

Lowes Companies(LOW)

\$82.20 (As of 04/03/20)

Price Target (6-12 Months): **\$87.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/13/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

Shares of Lowe's have declined and underperformed the industry in the past three months. We note that the company's sales lagged the Zacks Consensus Estimate for the second straight time when it reported fourth-quarter fiscal 2019 results. Nevertheless, earnings were robust in the quarter as the metric beat the consensus mark and grew year over year. Better process execution, cost-containment efforts and an improvement in gross margin trend drove the bottom line. Moreover, comparable sales increased on solid performance by U.S. home improvement stores. The company's merchandise category and Pro business also exhibited strength. Further, efforts to enhance online business led to robust comps growth in lowes.com. Management issued an upbeat view for fiscal 2020. However, a high level of debt may act as a deterrent.

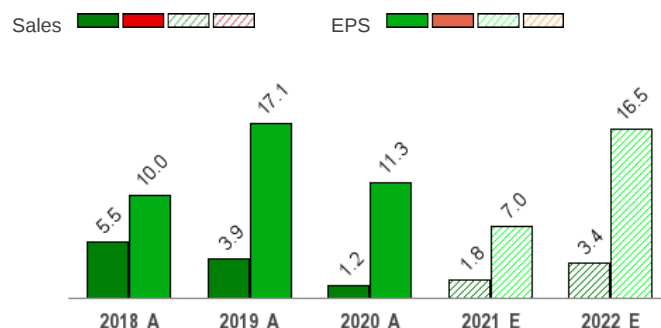
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.73 - \$60.00
20 Day Average Volume (sh)	9,474,813
Market Cap	\$63.0 B
YTD Price Change	-31.4%
Beta	1.31
Dividend / Div Yld	\$2.20 / 2.7%
Industry	Building Products - Retail
Zacks Industry Rank	Top 40% (101 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-4.8%
Expected Report Date	05/27/2020
Earnings ESP	-8.0%
P/E TTM	14.4
P/E F1	13.4
PEG F1	1.0
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	18,707 E	22,225 E	18,448 E	17,060 E	75,906 E
2021	17,950 E	21,228 E	17,734 E	16,476 E	73,442 E
2020	17,741 A	20,992 A	17,388 A	16,027 A	72,148 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.60 E	\$2.76 E	\$1.81 E	\$1.30 E	\$7.13 E
2021	\$1.31 E	\$2.23 E	\$1.52 E	\$1.07 E	\$6.12 E
2020	\$1.22 A	\$2.15 A	\$1.41 A	\$0.94 A	\$5.72 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/03/2020. The reports text is as of 04/06/2020.

Overview

Lowe's Companies (LOW) has evolved as one of the world's leading home improvement retailer, offering services to homeowners, renters and commercial business customers. The company has been enhancing experience of its pro customers by upgrading pro-focused brands and revamping pro-service business website, LowesForPros.com.

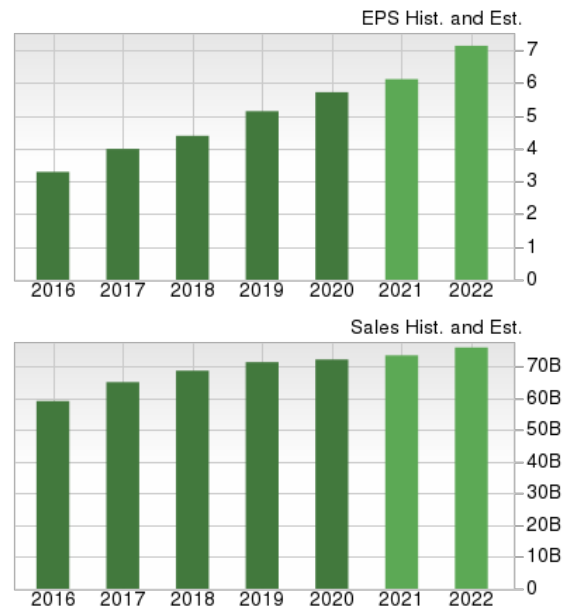
Incorporated in 1952 and based in Mooresville, NC, Lowe's has its operations primarily in the U.S. and Canada.

