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|--|---|---|---|
| Company: Lowe's Companies Inc | Ticker: NYSE: LOW | Price: \$209.27 | Industry: Retail Sub Industry: Home Improvement |
| Target Price: \$233.71 Stop Loss: \$167.42 52 Week High/Low: \$263.31-\$170.12 | TTM P/E: 15.86x Forward P/E: 13.86x EPS: \$7.75 | Beta: 1.14 Credit Rating: BBB+ Rating Outlook: Stable | Market Cap: \$129.94 B Avg. Vol. (12 M): 4.01 M Div. Yield: 2.01% |

Company Background:

Lowe's is an American retail company that operates within the home improvement sector. Lowe's operates about 1,900 stores within the United States and has recently divested its operations in Canada. Lowe's operates with Home Depot in a duopoly within the home improvement industry for the past 40 years. The company hired a new CEO (Marvin Ellison) and he has made continuous improvements to the company and has implemented many changes when it comes to more efficient internal processes.

Industry Outlook:

The home improvement industry is expected to have a 4.1% industry CAGR from the years 2022-2027. This market share has been typically dominated by Home Depot and Lowe's but as of recently niche servers of the home improvement industry such as Floor and Décor, Tile Shop Holdings, Builders First Source, etc. have been trying to steal market share away from the industry leaders. Throughout our research we found that Lowe's is positioned well to deal with these threats. Consumer discretionary spending has also been a hot topic to talk about as an impending recession could mean less money out of consumers' pockets. Lowe's is still seeing a strong surge in consumer discretionary spending with their CEO even quoting "We had a strong sell-through in Halloween this year with an early sell-out of our 12-foot lighted animated mummy at a price point over \$300. One could argue that this is one of the most discretionary items we sell". Lowe's is a company that is positioned well to weather whatever storm may be coming the market's way.

Investment Thesis:

Our investment thesis is based around 4 points: Lowe's has a resilient business model that has been in operation for over 100 years with an 8% CAGR in growth since 2002, Lowe's growing pro-business will allow for a good base of recurring revenue in the future years, Lowe's offers a wide product portfolio to attract customers on both a do it yourself (DIY) and professional customer (pro often refers to contractors), and Lowe's has a strong financial foundation offering increasing dividends with a current yield of 2% and increasing their stock repurchase program.

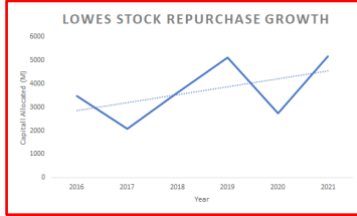
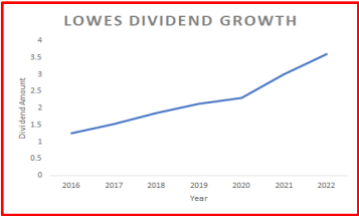
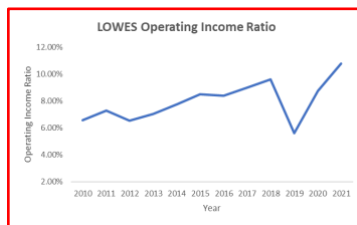
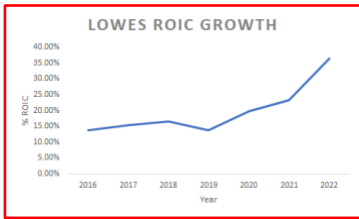
Investment Risks:

There are 4 major risks to this investment that we have identified. The first is the threat of decreased consumer spending due to negative economic conditions. Lowe's is positioned well to deal with this threat though as even though the company has not seen a dip in consumer spending only 1/3 of Lowe's products are considered discretionary. The next biggest threat is the niche market retailers that are aiming to takeover Lowe's and Home Depot's market share. When it comes to DIY marketing Lowe's has the upper hand with the wide breadth of products though which will attract a lot of personal projects and also the pro base will continue to grow which will help retain customers. There is a heavy dependency on suppliers for Lowe's as Lowe's does not produce most of its products. We feel though that this dependency goes both ways as Lowe's has a strong power of the buyer attribute in these relationships. Lastly Lowe's is also looking to expand their app and website offerings which brings along the risks of cyber-attacks. Lowe's has not had an issue with this yet and this is a threat that should be closely monitored.

