LOWES COMPANIES INC
Form 10-Q
December 05, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 3, 2017
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

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. ý Yes o 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). ý Yes o No

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 ý No

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

CLASS	OUTSTANDING AT 12/1/2017
Common Stock, $0.50 par value	829,760,597

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Part I - FINANCIAL INFORMATION
Item 1. Financial Statements
Lowe's Companies, Inc.
Consolidated Balance Sheets
In Millions, Except Par Value Data

		(Unaudited) November 3, 2017	(Unaudited) October 28, 2016	February 3, 2017
Assets				
Current assets:				
Cash and cash equivalents		$ 743	$ 960	$ 558
Short-term investments		85	123	100
Merchandise inventory - net		12,393	10,990	10,458
Other current assets		788	655	884
Total current assets		14,009	12,728	12,000
Property, less accumulated depreciation		19,818	20,037	19,949
Long-term investments		370	436	366
Deferred income taxes - net		347	331	222
Goodwill		1,327	1,034	1,082
Other assets		912	804	789
Total assets		$ 36,783	$ 35,370	$ 34,408
Liabilities and equity				
Current liabilities:				
Short-term borrowings		$ 171	$ —	$ 510
Current maturities of long-term debt		297	800	795
Accounts payable		8,903	7,836	6,651
Accrued compensation and employee benefits		808	704	790
Deferred revenue		1,404	1,258	1,253
Other current liabilities		2,155	2,035	1,975
Total current liabilities		13,738	12,633	11,974
Long-term debt, excluding current maturities		15,570	14,395	14,394
Deferred revenue - extended protection plans		794	745	763
Other liabilities		939	889	843
Total liabilities		31,041	28,662	27,974
Equity:				
Preferred stock - $5 par value, none issued		—	—	—
Common stock - $0.50 par value;				
Shares issued and outstanding				
November 3, 2017	831			
October 28, 2016	873			
February 3, 2017	866	415	437	433
Capital in excess of par value		—	—	—
Retained earnings		5,289	6,376	6,241
Accumulated other comprehensive income/(loss)		38	(214)	(240)
Total Lowe's Companies, Inc. shareholders' equity		5,742	6,599	6,434
Noncontrolling interest		—	109	—
Total equity		5,742	6,708	6,434

Total liabilities and equity	$ 36,783	$ 35,370	$ 34,408

See accompanying notes to the consolidated financial statements (unaudited).

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Lowe's Companies, Inc.
Consolidated Statements of Current and Retained Earnings (Unaudited)
In Millions, Except Per Share and Percentage Data

	Three Months Ended				Nine Months Ended			
	November 3, 2017		October 28, 2016		November 3, 2017		October 28, 2016	
Current Earnings	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Net sales	$16,770	100.00	$15,739	100.00	$53,125	100.00	$49,233	100.00
Cost of sales	11,057	65.93	10,332	65.65	34,942	65.77	32,201	65.41
Gross margin	5,713	34.07	5,407	34.35	18,183	34.23	17,032	34.59
Expenses:								
Selling, general and administrative	3,808	22.71	4,084	25.94	11,615	21.87	11,340	23.02
Depreciation and amortization	358	2.13	384	2.44	1,080	2.03	1,115	2.27
Operating income	1,547	9.23	939	5.97	5,488	10.33	4,577	9.30
Interest - net	160	0.96	163	1.04	479	0.91	486	0.99
Loss on extinguishment of debt	—	—	—	—	464	0.87	—	—
Pre-tax earnings	1,387	8.27	776	4.93	4,545	8.55	4,091	8.31
Income tax provision	515	3.07	397	2.52	1,652	3.10	1,661	3.37
Net earnings	$872	5.20	$379	2.41	$2,893	5.45	$2,430	4.94
Weighted average common shares outstanding - basic	831		873		843		884	
Basic earnings per common share	$1.05		$0.43		$3.42		$2.74	
Weighted average common shares outstanding - diluted	832		874		844		886	
Diluted earnings per common share	$1.05		$0.43		$3.42		$2.73	
Cash dividends per share	$0.41		$0.35		$1.17		$0.98	
Retained Earnings								
Balance at beginning of period	$5,253		$6,839		$6,241		$7,593	
Net earnings attributable to Lowe's Companies, Inc.	872		378		2,893		2,428	
Cash dividends declared	(341)		(306)		(984)		(865)	
Share repurchases	(495)		(535)		(2,861)		(2,780)	
Balance at end of period	$5,289		$6,376		$5,289		$6,376	

See accompanying notes to the consolidated financial statements (unaudited).

Lowe's Companies, Inc.
Consolidated Statements of Comprehensive Income (Unaudited)
In Millions, Except Percentage Data

	Three Months Ended				Nine Months Ended			
	November 3, 2017		October 28, 2016		November 3, 2017		October 28, 2016	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Net earnings	$872	5.20	$379	2.41	$2,893	5.45	$2,430	4.94

Foreign currency translation adjustments - net of tax	173	1.03	152	0.97	278	0.52	179	0.36
Other comprehensive income	173	1.03	152	0.97	278	0.52	179	0.36
Comprehensive income	$1,045	6.23	$531	3.38	$3,171	5.97	$2,609	5.30

See accompanying notes to the consolidated financial statements (unaudited).

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Lowe's Companies, Inc.
Consolidated Statements of Cash Flows (Unaudited)
In Millions

	Nine Months Ended	
	November 3, 2017	October 28, 2016
Cash flows from operating activities:		
Net earnings	$2,893	$ 2,430
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,148	1,190
Deferred income taxes	(118)	(72)
Loss on property and other assets - net	21	130
Loss on extinguishment of debt	464	—
(Gain) loss on cost method and equity method investments	(86)	300
Share-based payment expense	78	71
Changes in operating assets and liabilities:		
Merchandise inventory - net	(1,783)	(718)
Other operating assets	186	32
Accounts payable	2,251	1,859
Other operating liabilities	318	47
Net cash provided by operating activities	5,372	5,269
Cash flows from investing activities:		
Purchases of investments	(680)	(1,018)
Proceeds from sale/maturity of investments	870	987
Capital expenditures	(787)	(820)
Proceeds from sale of property and other long-term assets	21	28
Purchases of derivative instruments	—	(103)
Proceeds from settlement of derivative instruments	—	179
Acquisition of business - net	(509)	(2,284)
Other - net	13	(21)
Net cash used in investing activities	(1,072)	(3,052)
Cash flows from financing activities:		
Net change in short-term borrowings	(340)	(44)
Net proceeds from issuance of long-term debt	2,968	3,267
Repayment of long-term debt	(2,836)	(1,146)
Proceeds from issuance of common stock under share-based payment plans	87	88
Cash dividend payments	(947)	(815)
Repurchase of common stock	(3,054)	(3,054)
Other - net	(8)	48
Net cash used in financing activities	(4,130)	(1,656)
Effect of exchange rate changes on cash	15	(6)
Net increase in cash and cash equivalents	185	555
Cash and cash equivalents, beginning of period	558	405
Cash and cash equivalents, end of period	$743	$ 960

See accompanying notes to the consolidated financial statements (unaudited).

