



# Lowe's Companies (LOW)

Updated September 1<sup>st</sup>, 2023 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$233	<b>5 Year CAGR Estimate:</b>	11.1%	<b>Market Cap:</b>	\$134 B
<b>Fair Value Price:</b>	\$248	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	10/24/2023
<b>% Fair Value:</b>	94%	<b>5 Year Valuation Multiple Estimate:</b>	1.3%	<b>Payment Date<sup>2</sup>:</b>	11/08/2023
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$364	<b>Years of Dividend Growth:</b>	60
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

Lowe's Companies is the second-largest home improvement retailer in the US (after Home Depot). The company, which has a current market capitalization of \$134 billion, was founded in 1946 and is headquartered in Mooresville, NC. Lowe's operates or services more than 1,700 home improvement and hardware stores in the U.S. Lowe's trades under the ticker symbol LOW on the NYSE.

Lowe's reported second quarter 2023 results on August 22<sup>nd</sup>, 2023. Total sales for the second quarter came in at \$25.0 billion compared to \$27.5 billion in the same quarter a year ago. Comparable sales decreased 1.6% and net earnings declined 2.4% year-over-year to \$4.56 per share.

The company repurchased 10.1 million shares in the second quarter for \$2.2 billion. Additionally, it paid out \$624 million in dividends.

Lowe's launched same-day delivery nationwide, and expanded its rural merchandising framework to 300 stores.

The company reaffirmed its fiscal 2023 outlook and believes it can achieve adjusted diluted EPS in the range of \$13.20 to \$13.60 on total sales of roughly \$88 billion.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.16	\$2.67	\$3.29	\$3.99	\$4.39	\$5.11	\$5.74	\$8.86	\$12.04	\$10.17	<b>\$13.40</b>	<b>\$19.69</b>
<b>DPS</b>	\$0.70	\$0.87	\$1.07	\$1.33	\$1.58	\$1.85	\$2.13	\$2.36	\$2.80	\$3.70	<b>\$4.40</b>	<b>\$7.09</b>
<b>Shares<sup>3</sup></b>	1030	960	910	866	830	801	763	735	676	605	<b>575</b>	<b>450</b>

Lowe's is not focused on significantly expanding its store count right now, but the company has still managed to grow its earnings-per-share at an incredibly attractive pace in the recent past. This is due to several factors, including a strong comparable store sales performance, which raises revenues as well as margins. Between 2013 and 2022, Lowe's grew its earnings-per-share by 19% a year. In the recent 5-year period, LOW was able to compound earnings by 18% per year.

Earnings-per-share have been driven by comparable store sales growth, increasing margins, and the company's share repurchases, which have lowered the share count meaningfully. Significant buybacks mean that the company's net earnings are split over a lower number of shares, which accelerates growth in per-share net income. Especially when Lowe's valuation is lower, these share repurchases are highly accretive. Lowe's would likely ramp up its buybacks if its valuation declined meaningfully, and in the past, they have made good profits by buying back shares at a lower price.

Lowe's should be able to increase its sales over the coming years, but its earnings-per-share growth will be somewhat lower going forward compared to the last couple of years.

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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Lowe's is a Dividend King - the company has raised the dividend annually for 60 years in a row - and its dividend growth rate was remarkably high in recent years. Lowe's has raised its dividend by 19% per year over the last 5 years. We expect this dividend growth to moderate in the coming years but still remain around double-digit territory.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	20.4	19.8	21.8	18.6	18.7	18.7	18.9	21.4	20.0	17.3	<b>17.4</b>	<b>18.5</b>
Avg. Yld.	1.6%	1.6%	1.5%	1.8%	1.9%	1.9%	2.0%	1.7%	1.2%	1.6%	<b>1.9%</b>	<b>1.9%</b>

Lowe's trades at 17.4 times this year's expected earnings-per-share right now, which is lower than the 10-year average of 19.6. The current valuation is below our current fair value estimate of 18.5 times expected earnings. As a result, we estimate the potential for a small valuation tailwind due to valuation expansion over the intermediate term.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	33%	33%	33%	36%	36%	37%	27%	23%	36%	<b>33%</b>	<b>36%</b>

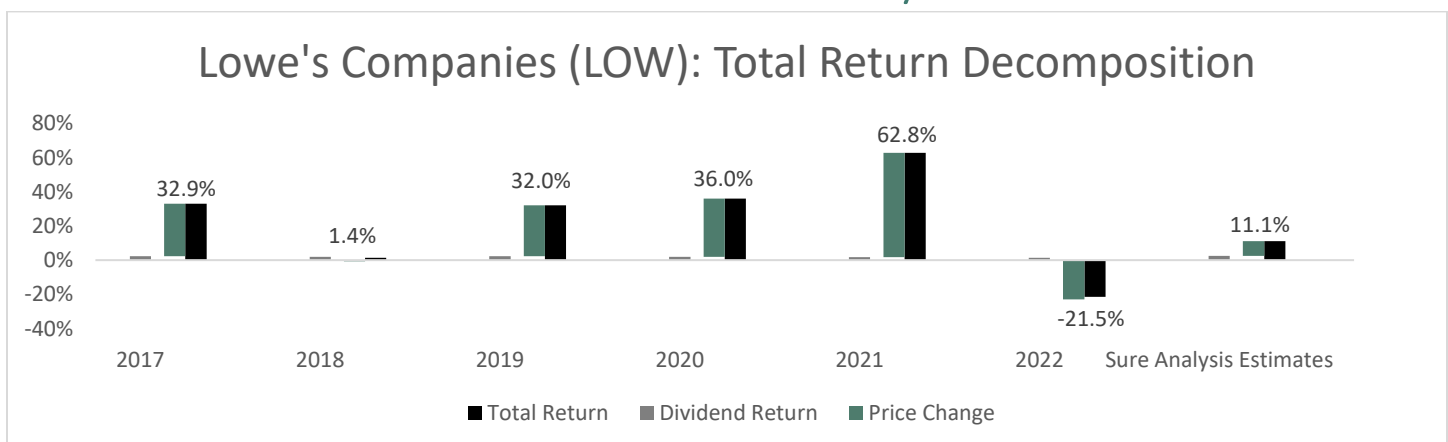
Lowe's is a Dividend King, the company has raised its dividend annually for 60 years in a row, even during recessions, the great financial crisis, and the covid pandemic. This extraordinarily strong track record, coupled with the fact that Lowe's dividend payout ratio is quite low, shows that Lowe's is a reliable and low-risk dividend stock where investors do not have to worry about a dividend cut. In addition, many years of dividend growth should be in front of the company.

