

Lowes Companies(LOW)

\$120.64 (As of 05/21/20)

Price Target (6-12 Months): **\$127.00**

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:A

Value: B

Growth: B

Momentum: A

Summary

Shares of Lowe's have outperformed the industry in a year. The company remains well positioned to capitalize the demand in the home improvement market backed by investments in technology, merchandise category and strength in Pro business. Impressively, Lowe's reported strong first-quarter fiscal 2020 results, wherein the top and bottom lines outpaced the Zacks Consensus Estimate and grew year over year. Results benefited from its actions to adjust operations in the wake of coronavirus in late February. Moreover, gains from retail fundamentals strategy, robust execution and resilience in home improvement business model aided performance. Also, it benefited from the ability to cater to the rise in online demand due to the pandemic. However, a high debt level is concerning. Stiff competition and currency translation risks are added woes.

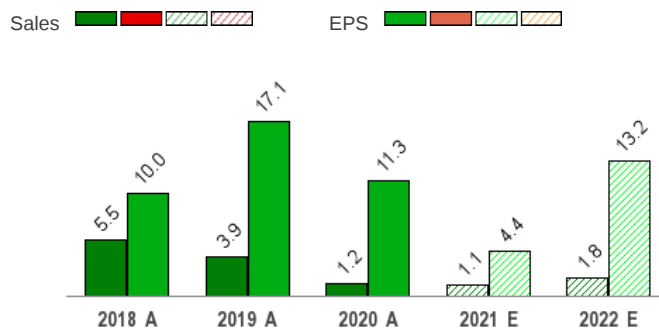
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.73 - \$60.00
20 Day Average Volume (sh)	6,207,421
Market Cap	\$91.1 B
YTD Price Change	0.7%
Beta	1.38
Dividend / Div Yld	\$2.20 / 1.8%
Industry	Building Products - Retail
Zacks Industry Rank	Bottom 8% (233 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	37.2%
Last Sales Surprise	7.8%
EPS F1 Est- 4 week change	1.8%
Expected Report Date	08/19/2020
Earnings ESP	2.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	18,394 E	21,426 E	17,855 E	16,652 E	74,245 E
2021	19,675 A	21,290 E	17,538 E	16,197 E	72,965 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	\$1.43 E	\$2.39 E	\$1.56 E	\$1.12 E	\$6.76 E
2021	\$1.77 A	\$2.12 E	\$1.40 E	\$0.96 E	\$5.97 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.

P/E TTM	19.2
P/E F1	20.2
PEG F1	1.4
P/S TTM	1.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/21/2020. The reports text is as of 05/22/2020.

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.

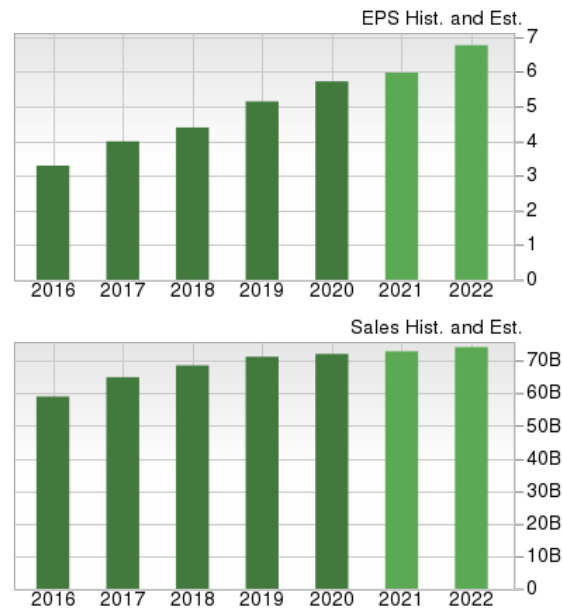
Incorporated in 1952 and based in Mooresville, NC, Lowe's has its operations primarily in the U.S. and Canada.

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 May 1, 2020, the company operated 1,970 home improvement and hardware stores in the United States and Canada.



Reasons To Buy:

▲ **Robust Q1 Performance:** Lowe's reported strong first-quarter fiscal 2020 results, wherein both top and bottom lines outpaced the Zacks Consensus Estimate and grew year over year. With this, the company marked the fourth straight quarter of earnings beat with a top-line beat after two consecutive quarters of misses. Results have primarily benefited from the company's actions to adjust operations in the wake of the coronavirus outbreak in late February. Moreover, the company's fiscal first-quarter performance was attributed to gains from its retail fundamentals strategy, robust execution and resilience in the home improvement business model. Also, it benefited from the ability to cater to the rise in online demand due to the pandemic. Moreover, the company notes that gains from its business model and other efforts have continued to be witnessed in May. Notably, shares of the company have increased 26% compared with the industry's 23.9% gain in the past year.

▲ **Digital Presence Strong:** We note that strong digital presence has been aiding the company's performance for a while. Incidentally, the company witnessed an 80%-increase in online sales during the first quarter of fiscal 2020 due to coronavirus-led demand. Notably, online penetration rose to 8% of total sales in the quarter. Continuous investments in online infrastructure and smooth progress with the Google Cloud migration improved the company's site stability, which aid to efficiently cater to the burgeoning demand. Management continues to augment omni-channel capabilities and enhance consumers' digital shopping experience. 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 going forward.