The company offers services to homeowners, renters and commercial business customers. Homeowners and renters principally include do-it-yourself (DIY) customers and do-it-for-me (DIFM) customers who utilize the company's installed sales programs. Commercial business customers consist of those who work in the construction, repair/remodel, commercial and residential property management, and business maintenance professions.

Lowe's offers a wide range of products and services for home decoration, maintenance, repair, remodeling and property maintenance. The company provides a line of home improvement products in diverse categories, such as appliances, lumber, paint, flooring, building materials, millwork, lawn and landscape products, fashion plumbing, hardware, lighting, tools, seasonal living, rough plumbing, outdoor power equipment, cabinets and countertops, nursery, rough electrical, home environment, home organization, and windows and walls.

The company's home improvement store stocks about 34,000 items, a number of which are available through the Special Order Sales system, and comprises a varied collection of branded merchandise such as Whirlpool, Stainmaster, Valspar, Pella and many more. The company also trades in brands that are exclusive to Lowe's, including Aquasource, Garden Treasures, Harbor Breeze, Kobalt, Reliablit, Top-Choice and Utilitech.

Lowe's offers products through retail stores as well as online (Lowe's.com). As of Jan 31, 2020, the company operated 1,977 home improvement and hardware stores in the United States and Canada.



Reasons To Buy:

▲ **Robust Q4 Performance & Encouraging View:** Although revenues missed the Zacks Consensus Estimate in fourth-quarter fiscal 2019, Lowe's earnings not only beat the consensus mark but also improved year over year. Better process execution, cost-containment efforts and an improvement in gross margin trend drove the bottom line. Moreover, comparable sales rose 2.5% in the quarter under review. The solid performance by its U.S. home improvement stores was backed by investments in technology, impressive merchandise category and strength in the Pro business. Also, the company is on track to enhance its e-commerce platform and ramp up Lowes.com sales. Management highlighted that the company is well positioned to capitalize on the sturdy demand in a home improvement market. As a result, management envisions fiscal 2020 total sales growth of about 2.5-3% over \$72.1 million delivered last fiscal. Moreover, it anticipates comparable sales growth of 3-3.5%. Management forecasts adjusted operating income growth of 8-12%, with adjusted operating margin expansion of 50-70 basis points in fiscal 2020. Management envisions adjusted earnings per share between \$6.45 and \$6.65 for the fiscal year, which indicates growth of 12-16% over fiscal 2019. For first-quarter fiscal 2020, it expects gross margin to expand year over year.

The company is making progress on key sales initiatives such as inventory levels, job lot quantities, Pro service levels, better product presentation, in-store merchandising and labor scheduling.

Further, the company is making efforts to enhance sales and profits. These include reshuffling the corporate support system in Canada, shutting underperforming 34 Canadian stores, simplifying Canadian store banners and rationalizing assortments across these banners.

▲ **Digital Presence Strong:** We note that strong digital presence has been aiding the company's performance for a while. Incidentally, in the fourth quarter of fiscal 2019, the company achieved 3% comps growth at lowes.com driven by solid efforts. This follows increases of 3%, 4% and 16% in the last three quarters. Management continues to augment omni-channel capabilities and enhance consumers' digital shopping experience. In this respect, the company plans to shift its online business to the Google cloud platform during second-quarter fiscal 2020. Also, it is making efforts such as adding SKUs and drop-ship vendors to rapidly expand product assortment online. Further, it intends to enhance customers' shopping experience by introducing features — including one-click checkout and scheduling delivery. Such well-chalked efforts are likely to boost the company's comps in the second half of fiscal 2020.

▲ **Growth in Home Improvements & Other Areas:** Lowe's believes that the home improvement market has robust growth potency, with consumers becoming increasingly motivated to invest in homes. We believe that home improvement business is likely to remain strong driven by rising income, real residential investment and growth in home price. In fourth-quarter fiscal 2019, comparable sales for the U.S. home improvement business grew 2.6%, after rising 3%, 3.2% and 4.2% in the third, second and first quarter, respectively. In fact, comps at this unit were positive in 14 regions across the United States.

