Jan 23, 2020

Lowes Companies(LOW)

$121.91 (As of 01/22/20)

Price Target (6-12 Months): **$129.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/13/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: A | Momentum: B	**3-Hold** VGM:A

Summary

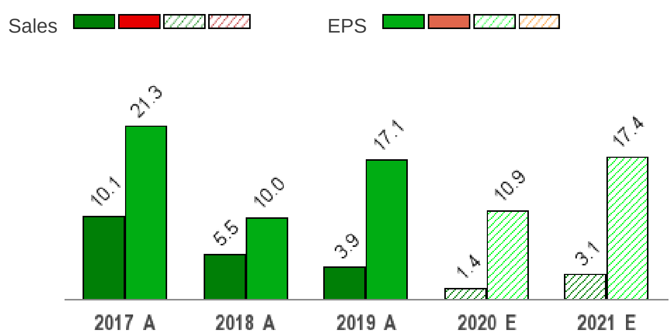
Shares of Lowe's have risen and outperformed the industry in the past three months. The stock received a boost when it reported third-quarter fiscal 2019 results, wherein earnings grew year over year and beat the Zacks Consensus Estimate. Moreover, comps in the quarter increased, driven by solid performance in its U.S. home improvement stores. Strong macroeconomic landscape along with constant efforts to enhance customers' experience, solid performance of the merchandise category and strength in the Pro business also bode well. Further, efforts to enhance online business led to robust comps growth in lowes.com. Encouragingly, management raised adjusted earnings guidance for fiscal 2019. However, high level of debt for the past few quarters may act as a deterrent. Also, the company is exposed to competition.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$122.90 - $91.11**
20 Day Average Volume (sh)	**3,060,952**
Market Cap	**$93.4 B**
YTD Price Change	**1.8%**
Beta	**1.28**
Dividend / Div Yld	**$2.20 / 1.8%**
Industry	**Building Products - Retail**
Zacks Industry Rank	**Top 27% (69 out of 255)**
Last EPS Surprise	**4.4%**
Last Sales Surprise	**-1.7%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/26/2020**
Earnings ESP	**0.0%**
P/E TTM	**21.9**
P/E F1	**21.4**
PEG F1	**1.5**
P/S TTM	**1.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	18,213 E	21,697 E	17,989 E	16,724 E	74,558 E
2020	17,741 A	20,992 A	17,388 A	16,190 E	72,297 E
2019	17,360 A	20,888 A	17,415 A	15,647 A	71,309 A

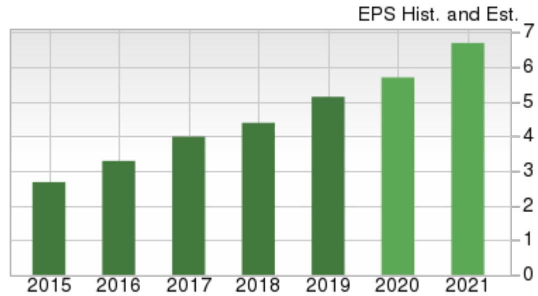
EPS Estimates

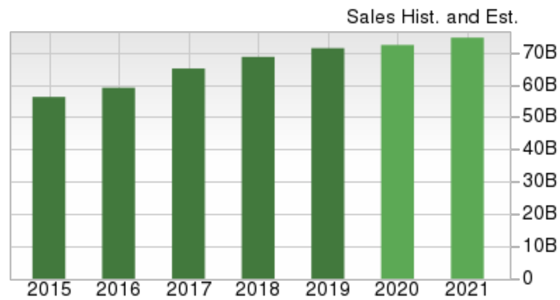
	Q1	Q2	Q3	Q4	Annual*
2021	$1.47 E	$2.49 E	$1.63 E	$1.10 E	$6.69 E
2020	$1.22 A	$2.15 A	$1.41 A	$0.91 E	$5.70 E
2019	$1.19 A	$2.07 A	$1.04 A	$0.80 A	$5.14 A

*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 01/22/2020. The reports text is as of 01/23/2020.

Overview





Incorporated in 1952 and based in Mooresville, NC, Lowe's Companies, Inc. (LOW) is one of the leading home improvement retailers, which 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, Reliabilt, Top-Choice and Utilitech.

Lowe's offers products through retail stores as well as online (Lowes.com). As of Nov 1, 2019, the company operated 2,004 home improvement and hardware stores in the United States and Canada.

Reasons To Buy:

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.

- **Q3 Performance Robust & FY19 View Positive**: Although revenues missed the Zacks Consensus Estimate in third-quarter fiscal 2019, Lowe's earnings not only beat the consensus mark but also improved year over year. Moreover, comparable sales rose 3% in the quarter under review. Solid performance in its U.S. home improvement stores, backed by strong macroeconomic landscape along with constant efforts to enhance customers' experience, solid performance of the merchandise category and strength in the Pro business contributed to comps. Encouragingly, management raised its adjusted earnings guidance for fiscal 2019. The company now anticipates adjusted earnings per share of $5.63-$5.70 compared with $5.45-$5.65 mentioned earlier. Also, Lowe's now envisions adjusted operating margin expansion of 40-60 basis points for fiscal 2019, up from growth of 20-50 basis points stated earlier. For fiscal 2019, management continues to project total sales growth of 2%, with comparable sales expected to rise 3%. Further, the company is making efforts to enhance sales and profits. These include reshuffling the corporate support system in Canada, shutting 34 underperforming Canadian stores, simplifying Canadian store banners and rationalizing assortments across these banners. The aforementioned tailwinds have helped shares of the company to gain 10% in the past three months compared with the industry's growth of 2%.

