

LOWES COMPANIES INC  
Form 10-K  
April 04, 2017  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 3, 2017

or

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
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Common Stock, \$0.50 Par Value	New York Stock Exchange (NYSE)
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  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.  Yes  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.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).  Yes  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.

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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As of July 29, 2016, 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 \$72.4 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 3/31/2017
Common Stock, \$0.50 par value	857,332,918

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for Lowe's 2017 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 3, 2017, Lowe's operated 2,129 home improvement and hardware stores, representing approximately 213 million square feet of retail selling space. These operations were comprised of 1,820 stores located across 50 U.S. states, including 87 Orchard Supply Hardware (Orchard) stores, as well as 299 stores in Canada, and 10 stores in Mexico.

During 2016, Lowe's acquired RONA inc. (RONA) which owns and operates 245 stores in Canada as of February 3, 2017, as well as services approximately 236 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). Retail customers, comprised of 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 94% of consolidated sales as of February 3, 2017. 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. The total annual revenue reported for businesses included in NAICS 444 in 2016 was \$352.3 billion, which represented an increase of 5.9% over the amount reported for the same category in 2015. The total annual revenue reported for businesses included in NAICS 444 in 2015 was \$332.6 billion, which represented an increase of 4.7% over the amount reported for the same category in 2014. These figures are subject to periodic revision by the U.S. Department of Commerce.

NAICS 444 represents less than 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 furnishings stores,

and online retailers, as well as wholesalers that provide home-related products and services to homeowners, businesses, and the government. Based on our analysis of the most recent comprehensive data available, we estimate the size of the U.S. home improvement market at \$775 billion in 2016, comprised of \$578 billion of product sales and \$197 billion of installed labor sales. That compares with \$730 billion total market sales in 2015, comprised of \$543 billion of product sales and \$187 billion of installed labor sales. These figures are subject to periodic revision by the U.S. Department of Commerce and other third-party sources.

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.

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Growth in real disposable personal income is projected to moderate to 2.3% in 2017 as compared with 2.8% growth in 2016, based on the March 2017 Blue Chip Economic Indicators®. \*

The average unemployment rate for 2017 is forecasted to decline to 4.6%, according to the March 2017 Blue Chip Economic Indicators, which would be an improvement from the 4.9% average rate in 2016. The unemployment rate should continue to trend lower as the job market continues to expand at a moderate pace.

Recent evidence suggests that home prices will continue to increase. In 2016, home prices increased an estimated 5.4% similar to the 5.5% increase in 2015, according to the latest Federal Housing Finance Agency index. Economists generally expect the rate of home price growth to moderate in 2017.

Housing turnover increased an estimated 5.1% in 2016 after a 7.3% increase in 2015, according to The National Association of Realtors and U.S. Census Bureau. Turnover is generally expected to continue to moderately increase in 2017, supported by persisting growth in the job market, rising incomes, and historically low mortgage rates.

These indicators are important to our business because they signal a customer's willingness to engage in home maintenance, repair, and upgrade projects and favorably impact income available to purchase our products and services. Overall, the outlook for the home improvement industry remains positive for 2017, supported by continuing gains in jobs and incomes, home buying, and home price appreciation.

\*Blue Chip Economic Indicators® (ISSN: 0193-4600) is published monthly by Aspen Publishers, 76 Ninth Avenue, New York, NY 10011, a division of Wolters Kluwer Law and Business. Printed in the U.S.A.

## 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 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 home improvement needs, we offer a complete line of products for maintenance, repair, remodeling, and decorating. We offer home improvement products in the following categories: Lumber & Building Materials; Tools & Hardware; Appliances; Fashion Fixtures; Rough Plumbing & Electrical; Seasonal Living; Lawn & Garden; Paint; Millwork; Flooring; Kitchens; Outdoor Power Equipment; and Home Fashions. A typical Lowe's-branded home improvement store stocks approximately 37,000 items, with hundreds of thousands of additional items available through our Special Order Sales system and various online selling channels. See Note 17 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, Valspar® paints and stains, Pella® windows and doors, Sylvania® light bulbs, Dewalt® power tools, Hitachi® pneumatic tools, Owens Corning® insulation and roofing, GAF® roofing, James Hardie® fiber cement siding, Husqvarna® outdoor power equipment, Werner® ladders, and many more. In 2016, we added