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Lowe’s Companies, Inc.
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all the disclosures normally required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements (unaudited), in the opinion of management, contain all adjustments necessary to present fairly the financial position as of November 3, 2017, and October 28, 2016, and the results of operations, comprehensive income for the three and nine months ended November 3, 2017, and October 28, 2016, and cash flows for the nine months ended November 3, 2017 and October 28, 2016.

These interim consolidated financial statements (unaudited) should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Lowe’s Companies, Inc. (the Company) Annual Report on Form 10-K for the fiscal year ended February 3, 2017 (the Annual Report). The financial results for the interim periods may not be indicative of the financial results for the entire fiscal year.

Reclassifications

Certain prior period amounts have been reclassified to conform to current presentation.

Accounting Pronouncements Recently Adopted

Effective February 4, 2017, the Company adopted Accounting Standards Update (ASU 2016-09), Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. All excess tax benefits or deficiencies related to share-based payments are recognized in the provision for income taxes, which has increased the volatility within our provision for income taxes, as these amounts were previously reported within equity. As a result of the adoption, we have recognized $10 million and $34 million of excess tax benefits in our provision for income taxes for the three and nine months ended November 3, 2017, respectively. The recognition of these benefits contributed $0.01 and $0.04 to diluted earnings per share for the three and nine months ended November 3, 2017, respectively. Excess tax benefits were historically reflected as a financing activity in the statements of cash flows, and after adoption, are included within operating activities. Cash paid to tax authorities by the Company when directly withholding shares for tax purposes will continue to be classified as a financing activity in the statement of cash flows. Share-based payment expense will continue to reflect estimated forfeitures of share-based payment awards. The Company has adopted the applicable provisions of the ASU prospectively.

Accounting Pronouncements Not Yet Adopted

In January 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350). The ASU eliminates Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation to the identified assets and liabilities of the reporting unit to measure goodwill impairment. Under the amendments in this update, a goodwill impairment test is performed by comparing the fair value of the reporting unit with its carrying amount. An impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated

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financial statements but expects the ASU to have a material impact on its consolidated balance sheets, as a result of the requirement to recognize right-of-use assets and lease liabilities.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the ASU has expanded disclosure requirements regarding revenue. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of the ASU to fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU.

The Company continues to evaluate the impact of adopting this standard and its subsequent related amendments and interpretations. However, based on our assessment, which will be finalized in the fourth quarter of 2017, the Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements. The Company has determined the adoption of the guidance will impact the timing of recognition of its stored value card breakage. Currently, breakage is recognized using the remote method and will be recognized using the proportional method upon adoption of the guidance. In addition, the Company expects a change in the presentation of the sales return reserve on the consolidated balance sheet, as it is currently reported on a net basis, as well as a change in the timing of how installation services are recognized. The Company is also evaluating principal versus agent conclusions as it relates to certain arrangements with third parties that could impact the presentation of revenue on a gross or net basis. The Company does not expect any significant modifications to existing systems or material changes in the Company’s internal controls over financial reporting. The adoption of the ASU will result in increased footnote disclosure requirements.

The Company plans to adopt this ASU in the first quarter of fiscal 2018, and based on its ongoing assessment of potential impacts to its consolidated financial statements, the Company expects to use a modified retrospective approach to adoption.

Note 2: Acquisitions - On June 23, 2017, the Company completed its acquisition of Maintenance Supply Headquarters, a leading distributor of maintenance, repair and operations (MRO) products serving the multifamily housing industry. The aggregate purchase price of this acquisition was $513 million and is included in the investing section of the consolidated statements of cash flows, net of the cash acquired. The acquisition is expected to enable the Company to deepen and broaden its relationship with Pro customers and better serve their needs. Acquisition-related costs were expensed as incurred and were not significant.

The following table summarizes the preliminary purchase price allocation:

(In millions)	June 23, 2017
Allocation:	
Cash acquired	$4
Merchandise inventory - net	68
Other current assets	36
Property	12
Goodwill	160
Other assets	260
Accounts payable	(18)
Other current liabilities	(9)

Net assets acquired	$513

Intangible assets acquired totaled $259 million, and include a trademark of $34 million with a useful life of 15 years and a customer list of $225 million with a useful life of 20 years, each of which are included in other assets in the accompanying consolidated balance sheets. The goodwill of $160 million is primarily attributable to the synergies expected to arise after the acquisition and is deductible for tax purposes.

Pro forma and historical financial information has not been provided as the acquisition was not material to the consolidated financial statements.

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Note 3: Investment in Australian Joint Venture - During the second quarter of fiscal 2017, the Company completed the sale of our interest in the Australian joint venture with Woolworths Limited and received proceeds of $199 million, which is included in cash flows from investing activities in the accompanying consolidated statements of cash flows. The proceeds from the sale exceeded the carrying value of the investment and resulted in a gain of $96 million. The carrying value prior to the sale reflected the non-cash impairment charges taken in fiscal years 2015 and 2016. The gain is included in selling, general and administrative expense in the accompanying consolidated statements of current and retained earnings.

Note 4: Fair Value Measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following table presents the Company’s financial assets measured at fair value on a recurring basis as of November 3, 2017, October 28, 2016, and February 3, 2017. The fair values of these instruments approximated amortized costs.

		Fair Value Measurements at		
(In millions)	Measurement Level	November 3, 2017	October 28, 2016	February 3, 2017
Short-term investments:				
Available-for-sale securities				
Money market funds	Level 1	$70	$ 28	$ 81
Certificates of deposit	Level 1	15	55	15
Municipal obligations	Level 2	—	37	4
Municipal floating rate obligations	Level 2	—	3	—
Total short-term investments		$85	$ 123	$ 100
Long-term investments:				
Available-for-sale securities				
Municipal floating rate obligations	Level 2	$368	$ 430	$ 359
Certificates of deposit	Level 1	2	2	2
Municipal obligations	Level 2	—	4	5
Total long-term investments		$370	$ 436	$ 366

There were no transfers between Levels 1, 2 or 3 during any of the periods presented.

When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

During the three and nine months ended November 3, 2017, the Company had no significant measurements of assets and liabilities at fair value on a nonrecurring basis subsequent to their initial recognition. During the three and nine months ended October 28, 2016, the Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were certain long-lived assets, goodwill, and cost method investments, which were classified as

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Level 3 fair value measurements. These non-cash impairment charges were included in selling, general and administrative expense in the accompanying consolidated statements of current and retained earnings.