▲ **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 first-quarter fiscal 2020, comparable sales for the U.S. home improvement business grew 12.3%, thanks to gains from the essential DIY and pro categories. This follows an increase of 2.6%, 3%, 3.2% and 4.2% in the fourth, third, second and first quarter of fiscal 2019, respectively. In fact, 14 of 15 merchandising departments delivered positive comps.

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 first quarter of fiscal 2020. Core-pro categories were also robust with double-digit comps in rough plumbing, hardware, and tools. Lowe's will also 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. During the first quarter of fiscal 2020, Lowe's repurchased 9.6 million shares worth \$947 million and distributed \$420 million as dividends. In fiscal 2019, it returned more than \$5.9 billion to shareholders via dividends and share repurchases. Although it has suspended the share repurchase program for the rest of fiscal 2020, management remains committed to pay dividends and boost shareholder value. In addition, the company has generated cash flow from operations of \$4,450 million as of May 1, 2020 and incurred capital expenditures of \$328 million during the fiscal first quarter. Management still envisions capital expenditures of \$1.6 billion for fiscal 2020.

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.

Reasons To Sell:

▼ **Debt Analysis:** Lowe's ended first-quarter fiscal 2020 with total long-term debt, excluding current maturities of \$20,200 million (as of May 1, 2020), up from \$16,768 million in the preceding quarter and \$16,542 million in the year-ago quarter. As a result, net interest expenses rose 12% on a sequential basis and 26.5% year over year to \$205 million in the fiscal first quarter. Prior to this, interest expenses increased 15.8%, 15.7%, 10.7% and 10.8% on a year-over-year basis in the fourth, third, second and first quarter of fiscal 2019, respectively. Further, the company's debt load appears too high when compared with cash and cash equivalents of \$5,955 million as of May 1, 2020.

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

Incidentally, the company's times interest earned ratio of 9.4 is below the industry's ratio of 12.2. 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.

Last Earnings Report

Lowe's Q1 Earnings Beat on Robust Actions Amid Pandemic

Lowe's reported strong first-quarter fiscal 2020 results, which marked the fourth straight quarter of an earnings beat and a top-line beat after two consecutive quarters of misses. Results have primarily benefited from the company's actions to adjust operations in the wake of the coronavirus outbreak in late February.

Moreover, the company's fiscal first-quarter performance was attributed to gains from its retail fundamentals strategy, robust execution and resilience in the home improvement business model.

Also, it benefited from the ability to cater to the rise in online demand due to the pandemic. This resulted in a nearly 80% increase in online sales during the first quarter. Moreover, the company notes that gains from its business model and other efforts have continued to be witnessed in May.

Despite the strong results, it withdrew the guidance for fiscal 2020 due to the lack of visibility about the future trends, owing to the coronavirus outbreak.

In early March, the company shortened its store operating hours to implement cleaning protocols and enable restocking shelves to better serve customers amid the pandemic. Further, it effectively implemented significant operational changes, including measures to facilitate social distancing in its stores.

Apart from the aforementioned actions, it invested nearly \$340 million for the safety and health of its employees, and providing benefits to them as well as support healthcare workers and first responders.

Q1 in Detail

Adjusted earnings of \$1.77 per share surpassed the Zacks Consensus Estimate of \$1.29 and rose 45% year over year.

Net sales of \$19,675 million grew 10.9% year over year and surpassed the Zacks Consensus Estimate of \$18,259 million. Notably, comparable sales increased 11.2% during the quarter under review. Comparable sales for the U.S. home improvement business reflected a robust rise of 12.3% in the quarter, following an increase of 2.6% in the preceding quarter.

Gross profit improved 16.7% year over year to \$6,513 million, while gross margin expanded 164 basis points to 33.1%, driven by strong top-line growth.

Other Financial Aspects

Citing the uncertain economic environment, Lowe's raised \$4 billion in senior unsecured notes and improved the capacity of its revolving credit facility by \$770 million. Additionally, it repaid \$500 of fixed notes due on Apr 15, 2020.

Consequently, it ended the quarter with cash and cash equivalents of \$5,955 million. Moreover, it has \$3 billion available on its revolving credit facility to cater to unexpected liquidity needs in the near term. As of May 1, the company had long-term debt (excluding current maturities) of \$20,200 million and shareholders' equity of \$1,716 million. It generated cash flow from operations of \$4,450 million as of May 1, 2020.

In the reported quarter, Lowe's repurchased shares worth \$947 million and distributed \$420 million as dividends. However, it has suspended the share repurchase program for the rest of fiscal 2020.

The company ended the quarter with 1,970 home improvement and hardware stores across the United States and Canada.

