring, Fashion Fixtures, and Rough Plumbing & Electrical due primarily to poor reset execution. In addition, Rough Plumbing & Electrical was negatively impacted by commodity movement, as well as comparisons to hurricane related activity in the prior year. Geographically, 11 of 14 U.S. regions experienced increases in comparable sales. Three regions experienced negative comparable sales, including the Houston, TX and Tampa, FL markets, which faced tough prior year comparisons from Hurricanes Harvey and Irma.

Gross Margin – Gross margin as a percentage of sales for 2018 decreased 57 basis points compared to 2017. Gross margin was negatively impacted by approximately 60 basis points due to our inventory rationalization efforts to eliminate less productive SKUs and reduce clutter in our stores, along with reset-related clearance activity. In addition, we experienced approximately 40 basis points of deleverage due to increased distribution and delivery costs and approximately 15 basis points of deleverage due to product mix shifts. This was partially offset by approximately 80 basis points due to the adoption of the revenue recognition accounting standard ASU 2014-09, which primarily resulted in a reclassification of profit sharing income associated with the proprietary credit program from SG&A to sales.

During the fourth quarter of 2018, gross margin decreased 74 basis points as a percentage of sales. Gross margin was negatively impacted by approximately 55 basis points of pressure from substitute items that were offered over Black Friday weekend due to inventory shortages on advertised items, as well as accelerated clearance activity for holiday inventory in order to better position us for the Spring selling season. We also experienced approximately 45 basis points of deleverage from distribution and delivery costs as we added new supply chain facilities to the network, coupled with increases in transportation costs, as well as an increase in customer deliveries. In addition, we experienced approximately 40 basis points of deleverage due to tariffs and other cost increases, and 25 basis points of deleverage due to product mix shifts. This was partially offset by 108 basis points due to the adoption of the revenue recognition accounting standard ASU 2014-09.

SG&A – SG&A expense for 2018 deleveraged 337 basis points as a percentage of sales compared to 2017. This was primarily driven by 135 basis points of deleverage due to the goodwill impairment charge associated with our Canadian business, 87 basis points of deleverage due to the adoption of the revenue recognition accounting standard ASU 2014-09, which primarily resulted in a reclassification of profit sharing income associated with the proprietary credit program from SG&A to sales, and the following associated with the strategic reassessment of the Company during fiscal 2018:

- 66 basis points of deleverage due to the closing of all Orchard Supply Hardware locations, associated with long-lived asset impairments and discontinued projects, severance and lease obligation costs;
- 35 basis points of deleverage related to the decision to exit retail operations in Mexico, associated with impairment charges;
- 31 basis points of deleverage due to the closing of 20 under-performing stores in the U.S. and 31 Canadian stores and other locations, associated with long-lived asset impairment, severance and lease obligation costs, and;
- Four basis points of deleverage due to the exit of certain non-core activities and the elimination of the Project Specialists Interiors position.

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These were partially offset by 15 basis points of leverage in operating salaries.

For the fourth quarter of 2018, SG&A expense deleveraged 992 basis points as a percentage of sales compared to the fourth quarter of 2017. This was primarily driven by 617 basis points of deleverage due to the goodwill impairment charge associated with our Canadian business, 108 basis points of deleverage due to adoption of the revenue recognition accounting standard ASU 2014-09, and the following associated with the strategic reassessment of the Company during fiscal 2018:

- 144 basis points of deleverage related to the decision to exit retail operations in Mexico, associated with impairment charges;
- 135 basis points of deleverage due to the closing of all Orchard Supply Hardware locations, associated with lease obligations costs;
- 64 basis points of deleverage due to the closing of 20 under-performing stores in the U.S. and 31 Canadian stores and other locations, associated with severance and lease obligation costs, and;
- 10 basis points of deleverage due to the exit of certain non-core activities and the elimination of the Project Specialists.

These were partially offset by 52 basis points of leverage in operating salaries from expense management and 39 basis points of leverage in incentive compensation due to lower attainment levels.