The following table presents the Company’s non-financial assets measured at estimated fair value on a nonrecurring basis and the resulting impairment losses included in earnings for the three and nine months ended October 28, 2016. Because these assets are not measured at fair value on a recurring basis, certain fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at October 28, 2016.

(In millions)	Fair Value Measurements October 28, 2016	Impairment Losses Three Months Ended October 28, 2016	Impairment Losses Nine Months Ended October 28, 2016
Assets-held-for-use:			
Operating locations	$ 3	$ (31)	$ (34)
Goodwill	—	(46)	(46)
Other assets:			
Cost method investments	103	(290)	(290)
Total	$ 106	$ (367)	$ (370)

Fair Value of Financial Instruments

The Company’s financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, short-term borrowings, accounts payable, accrued liabilities and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. The fair values of the Company’s unsecured notes were estimated using quoted market prices. The fair values of the Company’s mortgage notes were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable incremental borrowing rate.

Carrying amounts and the related estimated fair value of the Company’s long-term debt, excluding capitalized lease obligations, are as follows:

(In millions)	November 3, 2017 Carrying Amount	November 3, 2017 Fair Value	October 28, 2016 Carrying Amount	October 28, 2016 Fair Value	February 3, 2017 Carrying Amount	February 3, 2017 Fair Value
Unsecured notes (Level 1)	$14,958	$15,974	$14,318	$15,948	$14,321	$15,305
Mortgage notes (Level 2)	7	7	10	10	7	7
Long-term debt (excluding capitalized lease obligations)	$14,965	$15,981	$14,328	$15,958	$14,328	$15,312

Note 5: Restricted Investment Balances - Short-term and long-term investments include restricted balances pledged as collateral primarily for the Company’s extended protection plan program. Restricted balances included in short-term investments were $70 million at November 3, 2017, $53 million at October 28, 2016, and $81 million at February 3, 2017.

Restricted balances included in long-term investments were $332 million at November 3, 2017, $348 million at October 28, 2016, and $354 million at February 3, 2017.

Note 6: Property - Property is shown net of accumulated depreciation of $17.1 billion at November 3, 2017, $17.1 billion at October 28, 2016, and $17.0 billion at February 3, 2017.

Note 7: Extended Protection Plans - The Company sells separately-priced extended protection plan contracts under a Lowe’s-branded program for which the Company is self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to four years from the date of purchase or the end of the manufacturer’s warranty, as applicable. Changes in deferred revenue for extended protection plan contracts are summarized as follows:

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(In millions)	Three Months Ended November 3, 2017	Three Months Ended October 28, 2016	Nine Months Ended November 3, 2017	Nine Months Ended October 28, 2016
Deferred revenue - extended protection plans, beginning of period	$790	$ 744	$763	$ 729
Additions to deferred revenue	96	88	304	280
Deferred revenue recognized	(92)	(87)	(273)	(264)
Deferred revenue - extended protection plans, end of period	$794	$ 745	$794	$ 745

Incremental direct acquisition costs associated with the sale of extended protection plans are also deferred and recognized as expense on a straight-line basis over the respective contract term. Deferred costs associated with extended protection plan contracts were $19 million at November 3, 2017, $17 million at October 28, 2016, and $18 million at February 3, 2017. The Company's extended protection plan deferred costs are included in other assets (noncurrent) on the accompanying consolidated balance sheets. All other costs, such as costs of services performed under the contract, general and administrative expenses, and advertising expenses are expensed as incurred.

The liability for extended protection plan claims incurred is included in other current liabilities on the consolidated balance sheets and was not material in any of the periods presented. Expenses for claims are recognized when incurred and totaled $43 million and $119 million for the three and nine months ended November 3, 2017, respectively, and $39 million and $107 million for the three and nine months ended October 28, 2016, respectively.

Note 8: Long-Term Debt - During the first quarter of fiscal 2017, the Company issued $3.0 billion of unsecured notes as follows:

Issue Date	Principal Amount (in millions)	Maturity Date	Fixed vs. Floating	Interest Rate	Discount (in millions)
May 3, 2017	$ 1,500	May 2027	Fixed	3.100%	$ 9
May 3, 2017	$ 1,500	May 2047	Fixed	4.050%	$ 23

Interest on the notes issued in 2017 is payable semiannually in arrears in May and November of each year until maturity.

The indenture governing the notes issued in 2017 contains a provision that allows the Company to redeem these notes at any time, in whole or in part, at specified redemption prices, plus accrued and unpaid interest, if any, to the date of redemption. The indenture also contains a provision that allows the holders of the notes to require the Company to repurchase all or any part of their notes if a change of control triggering event occurs. If elected under the change of control provisions, the repurchase of the notes will occur at a purchase price of 101% of the principal amount, plus accrued and unpaid interest, if any, on such notes to the date of purchase. The indenture governing the notes does not limit the aggregate principal amount of debt securities that the Company may issue and does not require the Company to maintain specified financial ratios or levels of net worth or liquidity. However, the indenture includes various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources.

Also during the first quarter, the Company completed a cash tender offer to purchase and retire $1.6 billion combined aggregate principal amount of its outstanding notes and recognized a loss on extinguishment of debt of $464 million.

Note 9: Equity - The Company has a share repurchase program that is executed through purchases made from time to time either in the open market, which may be made under pre-set trading plans meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934, or through private off-market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. On January 27, 2017, the Company's Board of Directors authorized a $5.0 billion share repurchase program with no expiration, which was announced on the same day. As of November 3, 2017, the Company had $2.1 billion remaining in its share repurchase program.

In March 2017, the Company entered into an Accelerated Share Repurchase (ASR) agreement with a third-party financial institution to repurchase $500 million of the Company's common stock. At inception, pursuant to the agreement, the Company paid $500 million to the financial institution using cash on hand, and took delivery of 5.3 million shares. The Company finalized the transaction and received an additional 0.8 million shares prior to the end of the first quarter.

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In May 2017, the Company entered into an ASR agreement with a third-party financial institution to repurchase $500 million of the Company's common stock. At inception, pursuant to the agreement, the Company paid $500 million to the financial institution using cash on hand, and took delivery of 5.2 million shares. The Company finalized the transaction and received an additional 1.2 million shares prior to the end of the second quarter.

In August 2017, the Company entered into an ASR agreement with a third-party financial institution to repurchase $250 million of the Company's common stock. At inception, pursuant to the agreement, the Company paid $250 million to the financial institution using cash on hand, and took delivery of 2.9 million shares. The Company finalized the transaction and received an additional 0.3 million shares prior to the end of the third quarter.

Under the terms of each of the ASR agreements, upon settlement, the Company would either receive additional shares from the financial institution or be required to deliver additional shares or cash to the financial institution. The Company controlled its election to either deliver additional shares or cash to the financial institution and was subject to provisions which limited the number of shares the Company would be required to deliver.