Quarter Ending 04/2020

Report Date	May 20, 2020
Sales Surprise	7.76%
EPS Surprise	37.21%
Quarterly EPS	1.77
Annual EPS (TTM)	6.27

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 up 0.7% in the year-to-date period and 26% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 6.2% and 7.8%, respectively, in the year-to-date period. Over the past year, the sub-industry and the sector are up 23.9% and 20.9%, respectively.

The S&P 500 index is down 8.3% in the year-to-date period and but up 4.4% in the past year.

The stock is currently trading at 19.53X forward 12-month earnings, which compares to 21.84X for the Zacks sub-industry, 31.31X for the Zacks sector and 21.7X 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 17.28X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$127 price target reflects 20.56X 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	19.53	21.84	31.31	21.7
	5-Year High	22.95	21.84	31.31	21.7
	5-Year Low	9.7	16.02	19.06	15.23
	5-Year Median	17.28	19	23.31	17.49
P/S F12M	Current	1.25	1.5	1.07	3.36
	5-Year High	1.3	1.51	1.11	3.44
	5-Year Low	0.67	1.06	0.8	2.53
	5-Year Median	1.07	1.27	0.93	3.01
EV/EBITDA TTM	Current	13.56	12.72	17.63	10.99
	5-Year High	15.15	12.93	17.63	12.86
	5-Year Low	8.91	8.46	10.91	8.26
	5-Year Median	11.32	10.77	12.58	10.78

As of 05/21/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
The Home Depot, Inc. (HD)	Neutral	3
Lumber Liquidators Holdings, Inc (LL)	Neutral	3
Target Corporation (TGT)	Neutral	4
Walmart Inc. (WMT)	Neutral	3
Beacon Roofing Supply, Inc. (BECN)	Underperform	5
RH (RH)	Underperform	4

Industry Comparison Industry: Building Products - Retail				Industry Peers		
	LOW	X Industry	S&P 500	BECN	HD	LL
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	A	-	-	A	B	B
Market Cap	91.08 B	1.54 B	20.19 B	1.54 B	258.73 B	227.79 M
# of Analysts	13	6	14	7	14	5
Dividend Yield	1.82%	0.00%	2.11%	0.00%	2.49%	0.00%
Value Score	B	-	-	B	C	C
Cash/Price	0.01	0.09	0.07	0.55	0.01	0.04
EV/EBITDA	14.80	7.88	12.15	10.88	16.10	13.19
PEG Ratio	1.44	1.78	2.71	NA	2.22	NA
Price/Book (P/B)	53.08	1.28	2.74	0.91	NA	1.41
Price/Cash Flow (P/CF)	15.75	6.40	10.98	3.35	19.41	6.69
P/E (F1)	20.24	18.05	20.17	15.26	24.60	NA
Price/Sales (P/S)	1.23	0.35	2.07	0.22	2.31	0.21
Earnings Yield	4.95%	5.24%	4.73%	6.54%	4.06%	-0.13%
Debt/Equity	14.05	1.23	0.76	2.06	-10.51	1.13
Cash Flow (\$/share)	7.66	2.88	6.96	6.66	12.41	1.19
Growth Score	B	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	15.53%	11.56%	10.87%	9.47%	19.23%	-9.29%
Proj. EPS Growth (F1/F0)	4.38%	-31.67%	-10.31%	-35.21%	-4.45%	-101.03%
Curr. Cash Flow Growth	-12.64%	0.60%	5.46%	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	1.20	2.23	1.29	2.71	1.17	1.51
Debt/Capital	93.36%	58.13%	44.54%	62.56%	NA	53.09%
Net Margin	6.17%	2.57%	10.54%	-1.24%	9.79%	0.88%
Return on Equity	220.44%	11.53%	16.27%	9.42%	-496.11%	10.63%
Sales/Assets	1.79	1.83	0.54	1.07	2.09	1.88
Proj. Sales Growth (F1/F0)	1.13%	-5.67%	-2.49%	-8.19%	2.93%	-8.55%
Momentum Score	A	-	-	F	B	B
Daily Price Chg	3.12%	0.00%	-0.76%	-0.76%	1.13%	4.76%
1 Week Price Chg	-0.39%	-2.48%	-4.56%	-4.40%	2.09%	-6.67%
4 Week Price Chg	27.12%	23.97%	5.52%	23.97%	19.06%	47.95%
12 Week Price Chg	12.10%	-14.71%	-8.54%	-23.26%	7.19%	-17.22%
52 Week Price Chg	27.26%	-16.23%	-6.30%	-37.84%	25.46%	-22.10%
20 Day Average Volume	6,207,421	486,049	2,645,192	572,192	5,876,560	1,073,026
(F1) EPS Est 1 week change	0.88%	0.00%	0.00%	0.00%	-0.49%	0.00%
(F1) EPS Est 4 week change	1.79%	-1.26%	-3.80%	-24.52%	-0.65%	0.00%
(F1) EPS Est 12 week change	-10.71%	-39.22%	-16.57%	-41.17%	-6.33%	-101.45%
(Q1) EPS Est Mthly Chg	0.87%	-0.19%	-7.64%	-53.49%	-0.19%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
Momentum Score	A
VGM Score	A

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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