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brand name merchandise such as Pergo® hardwood flooring, Quoizel® lighting, Marshalltown® masonry tools, and a suite of Nest® 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, Reliabl® doors and windows, Aquasource® faucets, sinks and toilets, Harbor Breeze® ceiling fans, Top Choice® lumber products and Iris® home automation and management 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) in the United States. On average, each domestic RDC serves approximately 118 stores. We also own and operate ten distribution centers, including four lumber yards, to serve our Canadian market, and we lease and operate a distribution facility to serve our Orchard stores. Additionally, we have a service agreement with a third party logistics provider to manage a distribution facility to serve our stores in Mexico.

In addition to the RDCs, we also operate coastal holding facilities, transload facilities, appliance distribution centers, and flatbed distribution centers. The flatbed distribution centers 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. 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 2016, 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 2016.

#### Extended Protection Plans and Repair Services

We offer extended protection plans in Kitchens, Appliances, Tools & Hardware, Outdoor Power Equipment, Seasonal Living, Rough Plumbing Electrical Fixtures, and Garage Door Openers. These protection plans provide customers with product protection that enhances or extends coverage previously offered by the 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 because we manage the entire process.

#### Selling Channels

We are continuing our progress towards becoming an omni-channel retail company, 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,

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more than half of our customers conduct research online before making an in-store purchase. For purchases made on Lowes.com, approximately 60% are picked up in-store, 10% are delivered from a store, and 30% are parcel shipped. For the 60% picked up in-store, 40% of those customers elect to purchase additional products when they arrive in our stores. 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 1,797 Lowe's-branded home improvement stores, inclusive of 1,733 in the U.S., 54 in Canada and 10 in Mexico, 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 245 stores acquired in the RONA acquisition operate under various complementary store formats that address target customers and occasions. In addition, we operate 87 Orchard hardware stores located throughout California, Oregon, and Florida that also serve home improvement customers and average approximately 36,000 square feet of retail selling space. Our home improvement stores in the U.S. and Canada offer similar products and services, with certain variations based on local market factors; however, Orchard stores are primarily focused on paint, repair, and backyard products. 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. In 2016, sales through our online selling channels accounted for approximately 3.5% of our total sales. 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.

### 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. 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. In addition, our Project Specialist Interiors (PSI) program is also now available in all U.S. Lowe's home improvement stores to provide similar consultative services on interior projects such as kitchens and bathrooms.

### 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 3, 2017, we employed approximately 190,000 full-time and 100,000 part-time employees. Our employees in Mexico, and 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

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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”, “Reno Depot”, and “Orchard Supply Hardware”, online retail name “ATG Stores”, 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.

### Environmental Stewardship

Lowe’s knows that operating a business can impact the environment and our communities, and we continue to work to positively influence that impact. It is a responsibility we take seriously.

In 2016, we created a Sustainability & Product Stewardship Council, led by senior executives, to review significant strategies and policies regarding sustainability and product stewardship, and make recommendations across the organization. The company initiated work on a comprehensive sustainability strategy that creates business value and supports our purpose, and we expect to finalize that strategy during 2017.

Each year, Lowe’s participates in the Carbon Disclosure Project to track our carbon footprint. In 2016, Lowe’s externally verified its greenhouse gas emissions data collection and analysis to validate our findings and increase confidence in our reporting. In 2016, 32 retail locations upgraded to interior light-emitting diode (LED) lighting, and seven new stores opened with LED lighting already installed. We plan to continue to implement interior LED lighting and seek solutions for specific lighting needs to enhance energy efficiency as well as the customer experience.

In 2016, we expanded our test of a state-of-the-art building management system (BMS) to 100 stores. The BMS monitors equipment performance and provides valuable information that helps facility managers manage energy consumption to reduce costs and carbon emissions. Lowe’s conducted energy efficiency audits of heating, ventilation and air conditioning systems, and will be implementing upgrades to a number of systems in 2017.