The final number of shares received upon settlement of each of the ASR agreements was determined with reference to the volume-weighted average price of the Company's common stock over the term of the respective ASR agreement. The initial repurchase of shares under each of the agreements resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

Each of the ASR agreements was accounted for as a treasury stock transaction and forward stock purchase contract. The par value of the shares received was recorded as a reduction to common stock with the remainder recorded as a reduction to capital in excess of par value and retained earnings. The forward stock purchase contract was considered indexed to the Company's own stock and was classified as an equity instrument.

During the three and nine months ended November 3, 2017, the Company also repurchased shares of its common stock through the open market totaling 3.2 million and 21.8 million shares, respectively, for a cost of $250 million and $1.8 billion, respectively.

The Company also withholds shares from employees to satisfy either the exercise price of stock options exercised or the statutory withholding tax liability resulting from the vesting of share-based awards.

Shares repurchased for the three and nine months ended November 3, 2017, and October 28, 2016 were as follows:

	Three Months Ended			
	November 3, 2017		October 28, 2016	
(In millions)	Shares	Cost [1]	Shares	Cost [1]
Share repurchase program	6.4	$500	8.3	$550
Shares withheld from employees	0.4	27	0.3	24
Total share repurchases	6.8	$527	8.6	$574

[1] Reductions of $495 million and $535 million were recorded to retained earnings, after capital in excess of par value was depleted, for the three months ended November 3, 2017 and October 28, 2016, respectively.

	Nine Months Ended			
	November 3, 2017		October 28, 2016	
(In millions)	Shares	Cost [2]	Shares	Cost [2]
Share repurchase program	37.5	$3,000	39.0	$2,949
Shares withheld from employees	0.5	41	1.1	77

Total share repurchases	38.0	$3,041	40.1	$3,026

[2] Reductions of $2.9 billion and $2.8 billion were recorded to retained earnings, after capital in excess of par value was depleted, for the nine months ended November 3, 2017 and October 28, 2016, respectively.

Note 10: Earnings Per Share - The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company’s participating securities consist of share-based

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payment awards that contain a nonforfeitable right to receive dividends and, therefore, are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for the three and nine months ended November 3, 2017 and October 28, 2016:

	Three Months Ended		Nine Months Ended	
(In millions, except per share data)	November 3, 2017	October 28, 2016	November 3, 2017	October 28, 2016
Basic earnings per common share:				
Net earnings attributable to Lowe’s Companies, Inc.	$872	$ 378	$2,893	$ 2,428
Less: Net earnings allocable to participating securities	(2)	(2)	(10)	(9)
Net earnings allocable to common shares, basic	$870	$ 376	$2,883	$ 2,419
Weighted-average common shares outstanding	831	873	843	884
Basic earnings per common share	$1.05	$ 0.43	$3.42	$ 2.74
Diluted earnings per common share:				
Net earnings attributable to Lowe’s Companies, Inc.	$872	$ 378	$2,893	$ 2,428
Less: Net earnings allocable to participating securities	(2)	(2)	(10)	(9)
Net earnings allocable to common shares, diluted	$870	$ 376	$2,883	$ 2,419
Weighted-average common shares outstanding	831	873	843	884
Dilutive effect of non-participating share-based awards	1	1	1	2
Weighted-average common shares, as adjusted	832	874	844	886
Diluted earnings per common share	$1.05	$ 0.43	$3.42	$ 2.73

Stock options to purchase 1.0 million shares of common stock were anti-dilutive for the three and nine months ended November 3, 2017. Stock options to purchase 1.1 million and 0.9 million shares of common stock were anti-dilutive for the three and nine months ended October 28, 2016, respectively.

Note 11: Income Taxes - The Company’s effective income tax rates were 37.1% and 51.2% for the three months ended November 3, 2017 and October 28, 2016, respectively. The lower effective income tax rate for the three months ended November 3, 2017 was primarily attributable to the non-cash impairment charge associated with our investment in the Australian joint venture, which was recognized during the third quarter of fiscal 2016. The loss was considered capital in nature and, since no capital gains were identified through which the Company could utilize this loss, a full deferred tax valuation allowance was established. As a result, the loss did not result in a tax benefit.

Our effective income tax rates were 36.3% and 40.6% for the nine months ended November 3, 2017 and October 28, 2016, respectively. The lower effective income tax rate for the nine months ended November 3, 2017 was primarily attributable to the non-cash impairment charge associated with our investment in the Australian joint venture, and from the sale of this investment during the second quarter of fiscal 2017, which did not result in tax expense due to the reduction of the previously established deferred tax valuation allowance. The lower effective income tax rate for the nine months ended November 3, 2017 was also driven by the recognition of excess tax benefits related to share-based payments after the adoption of ASU 2016-09. See Note 1 to the consolidated financial statements included herein for more information regarding ASU 2016-09.

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Note 12: Supplemental Disclosure

Net interest expense is comprised of the following:

(In millions)	Three Months Ended November 3, 2017	Three Months Ended October 28, 2016	Nine Months Ended November 3, 2017	Nine Months Ended October 28, 2016
Long-term debt	$146	$ 151	$438	$ 437
Capitalized lease obligations	14	13	41	40
Interest income	(2)	(4)	(10)	(10)
Interest capitalized	(2)	(1)	(4)	(3)
Interest on tax uncertainties	—	—	(1)	2
Other	4	4	15	20
Interest - net	$160	$ 163	$479	$ 486

Supplemental disclosures of cash flow information:

(In millions)	Nine Months Ended November 3, 2017	Nine Months Ended October 28, 2016
Cash paid for interest, net of amount capitalized	$610	$ 588
Cash paid for income taxes - net	$1,322	$ 1,657
Non-cash investing and financing activities:		
Non-cash property acquisitions, including assets acquired under capital lease	$91	$ 72
Cash dividends declared but not paid	$341	$ 306

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Lowe’s Companies, Inc.
Mooresville, North Carolina

We have reviewed the accompanying consolidated balance sheets of Lowe’s Companies, Inc. and subsidiaries (the “Company”) as of November 3, 2017 and October 28, 2016, and the related consolidated statements of current and retained earnings, and comprehensive income for the fiscal three-month and nine-month periods ended November 3, 2017 and October 28, 2016, and of cash flows for the fiscal nine-month periods ended November 3, 2017 and October 28, 2016. These consolidated interim financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of February 3, 2017, and the related consolidated statements of earnings, comprehensive income, shareholders’ equity, and cash flows for the fiscal year then ended (not presented herein); and in our report dated April 3, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet of the Company as of February 3, 2017 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
December 5, 2017

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Item 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis summarizes the significant factors affecting our consolidated operating results, liquidity and capital resources during the three and nine months ended November 3, 2017, and October 28, 2016. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements that are included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2017 (the Annual Report), as well as the consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) contained in this report. Unless otherwise specified, all comparisons made are to the corresponding period of 2016. In fiscal 2017, there is a one week shift as a result of the 53rd week in fiscal 2016. For purposes of the following discussion, comparable store sales, comparable store average ticket and comparable store customer transactions are based upon comparable 13 week periods. 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

EXECUTIVE OVERVIEW

Net sales and net earnings increased for the third quarter of 2017 by 6.5% to $16.8 billion and 130.3% to $872 million, respectively. Diluted earnings per common share increased 144.2% in the third quarter of 2017 to $1.05 from $0.43 in the third quarter of the prior year. Diluted earnings per common share in the third quarter of 2017 increased 19.3% from adjusted diluted earnings per share of $0.88 in the same period of the prior year (see discussion of non-GAAP financial measures beginning on page 17). Continuing to deliver on our commitment to return excess cash to shareholders, during the third quarter of 2017, we paid $344 million in dividends and repurchased $500 million of common stock through our share repurchase program.