Depreciation and Amortization – Depreciation and amortization expense deleveraged two basis points for 2018 compared to 2017, primarily due to deleverage of 13 basis points of accelerated depreciation related to the closing of all Orchard Supply Hardware locations and seven basis points of accelerated depreciation related to the closing of 20 U.S. and 31 Canadian stores and other locations announced in the third quarter of 2018. These were partially offset by assets becoming fully depreciated. Property, less accumulated depreciation, decreased to $18.4 billion at February 1, 2019, compared to $19.7 billion at February 2, 2018. As of February 1, 2019 and February 2, 2018, we owned 83% and 79% of our stores, respectively, which included stores on leased land.

Interest – Net – Net interest expense is comprised of the following:

(In millions)	2018	2017
Interest expense, net of amount capitalized	$642	$638
Amortization of original issue discount and loan costs	10	11
Interest income	(28)	(16)
Interest - net	$624	$633

Net interest expense in 2018 decreased primarily as a result of the prior year cash tender offer to purchase and retire $1.6 billion aggregate principal amount of our outstanding notes in the first quarter of 2017 and the payoff of scheduled debts at maturity. In addition, interest income increased over the prior year due to higher average interest rates associated with the Company's cash balances. These were partially offset by the issuance of unsecured notes in May 2017, as well as an increase in interest rates over the prior year.

Loss on Extinguishment of Debt - During the first quarter of 2017, we repurchased and retired $1.6 billion aggregate principal amount of our outstanding debt resulting in a loss on extinguishment of debt of $464 million.

Income Tax Provision - Our effective income tax rate was 31.8% in 2018 compared to 37.2% in 2017. The Company was impacted by the passage of the Tax Cuts and Job Act (the Tax Act), effective January 1, 2018, which provided a reduction in the statutory federal tax rate from 35% to 21%. For 2018, the favorable impact of the tax reform was offset by the majority of the Canadian goodwill impairment not being deductible for tax purposes, as well as negative tax impacts associated with the decision to exit Mexico, which is expected to result in the recapture of previously deducted operating losses and other non-deductible losses.

The effective passage date of the Tax Act resulted in the usage of a blended rate for fiscal 2017 of 33.7%. The rate was also impacted by the one-time repatriation tax. The new rate of 21% was applied against the Company’s deferred tax balances in fiscal 2017, which resulted in a decrease of its overall deferred tax assets for that year.

Our effective income tax rate for the fourth quarter of 2018 was negatively impacted by the non-deductibility of a majority of the goodwill impairment charge related to our Canadian business, as well as the negative tax consequences of exiting our retail operations in Mexico. The tax impacts of these items were $292 million and $83 million, respectively. In addition, the enactment of the Tax Act, effective January 1, 2018, decreased the statutory Federal rate from 35% to 21%.

Fiscal 2017 Compared to Fiscal 2016

For the purpose of the following discussion, comparable store sales, comparable store average ticket, and comparable store customer transactions are based upon comparable 52-week periods.

Net Sales – Net sales increased 5.5% to $68.6 billion in 2017. The increase in total sales was driven by 4.0% comparable sales growth, the addition of RONA during the second quarter of 2016 (+2.2%), new stores (+0.7%), and the acquisition of Maintenance Supply Headquarters (+0.3%), partially offset by the impact of the 53rd week in 2016 and resulting week shift in 2017 (-1.3%). RONA retail sales are included in comparable sales beginning in Q2 2017. The comparable sales increase of 4.0% in 2017 was driven primarily by a 4.1% increase in comparable average ticket offset by a 0.1% decrease in comparable customer transactions. Comparable sales increases during each quarter of the fiscal year, as reported, were 1.9% in the first quarter, 4.5% in the second quarter, 5.7% in the third quarter, and 4.1% in the fourth quarter.

All of our product categories experienced comparable sales increases for the year. During 2017, we experienced comparable sales increases above the company average in Appliances, Lumber & Building Materials, Rough Plumbing & Electrical, and Tools & Hardware. Strong brand and service advantages in Appliances, as well as our continued investment in customer experience both in-store and online, drove strong comparable sales during the year. Lumber & Building Materials benefited from an increased demand for hurricane-related products, an increase in Pro demand, and inflation. We also achieved strong comparable sales in Rough Plumbing & Electrical and Tools & Hardware driven by continued improvements in brand relevance and demand from the Pro customer. Geographically, all of our 14 U.S. regions experienced positive comparable store sales.