Lowe’s is committed to promoting sustainable practices in the transportation industry. We collaborate with the Environmental Protection Agency’s SmartWay program to reduce transportation emissions by creating incentives for freight contractors to improve efficiency, and are proud to be one of only nine companies in 2016 to receive the Environmental Protection Agency SmartWay Excellence Award in the logistics and shipping category—the only retailer to achieve this honor eight years in a row.

Our recycling program continues to be a priority as we seek to reduce landfill waste and increase recycling at our stores and distribution centers. We operate in-store recycling centers at every Lowe’s store in the continental United States, encouraging customers to recycle compact fluorescent lamps, plastic bags, rechargeable batteries and cell phones. We offer haul-away service to customers who purchase replacement appliances, and our Garden Centers also accept plastic plant trays and pots for recycling.

Managing our water resources is essential in regions experiencing drought conditions. In 2016, we installed HydroPoint irrigation technology that combines real-time weather data with site-specific information to reduce water

consumption and save on utility costs. The systems are in 200 locations and we expect to expand to 200 more in the coming year.

More than ever, customers expect products that are safe, socially and environmentally responsible, and also affordable. Lowe's increasingly provides product choices that save energy and water, reduce potentially harmful chemicals, or mitigate safety concerns for their families. We also engage with our product suppliers, manufacturers and other external stakeholders to ensure we carry the most innovative new products.

For more information about Lowe's environmental efforts, please visit [Lowe.com/SocialResponsibility](https://www.lowes.com/SocialResponsibility).

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### Investing in Our Communities

Lowe's has a long and proud history of supporting local communities through public education and community improvement projects, beginning with the creation of the Lowe's Charitable and Educational Foundation in 1957. In 2016, Lowe's and the Lowe's Charitable and Educational Foundation donated approximately \$38 million to schools and community organizations in the United States, Canada, and Mexico, including but not limited to the following discussed below.

Our commitment to improving educational opportunities is best exemplified by our signature education grant program, Lowe's Toolbox for Education<sup>®</sup>, and 2016 marked the program's 11-year anniversary. In 2016, Lowe's Toolbox for Education<sup>®</sup> provided approximately \$7 million in grants and since inception has provided funding improvements at nearly 12,000 schools, benefiting more than six million children.

Each year, we work with national nonprofit partners to strengthen and stabilize neighborhoods in the communities we serve. In 2016, Lowe's contributed \$7 million and teamed with Habitat for Humanity and Rebuilding Together to provide housing solutions in partnership with families across the country. We also continued to build on our longstanding partnerships with 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 residents of the communities we serve by being there when we're needed most - when a natural disaster threatens and in the recovery that follows. In 2016, Lowe's donated nearly \$2.1 million and mobilized hundreds of Lowe's Heroes employee volunteers to help families recover from disasters across the United States.

For the second year in a row, 100% of Lowe's stores in the United States participated in a Lowe's Heroes volunteer project.

For more information on Lowe's partnerships and latest community improvement projects, visit [Lowe.com/SocialResponsibility](http://Lowe.com/SocialResponsibility).

### 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.Lowe.com/investor](http://www.Lowe.com/investor), as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The public may also read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, [www.sec.gov](http://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 2017 annual meeting of shareholders (as defined in Item 10 of Part III of this Annual Report) under "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.



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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 the failure to protect sensitive customer, employee, vendor or Company information or to comply with evolving regulations relating to our obligation to protect our systems, assets and such information from the threat of cyber-attacks.

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 electronic 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 services, such as authentication, content delivery, back-office support and other functions. Despite our continued vigilance and investment in information security, we or our third-party service providers may be unable to adequately anticipate or prevent a breach in our or their systems that results in the unauthorized release of sensitive data. Should this occur, it may have a material adverse effect on our reputation, drive customers away and lead to financial losses from remedial actions, or potential liability, including possible punitive damages. A security breach resulting in the

unauthorized release of sensitive data from our or our third-party service providers' information systems could also materially increase the costs we already incur to protect against such risks. In addition, as the regulatory environment relating to retailers and other companies' obligation to protect such sensitive data becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines or other regulatory sanctions and potentially to lawsuits.

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, direct debit from a customer's bank account, 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

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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.