During the third quarter of 2017, all U.S. regions generated comparable sales increases as we drove increased traffic in-store and online with compelling messaging and integrated omni-channel experiences, while continuing to capitalize on a supportive macro-economic backdrop and customers' continued desire to invest in their homes. In addition, all product categories generated positive comparable sales, with particular strength in Lumber & Building Materials, Appliances, and Rough Plumbing & Electrical. We continued to see strong demand from the Pro customer for the quarter with comparable sales above the company average.

Hurricanes Harvey and Irma positively impacted third quarter comparable sales by approximately 140 basis points. Our merchants, vendors, logistics, and store teams were able to work together seamlessly to ensure customers had the right products to protect and repair their homes. Our teams sent over 11,000 truckloads of product to impacted areas supporting both DIY and Pro customers as they prepared for the storms and worked to repair properties afterward. We also added Account Executive Pro Services (AEPs) to the Texas and Florida markets to support the incremental demand from Pro customers.

We continued to build upon our strong foundation with the Pro customer by continuing to optimize our product and service offerings to better serve their unique needs. During the quarter, we continued to drive Pro awareness through Pro-exclusive offers, digital focus on LowesForPros.com, and our growing Pro services team. The addition of

Maintenance Supply Headquarters (MSH) and Central Wholesalers, Inc. further expanded our capabilities to serve the multi-family housing industry through enhanced product and service offerings while strengthening our platform with both new and existing Pro customers.

In addition, we continued to execute on our strategic priorities during the quarter, including leveraging our omni-channel capabilities to help customers achieve project results. We also continue to leverage our investments in Lowes.com to provide an upgraded online shopping experience by delivering an optimized mobile experience, improved product and content recommendations, refined search algorithms, optimized assortment informed by digital line reviews and expanded product views, including video content. We are working to further advance our online platform making it easier for customers to engage with our in-home Project Specialists and request services online, as well as working to centralize our process for providing installation quotes, allowing for greater efficiency and a more consistent customer experience.

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Looking ahead, we plan to build upon our strong foundation by developing capabilities to anticipate and support customers' evolving needs and continue to focus on strengthening our operating discipline and execution. We look forward to the introduction of Craftsman products in-store and online beginning in the second half of 2018. We believe this partnership with Stanley Black & Decker strengthens our ability to deliver on customer expectations across many product categories and will allow both DIY and Pro customers greater access to high quality, value-oriented product offerings for their next home improvement project. We also remain committed to balancing our promotional strategy with our pricing optimization efforts to improve profitability, and we will further leverage our new store leadership model and make investments in customer-facing hours in order to capitalize upon strong traffic trends to deliver an improved customer experience.

OPERATIONS

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

	Three Months Ended		Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Period	Percentage Increase / (Decrease) in Dollar Amounts from Prior Period
	November 3, 2017	October 28, 2016	2017 vs. 2016	2017 vs. 2016
Net sales	100.00 %	100.00 %	N/A	6.5 %
Gross margin	34.07	34.35	(28)	5.7
Expenses:				
Selling, general and administrative	22.71	25.94	(323)	(6.7)
Depreciation and amortization	2.13	2.44	(31)	(6.8)
Operating income	9.23	5.97	326	64.7
Interest - net	0.96	1.04	(8)	(2.1)
Pre-tax earnings	8.27	4.93	334	78.8
Income tax provision	3.07	2.52	55	29.7
Net earnings	5.20 %	2.41 %	279	130.3 %

	Nine Months Ended		Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Period	Percentage Increase / (Decrease) in Dollar Amounts from Prior Period
	November 3, 2017	October 28, 2016	2017 vs. 2016	2017 vs. 2016
Net sales	100.00 %	100.00 %	N/A	7.9 %
Gross margin	34.23	34.59	(36)	6.8
Expenses:				
Selling, general and administrative	21.87	23.02	(115)	2.4
Depreciation and amortization	2.03	2.27	(24)	(3.2)
Operating income	10.33	9.30	103	19.9
Interest - net	0.91	0.99	(8)	(1.4)
Loss on extinguishment of	0.87	—	87	100.0

debt				
Pre-tax earnings	8.55	8.31	24	11.1
Income tax provision	3.10	3.37	(27)	(0.6)
Net earnings	5.45%	4.94%	51	19.1%

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Other Metrics	Three Months Ended		Nine Months Ended	
	November 3, 2017	October 28, 2016	November 3, 2017	October 28, 2016
Comparable sales increase [1]	5.7 %	2.7 %	4.0 %	3.9 %
Total customer transactions (in millions) [2]	231	229	742	718
Average ticket [2, 3]	$72.63	$ 68.65	$71.59	$ 68.59
At end of period:				
Number of stores	2,144	2,119		
Sales floor square feet (in millions)	214	213		
Average store size selling square feet (in thousands) [4]	100	100		
Return on invested capital [5]	19.5 %	13.6 %		

1 A comparable location is defined as a 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 close is no longer considered comparable as of the beginning of the month in which we announce its closing. 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 third quarter fiscal 2017 comparable sales by approximately 95 basis points and fiscal 2017 comparable sales by approximately 105 basis points. The comparable store sales calculation included in the preceding table was calculated using comparable 13-week and 39-week periods, respectively.

2 In fiscal 2017, there was a one week shift as a result of the 53rd week in fiscal 2016.

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

Non-GAAP Financial Measures

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, as further described below, not contemplated in Lowe's 2017 and 2016 original business outlooks. Unless otherwise noted, the income tax effect of these adjustments is calculated using the marginal rates for the respective periods.

- In the third quarter of 2016, the company recognized $462 million of non-cash pre-tax charges which included the following:

- $290 million impairment resulting from the wind down of our investment in the Australian joint venture with Woolworths Limited (Woolworths).