During the fourth quarter of 2017, we experienced comparable sales increases in nine of 11 product categories, as well as flat comparable sales in Lawn & Garden and Fashion Fixtures. Comparable sales increases were above the company average in Appliances, Lumber & Building Materials, Rough Plumbing & Electrical, and Tools & Hardware. Strong brand and service advantages in Appliances, as well as our continued investment in customer experience both in-store and online, drove double digit comparable sales during the quarter. We achieved strong comparable sales in Lumber & Building materials driven by continued recovery efforts from Hurricane Irma and Harvey, inflation, and strong demand from the Pro customer. Our holiday performance combined with our strategy to serve demand for critical items customers needed during colder temperatures and winter storms drove performance in Rough Plumbing & Electrical and Tools & Hardware. Geographically, 13 of 14 U.S. regions experienced increases in comparable sales.

Gross Margin – Gross margin of 32.69% for 2017 represented a 65 basis point decrease from 2016. Gross margin was negatively impacted approximately 25 basis points due to competitive actions, approximately 10 basis points due to mix of products sold, and approximately 10 basis points due to damaged, clearance and non-productive inventory. In addition, delivery costs negatively impacted gross margin by 21 basis points.

During the fourth quarter of 2017, gross margin of 32.04% decreased 99 basis points as a percentage of sales. Gross margin was negatively impacted approximately 45 basis points due to rate pressures associated with damaged, clearance and non-productive inventory, as well as competitive actions, and inflation in lumber. In addition, gross margin was negatively impacted by approximately 10 basis points due to mix of products sold and approximately 10 basis points due to higher shrink rates. Delivery costs also negatively impacted gross margin by 31 basis points.

SG&A – SG&A expense for 2017 leveraged 108 basis points as a percentage of sales compared to 2016. This was primarily driven by 59 basis points of leverage attributable to the prior year non-cash impairment charge related to the investment in the Australian joint venture and the current year gain on sale of our interest in the Australian joint venture, 28 basis points of leverage in operating salaries, 15 basis points of leverage primarily due to the prior year write-off of canceled technology-enabled projects, and 12 basis points of leverage associated with goodwill and long-lived asset impairments related to Orchard operations in the prior year. These were partially offset by 12 basis points of deleverage due to the prior year settlement of the foreign currency option contract entered into in advance of the RONA acquisition, and nine basis points of deleverage in risk insurance.

For the fourth quarter of 2017, SG&A expense leveraged three basis points as a percentage of sales compared to the fourth quarter of 2016. This was primarily driven by 53 basis points of leverage associated with severance and related costs in the prior year for organizational changes in the stores, distribution centers, and corporate offices, 32 basis points in incentive compensation due to lower attainment levels compared to the prior year, and 20 basis points of leverage in employee insurance costs. These were partially offset by 42 basis points of deleverage due to the one-time Tax Reform bonus and 14 basis points of

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deleverage in advertising as a result of our efforts to amplify consumer messaging. Certain other costs also deleveraged as a result of the week shift related to the 53rd week in the prior fiscal year.

Depreciation and Amortization – Depreciation and amortization expense leveraged 18 basis points for 2017 compared to 2016 primarily due to the increase in sales, as well as assets becoming fully depreciated, partially offset by the incremental expense due to the acquisition of Maintenance Supply Headquarters. Property, less accumulated depreciation, decreased to $19.7 billion at February 2, 2018, compared to $19.9 billion at February 3, 2017. As of February 2, 2018 and February 3, 2017, we owned 79% of our stores, which included stores on leased land.

Depreciation and amortization expense for the fourth quarter of 2017 was flat compared to the prior year.

Interest – Net – Net interest expense is comprised of the following:

(In millions)	2017	2016
Interest expense, net of amount capitalized	$638	$647
Amortization of original issue discount and loan costs	11	10
Interest income	(16)	(12)
Interest - net	$633	$645

Net interest expense decreased in 2017 primarily as a result of the cash tender offer to purchase and retire $1.6 billion aggregate principal amount of our outstanding notes, the payoff of scheduled debts at maturity, and the favorable settlement of accrued interest related to uncertain tax issues. These were partially offset by the issuance of unsecured notes in April 2016 and May 2017, respectively.