Lowe's business is somewhat cyclical, but the company performed relatively well during the great financial crisis, nevertheless. Earnings-per-share declined by less than 20%, despite the housing market hit. Lowe's enjoys competitive advantages from scale and brand power as it operates in a duopoly with Home Depot. Neither of the two are expanding their store count significantly, and neither is interested in a price war. Both should remain highly profitable, as the home improvement market in the US is large enough for two companies to make great profits.

## Final Thoughts & Recommendation

Lowe's offers 11.1% annualized total return potential thanks to its strong expected growth performance. Shares are trading below our estimated fair value and offer compelling growth potential for both earnings and the dividend. We expect that buying back their own stock will prove fruitful in the long term. Given shares are anticipated to generate excellent total returns, we rate LOW as a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	50,521	53,417	56,223	59,074	65,017	68,619	71,309	72,148	89,597	96,250
<b>Gross Profit</b>	17,327	18,476	19,558	20,570	21,674	22,434	22,908	22,943	29,572	32,056
<b>Gross Margin</b>	34.3%	34.6%	34.8%	34.8%	33.3%	32.7%	32.1%	31.8%	33.0%	33.3%
<b>SG&amp;A Exp.</b>	12,244	12,865	13,272	14,105	14,375	14,444	17,413	15,367	18,526	18,301
<b>D&amp;A Exp.</b>	1,623	1,562	1,586	1,587	1,590	1,540	1,607	1,410	1,594	1,882
<b>Operating Profit</b>	3,560	4,149	4,792	4,971	5,846	6,586	4,018	6,314	9,647	12,093
<b>Op. Margin</b>	7.0%	7.8%	8.5%	8.4%	9.0%	9.6%	5.6%	8.8%	10.8%	12.6%
<b>Net Profit</b>	1,959	2,286	2,698	2,546	3,091	3,447	2,314	4,281	5,835	8,442
<b>Net Margin</b>	3.9%	4.3%	4.8%	4.3%	4.8%	5.0%	3.2%	5.9%	6.5%	8.8%
<b>Free Cash Flow</b>	2,551	3,171	4,049	3,587	4,450	3,942	5,019	2,812	9,258	8,260
<b>Income Tax</b>	1,178	1,387	1,578	1,873	2,108	2,042	1,080	1,342	1,904	2,766

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	32,666	32,732	31,721	31,266	34,408	35,291	34,508	39,471	46,735	44,640
<b>Cash &amp; Equivalents</b>	541	391	466	405	558	588	511	716	4,690	1,133
<b>Inventories</b>	8,600	9,127	8,911	9,458	10,458	11,393	12,561	13,179	16,193	17,605
<b>Goodwill &amp; Int.</b>				154	1,082	1,307	303			
<b>Total Liabilities</b>	18,809	20,879	21,753	23,612	27,974	29,418	30,864	37,499	45,298	49,456
<b>Accounts Payable</b>	4,657	5,008	5,124	5,633	6,651	6,590	8,279	7,659	10,884	11,354
<b>Long-Term Debt</b>	9,077	10,521	11,358	12,649	15,699	16,995	16,223	19,306	21,780	24,727
<b>Total Equity</b>	13,857	11,853	9,968	7,654	6,434	5,873	3,644	1,972	1,437	-4,816
<b>LTD/E Ratio</b>	0.66	0.89	1.14	1.65	2.44	2.89	4.45	9.79	15.16	-5.13

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	5.9%	7.0%	8.4%	8.1%	9.4%	9.9%	6.6%	11.6%	13.5%	18.5%
<b>Return on Equity</b>	12.9%	17.8%	24.7%	28.9%	43.9%	56.0%	48.6%	152.5%	342.3%	
<b>ROIC</b>	8.3%	10.1%	12.3%	12.2%	14.6%	15.3%	10.8%	20.8%	26.2%	39.1%
<b>Shares Out.</b>	1152	1061	990	927	881	840	812	778	750	699
<b>Revenue/Share</b>	43.86	50.35	56.79	63.73	73.80	81.69	87.82	92.74	119.46	137.70
<b>FCF/Share</b>	2.21	2.99	4.09	3.87	5.05	4.69	6.18	3.61	12.34	11.82

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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