- $96 million related to a write-off for projects that were canceled as part of the company's ongoing review of strategic initiatives in an effort to focus on critical projects that will drive desired outcomes.

- $76 million related to goodwill and long-lived asset impairments associated with the company's Orchard Supply Hardware (Orchard) operations as part of a strategic reassessment of this business.

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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.

	Three Months Ended					
	November 3, 2017			October 28, 2016		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			$ 1.05			$ 0.43
Non-GAAP adjustments - per share impacts						
Australian joint venture impairment	—	—	—	0.33	—	0.33
Project write-offs	—	—	—	0.11	(0.04)	0.07
Orchard Supply Hardware goodwill and long-lived asset impairment	—	—	—	0.09	(0.04)	0.05
Adjusted diluted earnings per share			$ 1.05			$ 0.88

Return on Invested Capital

Return on Invested Capital (ROIC) is a non-GAAP financial measure. We believe ROIC is a meaningful metric for investors because it measures how effectively the Company uses capital to generate profits.

We define ROIC as trailing four quarters' net operating profit after tax divided by the average of ending debt and equity for the last five quarters. 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 consider return on average debt and equity to be the financial measure computed in accordance with GAAP that is the most directly comparable GAAP financial measure to ROIC. The difference between these two measures is that ROIC adjusts net earnings to exclude tax adjusted non-operating income/(expense).

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The calculation of ROIC, together with a reconciliation to the calculation of return on average debt and equity, the most comparable GAAP financial measure, is as follows:

(In millions, except percentage data)	For the Periods Ended November 3, 2017	October 28, 2016
Calculation of Return on Invested Capital		
Numerator [1]		
Net earnings	$3,556	$2,441
Plus:		
Interest expense - net	639	630
Loss on extinguishment of debt	464	—
Provision for income taxes	2,099	1,945
Net operating profit	6,758	5,016
Less:		
Income tax adjustment [2]	2,509	2,066
Net operating profit after tax	$4,249	$2,950
Effective tax rate	37.1 %	44.3 %
Denominator		
Average debt and equity [3]	$21,806	$21,725
Return on invested capital	19.5 %	13.6 %
Calculation of Return on Average Debt and Equity		
Numerator [1]		
Net earnings	$3,556	$2,441
Denominator		
Average debt and equity [3]	$21,806	$21,725
Return on average debt and equity	16.3 %	11.2 %

1 Amounts used in the calculation of the numerator are based on the trailing four quarters.

2 Income tax adjustment is defined as net operating profit multiplied by the effective tax rate.

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

Results of Operations

Net Sales – Net sales in the third quarter of 2017 increased 6.5% to $16.8 billion. The increase in total sales was driven primarily by an increase in comparable sales, the acquisitions of Maintenance Supply Headquarters and Central Wholesalers, Inc., and new stores partially offset by the calendar shift from the 53rd week in fiscal 2016. Comparable sales increased 5.7% over the same period, driven by a 4.8% increase in comparable average ticket and a 0.9% increase in comparable customer transactions. Acquisitions and new stores contributed 0.7% and 0.5% to sales growth, respectively, while the calendar week shift negatively impacted sales 0.4% for the third quarter of 2017.

During the third quarter of 2017, all product categories experienced comparable sales increases, with comparable sales increases above the company average in Lumber & Building Materials, Appliances, and Rough Plumbing & Electrical. Lumber & Building Materials benefited from an increased demand for hurricane-related products such as plywood, pressure-treated lumber, fencing, shingles, drywall, and insulation, an increase in Pro customer demand, and inflation. 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 also achieved strong comparable sales in Rough Plumbing & Electrical driven by continued improvements in brand relevance and demand from the Pro customer.

Net sales increased 7.9% to $53.1 billion for the first nine months of 2017 compared to 2016. RONA represented 2.6% of the sales growth. Comparable sales increased 4.0% over the same period, primarily driven by a 3.9% increase in comparable average ticket and a 0.1% increase in customer transactions.

Gross Margin – For the third quarter of 2017, gross margin decreased 28 basis points as a percentage of sales. Gross margin was negatively impacted by 25 basis points due to competitive actions and 20 basis points due to mix of products sold. These were partially offset by approximately 25 basis points of leverage as we cycled the inclusion of purchase price adjustments in the prior year related to RONA's opening balance sheet primarily associated with inventory, as well as the mix of the RONA business.

Gross margin as a percentage of sales decreased 36 basis points in the first nine months of 2017 compared to 2016 due to the same factors that impacted gross margin in the third quarter.

SG&A – For the third quarter of 2017, SG&A expense leveraged 323 basis points as a percentage of sales compared to the third quarter of 2016. This was primarily driven by 184 basis points of leverage due to the prior year non-cash impairment charge related to the investment in the Australian joint venture, 61 basis points of leverage associated with the prior year write-off of canceled technology-enabled projects, and 48 basis points of leverage associated with goodwill and long-lived asset impairments related to Orchard operations recorded in the prior year. In addition, operating salaries leveraged 27 basis points as we streamlined our store leadership model.

SG&A expense as a percentage of sales leveraged 115 basis points in the first nine months of 2017 compared to 2016. This was driven primarily by 77 basis points of leverage attributable to the prior year non-cash impairment charge and the current year sale of our interest in the Australian joint venture, 35 basis points of leverage in operating salaries, 19 basis points of leverage due to the prior year write-off of canceled technology-enabled projects, and 15 basis points of leverage associated with goodwill and long-lived asset impairments related to Orchard operations recorded in the prior year. These were partially offset by 15 basis points of deleverage primarily due to the prior year settlement of the foreign currency option contract entered into in advance of the RONA acquisition and 11 basis points of deleverage in risk insurance.

Depreciation and Amortization – Depreciation and amortization leveraged 31 basis points for the third quarter of 2017 compared to the prior year primarily due to the increase in sales and assets becoming fully depreciated, partially offset by incremental expense due to the acquisition of Maintenance Supply Headquarters. Property, less accumulated depreciation, decreased to $19.8 billion at November 3, 2017, compared to $20.0 billion at October 28, 2016. As of November 3, 2017 and October 28, 2016, we owned 78% and 79% of our stores, respectively, which included stores on leased land.

Depreciation and amortization leveraged 24 basis points for the first nine months of 2017 compared to 2016 due to the same factors that impacted depreciation and amortization for the third quarter.

Interest – Net – Interest expense for the third quarter and first nine months of 2017 decreased primarily as a result of the cash tender offer to purchase and retire $1.6 billion aggregate principal amount of our outstanding notes and the payoff of scheduled debts at maturity. 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 rates were 37.1% and 51.2% for the three months ended November 3, 2017 and October 28, 2016, respectively. During the third quarter of 2016, the Company recognized a non-cash impairment charge associated with our investment in the Australian joint venture. The loss was considered capital in nature and, since no capital gains were identified through which the Company could utilize this loss, a full deferred tax valuation allowance was established. As a result, the loss did not result in a tax benefit.