Loss on Extinguishment of Debt - During the first quarter of 2017, we repurchased and retired $1.6 billion aggregate principal amount of our outstanding debt resulting in a loss on extinguishment of debt of $464 million.

Income Tax Provision - Our effective income tax rate was 37.2% in 2017 compared to 40.5% in 2016. During 2017, the Company was impacted by the passage of the Tax Act, which provided a reduction in the statutory Federal rate from 35% to 21%. The effective date of January 1, 2018, resulted in the usage of a blended rate for the year of 33.7% for the Company. The new rate of 21% was applied against the Company’s deferred balances resulting in a decrease of its overall deferred tax assets. The rate was also impacted by the one-time repatriation tax enacted under Internal Revenue Code Section 965. In 2016, final and temporary regulations were issued under Internal Revenue Code Section 987, which negatively impacted the Company’s income tax rate due to the adjustment of deferred tax assets associated with cumulative currency translation adjustments related to certain of the Company’s international operations. In addition, the Company recorded a deferred tax asset related to the investment in the Australian joint venture with Woolworths associated with the non-cash impairment charge that occurred during 2016. The deferred tax asset associated with this loss was offset with the establishment of a full valuation allowance due to the fact the benefit of this loss can only be realized to the extent the Company has available capital gains for offset, and no present or future capital gains have been identified through which this deferred tax asset can be realized.

Our effective income tax rates were 41.3% and 40.3% for the three months ended February 2, 2018, and February 3, 2017, respectively. The increase in the effective income tax rate is primarily due to the enactment of the Tax Act effective January 1, 2018. The federal rate was lowered from 35% to 21% as part of the Tax Act, which resulted in a tax benefit of $58 million for the year. The Company remeasured its deferred tax assets and liabilities using the new federal rate, which led to a one-time tax expense of approximately $56 million to reduce the Company’s overall federal deferred tax asset. In addition, the Company recorded a $22 million provisional tax expense for the one-time transition tax on unrepatriated earnings of foreign subsidiaries.

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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Cash flows from operations, supplemented with our short-term and long-term borrowings, have been sufficient to fund our operations while allowing us to make strategic investments that will grow our business, and to return excess cash to shareholders in the form of dividends and share repurchases. We believe that our sources of liquidity will continue to be adequate to fund our operations and investments to grow our business, repay our debt as it becomes due, pay dividends, and fund our share repurchases over the next 12 months.

Cash Flows Provided by Operating Activities

(In millions)	2018	2017	2016
Net cash provided by operating activities	$6,193	$5,065	$5,617

Cash flows from operating activities continued to provide the primary source of our liquidity. The increase in net cash provided by operating activities for 2018, when compared to 2017, was driven primarily by changes in working capital.

The decrease in net cash provided by operating activities for 2017, when compared to 2016, was driven primarily by changes in working capital and was partially offset by an increase in net earnings, adjusted for non-cash expenses.

Cash Flows Used in Investing Activities

(In millions)	2018	2017	2016
Net cash used in investing activities	$(1,080)	$(1,441)	$(3,361)

Net cash used in investing activities primarily consist of transactions related to capital expenditures and business acquisitions.

Capital expenditures

Our capital expenditures generally consist of investments in our strategic initiatives to enhance our ability to serve customers, existing stores, and expansion plans. Capital expenditures were $1.2 billion in 2018, $1.1 billion in 2017, and $1.2 billion in 2016. The following table provides the allocation of capital expenditures for 2018, 2017, and 2016:

	2018	2017	2016
Existing store investments [1]	60 %	50 %	55 %
Strategic initiatives [2]	20 %	10 %	10 %
New stores and international [3]	20 %	40 %	35 %
Total capital expenditures	100 %	100 %	100 %

[1] Includes merchandising resets, facility repairs, replacements of IT and store equipment, among other specific efforts.
[2] Represents investments related to our strategic focus areas aimed at improving customers' experience and driving improved performance in
the near and long term.
[3] Represents expenditures primarily related to land purchases, buildings, and personal property for new store projects as well as
expenditures related to our international operations.