Moreover, an improving job scenario, gradual recovery in the housing market and merchandising initiatives bode well. Such factors have been driving the company to exit from less profitable businesses and allocate more resources in the booming home improvements arena. Management is pleased with the progress of its retail fundamentals along with a healthy consumer environment. The company is on track to undertake the necessary pricing and other actions to battle cost-related headwinds. To this end, its takeover of Retail Analytics platform is expected to help enhance the pricing approach.

▲ **Focus on Pro Customers:** Pro customers have been a significant driver in Lowe's business growth. Moreover, in a bid to continue augmenting sales from pro customers, the company has been augmenting pro-focused brands. Additionally, Lowe's has refurbished its pro-service business website, LowesForPros.com, in order to give special attention to the needs of its Pro-customers. Apparently, the company delivered solid pro comps and notable improvement in customer service scores in the fourth quarter of fiscal 2019. During the first half of fiscal 2020, Lowe's will launch its Pro loyalty program nationally, with a CRM program. This will allow the company to deploy more strategic marketing to the Pro and expand market share. Management is also encouraged by its partnership with Salesforce.com, thus enabling the company to develop the best platform to efficiently serve Pros.

▲ **Shareholder-Friendly Approach:** Lowe's maintains a shareholder-friendly policy. In the fourth quarter of fiscal 2019, Lowe's repurchased shares worth \$670 million and distributed \$423 million as dividends. In the fiscal year, it returned more than \$5.9 billion to shareholders via dividends and share repurchases. The company plans to buy back shares worth \$5 billion in fiscal 2020. It had \$9.7 billion remaining under its share repurchase authorization. Cash flow from operations was \$4,296 million in the 12 months ended Jan 31, 2020. Also, its capital expenditure totaled \$557 million in the fourth quarter. Management envisions capital expenditure of \$1.6 billion for fiscal 2020 and expects to generate free cash flow of \$4.9 billion.

Reasons To Sell:

- ▼ **Dismal Stock Performance:** Lowe's shares have lost 31.2% compared with the industry's decline of 22.3% in the past three months. We note that the company's top line lagged the Zacks Consensus Estimate for the second consecutive time while it reported fourth-quarter fiscal 2019 results. Moreover, gross margin contracted 22 basis points to 31.1% in the reported quarter.
- ▼ **Debt Level High:** Lowe's ended fourth-quarter fiscal 2019 with total long-term debt, excluding current maturities of \$16,768 million, up from \$14,391 million in the year-ago quarter. As a result, net interest expenses rose 15.8% year over year to \$183 million in the fourth quarter. Prior to this, interest expenses increased 15.7%, 10.7% and 10.8% on a year-over-year basis in the third, second and first quarter, respectively. Higher debt level may adversely impact the company's creditworthiness and make it more susceptible to macro-economic factors and competitive pressures.
- ▼ **Currency Headwind:** Lowe's remains exposed to unfavorable foreign currency translations, as roughly 7% of its total sales come from international businesses, especially Canada. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the country. Any fluctuation in foreign currency may act as a deterrent in the near term.
- ▼ **Stiff Competition:** In the home improvement retailing business, Lowe's faces stiff competition from The Home Depot and other home supply retailers on attributes such as location, price and quality of merchandise, in-stock consistency, merchandise assortments and customer service. Such factors may weigh upon the company's margins from a mix and rate perspective.
- ▼ **Macroeconomic Headwinds:** The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their discretionary spending, and in turn the company's growth and profitability. An unfavorable economy might delay home improvement projects, which in turn could hamper sales of product categories and services provided by the company.

The company is dealing with high debt level, which may weigh on the bottom line in the near term. In addition, intense competition remains concerning.

Last Earnings Report

Lowe's Q4 Earnings Beat Estimates, Revenues Miss

Lowe's came up with fourth-quarter fiscal 2019 results, which marks the third straight quarter of an earnings beat but the second consecutive revenue miss. The company provided disappointing earnings forecast for fiscal 2020.

Q4 in Detail

Adjusted earnings of 94 cents a share exceeded the Zacks Consensus Estimate of 91 cents and increased 17.5% year over year. Better process execution, cost containment efforts and improving gross margin contributed to the bottom line.