Our effective income tax rates were 36.3% and 40.6% for the nine months ended November 3, 2017 and October 28, 2016, respectively. The lower effective income tax rate for the nine months ended November 3, 2017 was primarily attributable to the non-cash impairment charge associated with our investment in the Australian joint venture, and from the sale of this investment during the second quarter of fiscal 2017, which did not result in tax expense due to the reduction of the previously established deferred tax valuation allowance.

During 2017, we adopted ASU 2016-09 regarding improvements to employee share-based accounting requiring entities to recognize excess tax benefits and deficiencies within income taxes. Previously, excess tax benefits and certain tax deficiencies were recorded within equity. This change resulted in a favorable discrete item for the nine months ended November 3, 2017, and reduced our effective income tax rate by 76 basis points.

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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table summarizes our cash flow activities for the nine months ended November 3, 2017 and October 28, 2016:

(In millions)	Nine Months Ended November 3, 2017	October 28, 2016
Net cash provided by (used in):		
Operating activities	5,372	5,269
Investing activities	(1,072)	(3,052)
Financing activities	(4,130)	(1,656)

Cash flows from operating activities continued to provide the primary source of our liquidity. The increase in net cash provided by operating activities for the nine months ended November 3, 2017, versus the nine months ended October 28, 2016, was driven primarily by an increase in net earnings adjusted for non cash expenses partially offset by changes in working capital.

The decrease in net cash used in investing activities for the nine months ended November 3, 2017, versus the nine months ended October 28, 2016, was driven primarily by a decrease in cash used to acquire businesses and a decrease in purchases of investments and derivative instruments, partially offset by a decrease in proceeds from the sale/maturity of investments and derivative instruments. We used $509 million to acquire Maintenance Supply Headquarters during the first nine months of 2017 compared to $2.3 billion to acquire RONA during the first nine months of 2016.

The increase in cash used in financing activities for the nine months ended November 3, 2017, versus the nine months ended October 28, 2016, was driven primarily by the completion of a cash tender offer in May 2017, a decrease in net proceeds from the issuance of long-term debt, and an increase in repayments of short-term borrowings. We paid approximately $2.0 billion to purchase $1.6 billion of our higher coupon notes prior to maturity in connection with the cash tender offer. We issued $3.0 billion of unsecured notes to fund the tender offer and finance current year maturities (see Note 8 to the consolidated financial statements included herein for additional information). In April 2016, we issued $3.3 billion of unsecured notes to fund the acquisition of RONA.

Sources of Liquidity

Liquidity is provided primarily by our cash flows from operations, short-term borrowing facilities, and long-term debt.

We have a $1.75 billion unsecured revolving credit agreement with a syndicate of banks that expires in November 2021. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the credit agreement, we may increase the aggregate availability by an additional $500 million. The credit facility supports our commercial paper program and has a $500 million letter of credit sublimit. Letters of credit issued pursuant to the credit facility reduce the amount available for borrowing under its terms. Borrowings made are unsecured and priced at fixed rates based upon market conditions at the time of funding in accordance with the terms of the credit facility. The credit agreement contains customary representations, warranties, and covenants for a transaction of this type. We were in compliance with those covenants at November 3, 2017. As of November 3, 2017, there were $171 million of outstanding borrowings under the commercial paper program and no outstanding borrowings or letters of credit under the credit facility.

We expect to continue to have access to the capital markets on both short- and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor’s (S&P) and Moody’s as of December 5, 2017, which we are disclosing to enhance understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Although we currently do not expect a downgrade in our debt ratings, our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating.

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Debt Ratings	S&P	Moody's
Commercial Paper	A-2	P-2
Senior Debt	A-	A3
Senior Debt Outlook	Stable	Stable

We believe that net cash provided by operating and financing activities will be adequate not only for our operating requirements, but also for investments in our existing stores and distribution facilities, investments in information technology, expansion plans, acquisitions, if any, and to return cash to shareholders through both dividends and share repurchases over the next 12 months. There are no provisions in any agreements that would require early cash settlement of existing debt or leases as a result of a downgrade in our debt rating or a decrease in our stock price. In addition, we do not believe it will be necessary to repatriate significant cash and cash equivalents and short-term investments held in foreign affiliates to fund domestic operations.

Cash Requirements

Capital expenditures

Our fiscal 2017 capital forecast is approximately $1.2 billion. Investments in our existing stores, including investments in remerchandising, store equipment, and technology, are expected to account for approximately 45% of net cash outflow. Our expansion plans are expected to account for approximately 30% of planned net cash outflow. Approximately 20% of planned net cash outflow is for corporate programs, including investments to enhance the customer experience, as well as enhancements to the corporate infrastructure. Other planned capital expenditures, accounting for approximately 5% of planned net cash outflow, are for investments in our existing distribution network.

Debt and capital

Unsecured debt of $250 million is scheduled to mature in September 2018. See Note 8 to the consolidated financial statements included herein for additional information regarding long-term debt, including fiscal year 2017 financing activities.

We have an ongoing share repurchase program, authorized by the Company's Board of Directors, which is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the share repurchase program are retired and returned to authorized and unissued status. As of November 3, 2017, we had $2.1 billion remaining available under our share repurchase program with no expiration date. Our fiscal year 2017 guidance assumes approximately $3.5 billion in share repurchases for the fiscal year. See Note 9 to the consolidated financial statements included herein for additional information regarding share repurchases.

Dividends declared during the third quarter of 2017 totaled $341 million. Our dividend payment dates are established such that dividends are paid in the quarter immediately following the quarter in which they are declared.

OFF-BALANCE SHEET ARRANGEMENTS

Other than in connection with executing operating leases, we do not have any off-balance sheet financing that has, or is reasonably likely to have, a material, current or future effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

During the first quarter of 2017, we issued $3.0 billion of unsecured notes in the ordinary course of business and used the proceeds from this issuance to repurchase $1.6 billion of unsecured debt before maturity. We also repaid $750 million of debt maturities during the first nine months of 2017. The table below summarizes our contractual obligations relating to long-term debt, excluding capitalized lease obligations, at November 3, 2017. Interest payments included in the table below are calculated based on the rates in effect at November 3, 2017. The unsecured notes are further described in Note 8 to the consolidated financial statements included herein.

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	Payments Due by Period				
(In millions)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt (principal amounts, excluding discounts and debt issuance costs)	$15,115	$ 251	$1,551	$1,786	$11,527
Long-term debt (interest payments)	9,350	576	1,111	1,013	6,650
Total	$24,465	$ 827	$2,662	$2,799	$18,177

As of November 3, 2017, there were no other material changes to our contractual obligations and commercial commitments outside the ordinary course of business since the end of 2016. Refer to the Annual Report for additional information regarding our contractual obligations and commercial commitments.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 to the consolidated financial statements presented in the Annual Report. Our critical accounting policies and estimates are described in “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report. Our significant and critical accounting policies have not changed significantly since the filing of the Annual Report.