Our 2019 capital expenditures forecast is approximately $1.6 billion. The following table provides the allocation of our fiscal 2019 capital expenditures forecast:

	2019
Existing store investments	65 %
Strategic initiatives	20 %
New stores and international	15 %

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Business Acquisitions

In 2017, we paid $509 million, net of cash received, to acquire Maintenance Supply Headquarters, in order to enable us to deepen and broaden our relationship with the Pro customer and better serve their needs. In 2016, we used $2.3 billion, net of cash received, to acquire RONA, in order to enable us to accelerate our growth strategy in the Canadian home improvement market. See Note 4 to the consolidated financial statements included herein for additional information regarding our business acquisitions.

Cash Flows Used in Financing Activities

(In millions)	2018	2017	2016
Net cash used in financing activities	$(5,124)	$(3,607)	$(2,092)

Net cash used in financing activities primarily consist of transactions related to our short-term borrowings, long-term debt, share repurchases, and cash dividend payments.

Short-term Borrowing Facilities

In September 2018, the Company entered into a $1.75 billion five year unsecured revolving second amended and restated credit agreement (the Second Amended and Restated Credit Agreement) with a syndicate of banks. The Second Amended and Restated Credit Agreement amends and restates the Company's amended and restated credit agreement, dated November 23, 2016 (the Amended and Restated Credit Agreement), to among other things (i) extend the maturity date of the revolving credit facility to September 2023 and (ii) modify the revolving commitments of the existing lenders. In January 2019, the Company increased the aggregate availability under the Second Amended and Restated Credit Agreement by $230 million for a total of $1.98 billion available. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the Second Amended and Restated Credit Agreement, the Company may increase the aggregate availability by an additional $270 million.

In September 2018, the Company entered into a $250 million unsecured 364-day credit agreement (the 364-Day Credit Agreement) with a syndicate of banks. The Company may request borrowings under the 364-Day Credit Agreement that are denominated in U.S. Dollar, Euro, Sterling, Canadian Dollar and other currencies approved by the administrative agent and the lenders. The Company must repay the aggregate principal amount of loans outstanding under the 364-Day Credit Agreement on the termination date in effect at such time (currently September 9, 2019). The Company may elect to convert all of the loans outstanding under the 364-Day Credit Agreement on the termination date into a term loan which the Company shall repay in full on the first anniversary date of the termination date.

The Second Amended and Restated Credit Agreement and the 364-Day Credit Agreement both support our commercial paper program. The amount available to be drawn under the Second Amended and Restated Credit Agreement and the 364-Day Credit Agreement is reduced by the amount of borrowings under our commercial paper program. All of our short-term borrowings in 2018, 2017, and 2016 were under the commercial paper program. Outstanding borrowings under the Company's commercial paper program were $722 million, with a weighted average interest rate of 2.81%, as of February 1, 2019, and $1.1 billion, with a weighted average interest rate of 1.85%, as of February 2, 2018. There were no outstanding borrowings under the Second Amended and Restated Credit Agreement or the 364-Day Credit Agreement as of February 1, 2019. There were no outstanding borrowings under the Amended and Restated Credit Agreement as of February 2, 2018. Our commercial paper program, along with cash flows generated from operations, is typically utilized during our fourth fiscal quarter to build inventory in anticipation of the spring selling season. The following table includes additional information related to our short-term borrowings for 2018, 2017, and 2016:

(In millions, except for interest rate data)	2018	2017	2016

Net change in short-term borrowings	$(415)	$625	$466
Amount outstanding at year-end	$722	$1,137	$510
Maximum amount outstanding at any month-end	$892	$1,137	$658
Weighted-average interest rate of short-term borrowings outstanding	2.81 %	1.85 %	1.01 %

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The Second Amended and Restated Credit Agreement and the 364-Day Credit Agreement contains customary representations, warranties, and covenants. We were in compliance with those covenants at February 1, 2019. See Note 9 to the consolidated financial statements included herein for additional information regarding our short-term borrowings.

Long-term Debt

The following table includes additional information related to the Company’s long-term debt for 2018, 2017, and 2016:

(In millions)	2018	2017	2016
Net proceeds from issuance of long-term debt	$ —		