Net sales of \$16.03 billion grew 2.4% year over year but fell short of the Zacks Consensus Estimate of \$16.15 billion. Notably, comparable sales increased 2.5% during the quarter under review. Again, comparable sales for the U.S. home improvement business rose 2.6% in the quarter, following an increase of 3% in the preceding quarter.

Lowe's is impressed with its U.S. home improvement stores' performance. This was backed by investments in technology and strength in the Pro business. Also, the company remains on track to enhance e-commerce platform and accelerate Lowes.com sales. Management highlighted that the company remains well positioned to capitalize on sturdy demand in a home improvement market.

Gross profit grew 1.7% year over year to \$4,981 million, while gross margin contracted 22 basis points to 31.1%.

Other Financial Aspects

Lowe's ended the quarter with cash and cash equivalents of \$716 million, long-term debt (excluding current maturities) of \$16,768 million and shareholders' equity of \$1,972 million.

The company generated cash flow from operations of \$4,296 million in the 12 months ended Jan 31, 2020. In the reported quarter, Lowe's repurchased shares worth \$670 million and distributed \$423 million as dividends.

The company ended the quarter with 1,977 home improvement and hardware stores across the United States and Canada.

Outlook

Management envisions total sales growth of about 2.5-3% for fiscal 2020. This suggests total sales between \$73.95 billion and \$74.31 billion for the fiscal year.

Lowe's anticipates comparable sales growth of roughly 3-3.5%. Additionally, management forecast adjusted operating income growth of approximately 8-12% with adjusted operating margin expected to expand 50-70 basis points in fiscal 2020.

Management envisions adjusted earnings between \$6.45 and \$6.65 per share for the fiscal year.

Quarter Ending 01/2020

Report Date	Feb 26, 2020
Sales Surprise	-0.74%
EPS Surprise	3.30%
Quarterly EPS	0.94
Annual EPS (TTM)	5.72

Recent News

Lowe's Temporarily Increases Hourly Wages – April 2, 2020

Lowe's is temporarily increasing wages by \$2 an hour for every full-time, part-time and seasonal hourly store, contact center and supply chain associates for hours they work throughout the month of April in the U.S. and Canada. The company made \$80 million in special payments to hourly associates paid on March 31 in the wake of coronavirus outbreak. The company is actively hiring 30,000 associates in stores across the U.S. The company will shutter all stores at 7 p.m. daily. Management has announced other noteworthy actions for its associates.

Valuation

Lowe's shares are down 31.4% in the year-to-date period and 29% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Retail-Wholesale sector are down 22.4% and 14.7%, respectively, in the year-to-date period. Over the past year, the sub-industry and the sector are down 17.8% and 9.4%, respectively.

The S&P 500 index is down 22.7% in the year-to-date period and 14.3% in the past year.

The stock is currently trading at 12.17X forward 12-month earnings, which compares to 15.69X for the Zacks sub-industry, 22.62X for the Zacks sector and 15.74X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.95X and as low as 9.7X, with a 5-year median of 17.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$87 price target reflects 12.90X forward 12-month earnings.

The table below shows summary valuation data for LOW

Valuation Multiples - LOW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.17	15.69	22.62	15.74
	5-Year High	22.95	21.5	26.2	19.34
	5-Year Low	9.7	15.69	19.06	15.19
	5-Year Median	17.35	18.9	23.07	17.44
P/S F12M	Current	0.85	1.11	0.85	2.72
	5-Year High	1.3	1.51	1.11	3.44
	5-Year Low	0.67	1.06	0.8	2.54
	5-Year Median	1.07	1.27	0.92	3
EV/EBITDA TTM	Current	10.85	9.6	13.26	9.1
	5-Year High	15.15	12.88	16.24	12.87
	5-Year Low	8.91	8.45	10.89	8.27
	5-Year Median	11.32	10.77	12.52	10.78

As of 04/03/2020

Industry Analysis Zacks Industry Rank: Top 40% (101 out of 253)