FORWARD-LOOKING STATEMENTS

This Form 10-Q includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements including words such as “believe,” “expect,” “anticipate,” “plan,” “desire,” “project,” “estimate,” “inte “will,” “should,” “could,” “would,” “may,” “strategy,” “potential,” “opportunity,” and similar expressions are forward-looking statements. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. Forward-looking statements include, but are not limited to, statements about future financial and operating results, Lowe’s plans, objectives, business outlook, priorities, expectations and intentions, expectations for sales growth, comparable sales, earnings and performance, shareholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for services, share repurchases, Lowe’s strategic initiatives, including those relating to acquisitions by Lowe’s and the expected impact of such transactions on our strategic and operational plans and financial results, and any statement of an assumption underlying any of the foregoing and other statements that are not historical facts. Although we believe that the expectations, opinions, projections and comments reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and we can give no assurance that such statements will prove to be correct. Actual results may differ materially from those expressed or implied in such statements.

A wide variety of potential risks, uncertainties and other factors could materially affect our ability to achieve the results either expressed or implied by these forward-looking statements including, but not limited to, changes in general economic conditions, such as the rate of unemployment, interest rate and currency fluctuations, fuel and other energy costs, slower growth in personal income, changes in consumer spending, changes in the rate of housing turnover, the availability of consumer credit and of mortgage financing, inflation or deflation of commodity prices, and other factors that can negatively affect our customers, as well as our ability to: (i) respond to adverse trends in the housing industry, a reduced rate of growth in household formation, and slower rates of growth in housing renovation and repair activity, as well as uneven recovery in commercial building activity; (ii) secure, develop, and otherwise implement new technologies and processes necessary to realize the benefits of our strategic initiatives focused on omni-channel sales and marketing presence and enhance our efficiency; (iii) attract, train, and retain highly-qualified associates; (iv) manage our business effectively as we adapt our operating model to meet the changing expectations of our customers; (v) maintain, improve, upgrade and protect our critical information systems from data security breaches, ransomware and other cyber threats; (vi) respond to fluctuations in the prices and availability of services, supplies, and products; (vii) respond to the growth and impact of competition; (viii) address changes in existing or new laws or regulations that affect consumer credit, employment/labor, trade, product safety, transportation/logistics, energy costs, health care, tax or environmental issues; (ix) positively and effectively manage our public image and reputation and respond appropriately to unanticipated failures to maintain a high level of product and service quality that could result in a negative impact on customer confidence and adversely affect sales; and (x) effectively manage our relationships with selected suppliers of brand name products and key vendors and service providers, including third-party installers. In addition, we could experience impairment losses if either the actual results of our operating stores are not consistent with the assumptions and judgments we have made in estimating future cash flows and determining asset fair values, or we are required to reduce the carrying amount of our investment in certain unconsolidated entities. With respect to acquisitions, potential risks include the effect of such transactions on Lowe’s and the target company’s strategic relationships, operating results and businesses

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generally; 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; increasing the scope, geographic diversity, and complexity of our operations; significant integration costs or unknown liabilities; and failure to realize the expected benefits of the transaction. For more information about these and other risks and uncertainties that we are exposed to, you should read “Item 1A - Risk Factors” and “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates” included in our most recent Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the SEC) and the description of material changes thereto, if any, included in our Quarterly Reports on Form 10-Q or subsequent filings with the SEC.

The forward-looking statements contained in this Form 10-Q are expressly qualified in their entirety by the foregoing cautionary statements. The foregoing list of important factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. All such forward-looking statements are based upon data available as of the date of this Form 10-Q or other specified date and speak only as of such date. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf about any of the matters covered in this Form 10-Q are qualified by these cautionary statements and the risk factors disclosed in “Item 1A - Risk Factors” in the Annual Report and the description of material changes thereto, if any, included in our Quarterly Reports on Form 10-Q or subsequent filings with the SEC. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, change in circumstances, future events or otherwise, except as may be required by law.

Item 3. - Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to certain market risks, including changes in foreign currency exchange rates related to our international operations, interest rates, and commodity prices. The Company’s market risks have not changed materially from that disclosed in the Annual Report for the fiscal year ended February 3, 2017.

Item 4. - Controls and Procedures

The Company’s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company’s “disclosure controls and procedures,” (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of November 3, 2017, the Company’s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and (2) is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In addition, no change in the Company’s internal control over financial reporting occurred during the quarter ended November 3, 2017, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Part II – OTHER INFORMATION

Item 1. - 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 1A. - Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in "Item 1A - Risk Factors" in the Annual Report.

Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the third quarter of fiscal 2017:

	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]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
August 5, 2017 - September 1, 2017 [3]	4,638,797	$ 77.21	4,638,074	$ 2,197,136,831
September 2, 2017 - October 6, 2017	1,161,732	78.65	823,328	2,132,162,709
October 7, 2017 - November 3, 2017 [3]	963,108	79.95	962,287	2,076,164,467
As of November 3, 2017	6,763,637	$ 77.84	6,423,689	$ 2,076,164,467

1 The total number of shares repurchased 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 27, 2017, the Company's Board of Directors authorized a $5.0 billion share repurchase program with no expiration, which was announced on the same day.

3 In August 2017, the Company entered into an Accelerated Share Repurchase (ASR) agreement with a third-party financial institution to repurchase $250 million of the Company's common stock. Pursuant to the agreement, the Company paid $250 million to the financial institution and received an initial delivery of 2.9 million shares. In November 2017, prior to the end of the third quarter of 2017, the Company finalized the transaction and received an additional 0.3 million shares. The average price paid per share in settlement of the ASR agreement included in the table above was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. See Note 9 to the consolidated financial statements included herein for additional information regarding share repurchases.

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Item 6. - Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
3.1	Restated Charter of Lowe's Companies, Inc.	10-Q	001-07898	3.1	September 1, 2009
3.2	Bylaws of Lowe's Companies, Inc., as amended and restated May 27, 2016.	8-K	001-07898	3.1	May 31, 2016
12.1	Statement re Computation of Ratio of Earnings to Fixed Charges.‡				
15.1	Deloitte & Touche LLP Letter re Unaudited Interim Financial Information.‡				
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
101.INS	XBRL Instance Document.‡				
101.SCH	XBRL Taxonomy Extension Schema Document.‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡				

‡ Filed herewith.
† Furnished herewith.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	LOWE’S COMPANIES, INC. (Registrant)
December 5, 2017	By: /s/ Matthew V. Hollifield
Date	Matthew V. Hollifield Senior Vice President and Chief Accounting Officer