3-5 takeaways from last quarter investor call transcript:

1. Consumer discretionary spending has not been hit hard at all from a Lowe's perspective and even if this were to occur, the company is positioned well to deal with a drop
2. Divestiture of Canadian operations were made due to the operations failing to reach certain growth targets and operational efficiency. This speaks to Lowe's commitment of wanting to have quality stores that are not capital intensive to run
3. Lowe's is shifting its delivery service model from a store delivery model to a market delivery model that will allow for increased margins, incremental sales, and an overall better customer experience

5-Year Financial Performance:



Discounted Cash Flow Valuation:

| Implied Perpetuity Growth Rate | |
|--------------------------------|-----------|
| Terminal Year FCF | \$12,574 |
| Discount Rate | 9.00% |
| Terminal Value | \$215,862 |
| Perpetuity Growth Rate | 3.00% |

| Implied Equity Value and Share Price | |
|--------------------------------------|-----------|
| PV of FCF | \$42,590 |
| PV of Terminal Value | \$140,295 |
| Enterprise Value | \$182,886 |
| Less: Debt | \$29,405 |
| Add: Cash & Equivalents | \$1,133 |
| Equity Value | \$154,614 |
| Shares Outstanding | 662 |
| Implied Share Price | \$233.71 |
| Current Price | \$ 208.40 |
| Margin of Safety | 12.15% |

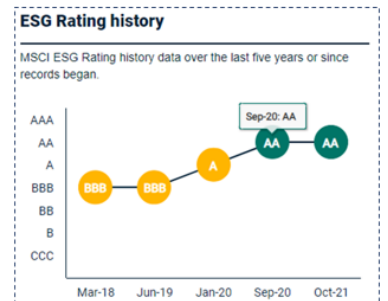
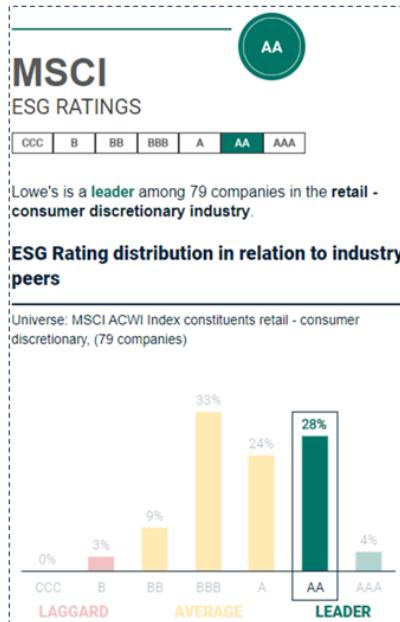
Relative Valuation:

| \$ Value in Millions | Market Cap | Enterprise Value | Revenue | P/E | P/B | P/CF | EV/EBITDA | EV/Revenue | Operating Margin | |
|----------------------|------------|------------------|------------|------------|-------|--------|-----------|------------|------------------|--------|
| Lowe's | LOW | \$ 129,350 | \$ 161,796 | \$ 96,250 | 16.14 | -0.04 | 14.80 | 11.00 | 1.68 | 12.60% |
| Home Depot | HD | \$ 318,830 | \$ 423,490 | \$ 151,160 | 18.77 | 245.63 | 24.24 | 15.69 | 2.80 | 15.24% |
| Floor & Décor | FND | \$ 7,920 | \$ 15,030 | \$ 3,430 | 28.25 | 5.00 | 49.22 | 0.10 | 4.38 | 10.15% |
| Tractor Supply | TSCO | \$ 23,740 | \$ 28,860 | \$ 12,730 | 23.29 | 12.24 | 27.01 | 14.58 | 2.27 | 10.30% |
| Ethan Allen | ETD | \$ 735 | \$ 506 | \$ 817 | 11.05 | 5.61 | 11.81 | 2.91 | 0.62 | 15.87% |
| Mean | | \$ 96,115 | \$ 125,936 | \$ 52,877 | 19.50 | 53.69 | 25.42 | 8.85 | 2.35 | 12.83% |
| Median | | \$ 23,740 | \$ 28,860 | \$ 12,730 | 18.77 | 5.61 | 24.24 | 11.00 | 2.27 | 12.60% |

Total Return %

| | Company | Industry | S&P 500 |
|-----------|---------|----------|---------|
| YTD | -17.94% | -28.29% | -17.67% |
| Past Year | -16.91% | -26.13% | -15.68% |
| 3 Years | 77.47% | 27.22% | 26.58% |
| 5 Years | 164.61% | 37.66% | 51.74% |

ESG:



- \$200 million bonus to frontline hourly associates ahead of the holiday season
- Equivalent to about a \$500 bonus per worker