Top Peers

Amazon.com, Inc. (AMZN)	Neutral
Beacon Roofing Supply, Inc. (BECN)	Neutral
Costco Wholesale Corporation (COST)	Neutral
The Home Depot, Inc. (HD)	Neutral
Lumber Liquidators Holdings, Inc (LL)	Neutral
Target Corporation (TGT)	Neutral
Walmart Inc. (WMT)	Neutral
RH (RH)	Underperform

Industry Comparison Industry: Building Products - Retail				Industry Peers		
	LOW Neutral	X Industry	S&P 500	BECN Neutral	HD Neutral	LL Neutral
VGM Score	D	-	-	D	C	B
Market Cap	63.00 B	915.81 M	16.73 B	915.81 M	192.06 B	119.21 M
# of Analysts	14	5.5	13	8	14	5
Dividend Yield	2.68%	0.00%	2.53%	0.00%	3.36%	0.00%
Value Score	B	-	-	B	C	B
Cash/Price	0.01	0.06	0.06	0.04	0.01	0.06
EV/EBITDA	10.72	7.97	10.55	9.31	12.28	9.62
PEG Ratio	0.99	0.75	1.71	NA	1.61	0.33
Price/Book (P/B)	31.95	0.76	2.28	0.50	NA	0.74
Price/Cash Flow (P/CF)	10.73	4.63	8.96	2.00	14.40	3.50
P/E (F1)	13.96	7.92	14.34	6.02	17.75	9.02
Price/Sales (P/S)	0.87	0.24	1.78	0.13	1.74	0.11
Earnings Yield	7.45%	12.63%	6.84%	16.60%	5.64%	11.08%
Debt/Equity	10.50	1.39	0.70	1.47	-10.83	1.13
Cash Flow (\$/share)	7.66	1.77	7.01	6.66	12.41	1.19
Growth Score	D	-	-	F	B	A
Hist. EPS Growth (3-5 yrs)	15.53%	14.07%	10.95%	13.35%	19.23%	-9.29%
Proj. EPS Growth (F1/F0)	6.93%	0.79%	1.08%	-2.10%	-1.79%	-20.69%
Curr. Cash Flow Growth	-12.64%	0.06%	5.92%	11.78%	0.60%	-2.19%
Hist. Cash Flow Growth (3-5 yrs)	6.65%	10.93%	8.55%	40.23%	11.22%	-15.29%
Current Ratio	1.01	2.13	1.24	2.01	1.08	1.51
Debt/Capital	91.31%	56.56%	42.29%	54.77%	NA	53.09%
Net Margin	5.93%	3.04%	11.69%	-0.47%	10.20%	0.88%
Return on Equity	173.56%	11.66%	16.74%	8.60%	-599.49%	10.63%
Sales/Assets	1.77	1.82	0.54	1.10	2.13	1.88
Proj. Sales Growth (F1/F0)	1.79%	1.79%	1.56%	-0.52%	1.84%	-0.06%
Momentum Score	F	-	-	D	D	F
Daily Price Chg	-0.80%	-1.44%	-1.59%	-11.15%	-1.44%	0.73%
1 Week Price Chg	31.07%	21.08%	12.26%	14.45%	25.24%	26.20%
4 Week Price Chg	-23.55%	-45.05%	-22.86%	-54.74%	-23.90%	-57.39%
12 Week Price Chg	-32.65%	-54.18%	-30.01%	-61.54%	-20.65%	-54.99%
52 Week Price Chg	-27.46%	-34.65%	-23.87%	-61.48%	-10.85%	-61.03%
20 Day Average Volume	9,474,813	869,728	4,256,776	1,039,348	10,348,297	1,790,725
(F1) EPS Est 1 week change	-3.02%	-1.53%	-0.04%	-1.37%	-1.68%	-39.95%
(F1) EPS Est 4 week change	-4.83%	-5.33%	-4.29%	-10.63%	-3.61%	-39.95%
(F1) EPS Est 12 week change	-6.37%	-4.82%	-5.40%	-14.47%	-3.28%	3.37%
(Q1) EPS Est Mthly Chg	-4.01%	-7.05%	-5.90%	-15.02%	-2.06%	-64.49%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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