- **Digital Presence Strong**: We note that strong digital presence has been aiding the company's performance for a while. Incidentally, in the third quarter of fiscal 2019, the company achieved 3% comps growth on lowes.com, driven by solid efforts to enhance online business. This follows increases of 4% and 16% registered in the preceding two quarters. Going ahead, 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 by the first half of 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 lift 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 third-quarter fiscal 2019, comparable sales for the U.S. home improvement business grew 3%, after rise of 3.2% and 4.2% in the second and first quarters, respectively. In fact, comps in this unit were positive in 15 geographic regions across the United States for the second successive quarter.

  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.

- **Shareholder-Friendly Approach**: Lowe's maintains a shareholder-friendly policy. In the third quarter of fiscal 2019, Lowe's repurchased shares worth $835 million and distributed $428 million as dividends. With this, the company's year-to-date share buyback has totaled $3.6 billion, with plans to repurchase shares worth $4 billion in fiscal 2019. It still had $10.3 billion remaining under its share repurchase authorization. The company generated cash flow from operations of $3.2 billion in the nine months ended Nov 1. Also, its capital expenditure was $400 million in the third quarter. Management envisions capital expenditure of $1.6 billion for fiscal 2019 and expects to generate free cash flow of $3 billion.

Reasons To Sell:

▼ **Debt Level High**: Lowe's ended third-quarter fiscal 2019 with total debt of $16,635 million, up from $14,460 million in the year-ago period. As a result, net interest expenses increased 15.7% year over year to $177 million in the third quarter. Prior to this, debt increased 10.7% and 10.8% on a year-over-year basis in the second and first quarters, respectively. Higher debt level may adversely impact the company's creditworthiness and make it more susceptible to macro-economic factors and competitive pressures.

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

▼ **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 Beats Q3 Earnings Estimates, Raises View

Quarter Ending	10/2019
Report Date	Nov 20, 2019
Sales Surprise	-1.70%
EPS Surprise	4.44%
Quarterly EPS	1.41
Annual EPS (TTM)	5.58

Lowe's reported third-quarter fiscal 2019 results, wherein earnings improved year over year and beat the Zacks Consensus Estimate but revenues missed the same. Nonetheless, management raised its adjusted earnings guidance for fiscal 2019.

Adjusted earnings of $1.41 a share exceeded the Zacks Consensus Estimate of $1.35 and increased 35.6% year over year. Bottom-line growth was backed by better execution. Including pre-tax charges related to the strategic review of Lowe's Canadian operations, earnings were $1.36 per share compared with 78 cents reported in the year-ago period.

Markedly, the company commenced a review of operations in Canada in the third quarter, which included the impairment of long-lived assets and amendments in the leadership team. Also, management decided to take several actions to enhance sales and profits. These include reshuffling the corporate support system in Canada, shutting 34 underperforming Canadian stores, simplifying Canadian store banners and rationalizing assortments across these banners.

Q3 in Detail

Net sales of $17.39 billion edged down 0.2% year over year and missed the Zacks Consensus Estimate of $17.69 billion. Comparable sales for the U.S. home improvement business rose 3% in the quarter, following an increase of 2.3% and 3.5% in the second and first quarters of fiscal 2019, respectively.

Management is impressed with its U.S. home improvement stores' performance in the third quarter, backed by strong macroeconomic landscape along with constant efforts to enhance customers' experience, solid performance of the merchandise category and strength in the Pro business.

Gross profit grew 4.9% year over year to $5,640 million, while gross margin expanded 150 basis points to 32.4%.

Other Financial Aspects

Lowe's ended the quarter with cash and cash equivalents of $794 million, long-term debt (excluding current maturities) of $16,635 million, and shareholders' equity of $2,458 million.

The company generated cash flow from operations of $4,111 million in the nine months ended Nov 1. In the reported quarter, Lowe's repurchased shares worth $835 million and distributed $428 million as dividends.

The company ended the quarter with 2,004 home improvement and hardware stores across the United States and Canada.

Outlook

Management focuses on improving Canadian operations. Further, the company is seeing solid momentum in its U.S. business and is on track to drive the top line, expand margins and attain operational efficacy. For fiscal 2019, management continues to project total sales growth of 2%, with comparable sales expected to rise 3%.

Additionally, management raised its adjusted earnings and operating margin guidance for fiscal 2019. Lowe's now envisions adjusted operating margin expansion of 40-60 basis points for fiscal 2019, up from growth of 20-50 basis points mentioned earlier.

