

LOWES COMPANIES INC

Form 10-Q

December 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 2, 2018

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

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, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  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  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  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 11/30/2018

Common Stock, \$0.50 par value 802,957,007

---

LOWE'S COMPANIES, INC.  
- TABLE OF CONTENTS -

	Page No.
PART I - Financial Information	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets — November 2, 2018 (Unaudited), November 3, 2017 (Unaudited) and February 2, 2018</u>	<u>3</u>
<u>Consolidated Statements of Current and Retained Earnings (Unaudited) — Three and nine months ended November 2, 2018 and November 3, 2017</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited) — Three and nine months ended November 2, 2018 and November 3, 2017</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (Unaudited) — Nine months ended November 2, 2018 and November 3, 2017</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>19</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>31</u>
Item 4. <u>Controls and Procedures</u>	<u>31</u>
PART II - Other Information	
Item 1. <u>Legal Proceedings</u>	<u>32</u>
Item 1A. <u>Risk Factors</u>	<u>32</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>33</u>
Item 6. <u>Exhibits</u>	<u>34</u>
<u>Signature</u>	<u>36</u>

---

Table of Contents

## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Lowe's Companies, Inc.

Consolidated Balance Sheets

In Millions, Except Par Value Data

	(Unaudited) November 2, 2018	(Unaudited) November 3, 2017	(Unaudited) February 2, 2018
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,668	\$ 743	\$ 588
Short-term investments	208	85	102
Merchandise inventory - net	12,365	12,393	11,393
Other current assets	897	788	689
Total current assets	15,138	14,009	12,772
Property, less accumulated depreciation	18,923	19,818	19,721
Long-term investments	290	370	408
Deferred income taxes - net	285	347	168
Goodwill	1,272	1,327	1,307
Other assets	805	912	915
Total assets	\$ 36,713	\$ 36,783	\$ 35,291
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings	\$ —	\$ 171	\$ 1,137
Current maturities of long-term debt	1,117	297	294
Accounts payable	9,283	8,903	6,590
Accrued compensation and employee benefits	806	808	747
Deferred revenue	1,356	1,404	1,378
Other current liabilities	2,507	2,155	1,950
Total current liabilities	15,069	13,738	12,096
Long-term debt, excluding current maturities	14,460	15,570	15,564
Deferred revenue - extended protection plans	827	794	803
Other liabilities	963	939	955
Total liabilities	31,319	31,041	29,418
Shareholders' equity:			
Preferred stock - \$5 par value, none issued	—	—	—
Common stock - \$0.50 par value; Shares issued and outstanding			
November 2, 2018	806		
November 3, 2017	831		
February 2, 2018	830	403	415
Capital in excess of par value	—	—	22
Retained earnings	5,156	5,289	5,425
Accumulated other comprehensive income/(loss)	(165	) 38	11
Total shareholders' equity	5,394	5,742	5,873
Total liabilities and shareholders' equity	\$ 36,713	\$ 36,783	\$ 35,291

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

3

---

Table of Contents

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 2, 2018		November 3, 2017		November 2, 2018		November 3, 2017	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Current Earnings								
Net sales	\$17,415	100.00	\$16,770	100.00	\$55,662	100.00	\$53,125	100.00
Cost of sales	11,755	67.50	11,057	65.93	36,791	66.10	34,942	65.77
Gross margin	5,660	32.50	5,713	34.07	18,871	33.90	18,183	34.23
Expenses:								
Selling, general and administrative	4,270	24.51	3,808	22.71	13,147	23.62	11,615	21.87
Depreciation and amortization	433	2.49	358	2.13	1,138	2.04	1,080	2.03
Operating income	957	5.50	1,547	9.23	4,586	8.24	5,488	10.33
Interest - net	153	0.88	160	0.96	467	0.84	479	0.91
Loss on extinguishment of debt	—	—	—	—	—	—	464	0.87
Pre-tax earnings	804	4.62	1,387	8.27	4,119	7.40	4,545	8.55
Income tax provision	175	1.01	515	3.07	981	1.76	1,652	3.10
Net earnings	\$629	3.61	\$872	5.20	\$3,138	5.64	\$2,893	5.45
Weighted average common shares outstanding - basic	806		831		815		843	
Basic earnings per common share	\$0.78		\$1.05		\$3.84		\$3.42	
Weighted average common shares outstanding - diluted	807		832		816		844	
Diluted earnings per common share	\$0.78		\$1.05		\$3.83		\$3.42	
Cash dividends per share	\$0.48		\$0.41		\$1.37		\$1.17	
Retained Earnings								
Balance at beginning of period	\$5,517		\$5,253		\$5,425		\$6,241	
Cumulative effect of accounting change	—		—		33		—	
Net earnings	629		872		3,138		2,893	
Cash dividends declared	(387 )		(341 )		(1,115 )		(984 )	
Share repurchases	(603 )		(495 )		(2,325 )		(2,861 )	
Balance at end of period	\$5,156		\$5,289		\$5,156		\$5,289	

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

Table of Contents

Lowe's Companies, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

In Millions, Except Percentage Data

	Three Months Ended				Nine Months Ended			
	November 2, 2018		November 3, 2017		November 2, 2018		November 3, 2017	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Net earnings	\$629	3.61	\$872	5.20	\$3,138	5.64	\$2,893	5.45
Foreign currency translation adjustments - net of tax	(21 )	(0.13)	173	1.03	(176 )	(0.32)	278	0.52
Net unrealized investment loss - net of tax	(1 )	—	—	—	(1 )	—	—	—
Other comprehensive income/(loss)	(22 )	(0.13)	173	1.03	(177 )	(0.32)	278	0.52
Comprehensive income	\$607	3.48	\$1,045	6.23	\$2,961	5.32	\$3,171	5.97

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

Table of Contents

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

	Nine Months Ended	
	November 3, 2018	November 3, 2017
Cash flows from operating activities:		
Net earnings	\$3,138	\$ 2,893
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,206	1,148
Deferred income taxes	(139 )	(118 )
Loss on property and other assets - net	400	21
Loss on extinguishment of debt	—	464
(Gain) loss on cost method and equity method investments	6	(86 )
Share-based payment expense	79	78
Changes in operating assets and liabilities:		
Merchandise inventory - net	(1,030 )	(1,783 )
Other operating assets	(94 )	186
Accounts payable	2,708	2,251
Other operating liabilities	524	318
Net cash provided by operating activities	6,798	5,372
Cash flows from investing activities:		
Purchases of investments	(1,298 )	(680 )
Proceeds from sale/maturity of investments	1,309	870
Capital expenditures	(846 )	(787 )
Proceeds from sale of property and other long-term assets	50	21
Acquisition of business - net	—	(509 )
Other - net	(3 )	13
Net cash used in investing activities	(788 )	(1,072 )
Cash flows from financing activities:		
Net change in short-term borrowings	(1,137 )	(340 )
Net proceeds from issuance of long-term debt	—	2,968
Repayment of long-term debt	(288 )	(2,836 )
Proceeds from issuance of common stock under share-based payment plans	73	87
Cash dividend payments	(1,068 )	(947 )
Repurchase of common stock	(2,498 )	(3,054 )
Other - net	(3 )	(8 )
Net cash used in financing activities	(4,921 )	(4,130 )
Effect of exchange rate changes on cash	(9 )	15