The company now anticipates adjusted earnings per share of $5.63-$5.70 compared with $5.45-$5.65 stated previously.

Recent News

Lowe's to Hire More Than 53,000 Associates – January 2, 2020

Lowe's plans to hire more than 53,000 full-time, part-time and seasonal associates across its more than 1,700 U.S. stores this spring.

Valuation

Lowe's shares are up 32.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 30% and 19%, respectively, over the past year. The S&P 500 index is up 25% in the past year.

The stock is currently trading at 18.27X forward 12-month earnings, which compares to 20.57X for the Zacks sub-industry, 25.55X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.76X and as low as 14.41X, with a 5-year median of 17.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $129 price target reflects 19.37X 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	18.27	20.57	25.55	19.13
	5-Year High	26.76	21.61	26.23	19.34
	5-Year Low	14.41	16.02	19.07	15.17
	5-Year Median	17.4	19.2	22.95	17.44
P/S F12M	Current	1.25	1.56	1.09	3.56
	5-Year High	1.29	1.56	1.11	3.56
	5-Year Low	0.85	1.06	0.8	2.54
	5-Year Median	1.08	1.27	0.91	3
EV/EBITDA TTM	Current	13.37	12.38	15.6	12.38
	5-Year High	13.53	12.43	15.6	12.86
	5-Year Low	8.99	8.95	10.37	8.48
	5-Year Median	11.33	10.79	12.38	10.67

As of 01/22/2020

Industry Analysis **Zacks Industry Rank:** Top 27% (69 out of 255)

Top Peers

RH **(RH)**	Outperform
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

Industry Comparison Industry: Building Products - Retail

Industry Peers

	LOW Neutral	X Industry	S&P 500	BECN Neutral	HD Neutral	LL Neutral
VGM Score	A	-	-	A	C	D
Market Cap	93.44 B	2.10 B	24.65 B	2.49 B	254.05 B	233.41 M
# of Analysts	13	5.5	13	9	13	3
Dividend Yield	1.80%	0.00%	1.77%	0.00%	2.34%	0.00%
Value Score	B	-	-	A	C	C
Cash/Price	0.01	0.03	0.04	0.03	0.01	0.02
EV/EBITDA	17.20	9.65	13.98	12.61	15.97	-11.59
PEG Ratio	1.53	1.38	2.05	1.38	2.06	0.71
Price/Book (P/B)	38.01	1.69	3.38	1.33	NA	1.63
Price/Cash Flow (P/CF)	14.57	10.24	13.60	5.43	19.55	6.68
P/E (F1)	21.57	14.80	19.07	14.14	23.11	19.59
Price/Sales (P/S)	1.30	0.50	2.69	0.35	2.29	0.21
Earnings Yield	4.68%	6.77%	5.24%	7.07%	4.33%	5.04%
Debt/Equity	8.37	1.44	0.72	1.39	-29.31	1.24
Cash Flow ($/share)	8.37	1.77	6.94	6.66	11.91	1.22
Growth Score	A	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	16.26%	15.52%	10.60%	17.95%	19.59%	-25.41%
Proj. EPS Growth (F1/F0)	10.88%	7.60%	7.53%	13.27%	1.88%	122.32%
Curr. Cash Flow Growth	28.26%	17.66%	13.90%	11.78%	23.53%	-273.34%
Hist. Cash Flow Growth (3-5 yrs)	11.67%	12.59%	9.00%	40.23%	13.51%	-17.13%
Current Ratio	1.04	1.98	1.22	1.75	1.08	1.48
Debt/Capital	89.33%	59.97%	42.99%	53.29%	NA	55.31%
Net Margin	4.11%	2.78%	11.21%	-0.15%	10.01%	-5.85%
Return on Equity	146.62%	11.71%	17.16%	9.55%	-721.00%	2.90%
Sales/Assets	1.81	1.89	0.55	1.11	2.22	1.97
Proj. Sales Growth (F1/F0)	1.38%	3.42%	4.08%	2.18%	1.85%	3.42%
Momentum Score	B	-	-	F	A	D
Daily Price Chg	0.81%	-0.02%	-0.04%	-0.14%	-0.02%	-1.69%
1 Week Price Chg	1.12%	1.71%	2.29%	3.28%	3.43%	2.75%
4 Week Price Chg	1.79%	1.79%	2.05%	15.18%	5.54%	-19.66%
12 Week Price Chg	9.55%	0.91%	6.92%	16.67%	-1.41%	-14.24%
52 Week Price Chg	32.76%	22.00%	21.50%	6.66%	31.66%	-27.86%
20 Day Average Volume	3,060,952	299,939	1,518,423	369,127	4,095,109	900,936
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.03%	0.00%	-6.74%
(F1) EPS Est 4 week change	0.00%	-0.19%	0.00%	-0.51%	0.00%	-6.74%
(F1) EPS Est 12 week change	0.53%	-0.03%	-0.23%	-13.22%	-0.38%	-23.95%
(Q1) EPS Est Mthly Chg	0.00%	-1.16%	0.00%	-1.16%	0.04%	-17.95%

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	A
Momentum Score	B
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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