



# Lowe's Companies (LOW)

Updated November 23<sup>rd</sup>, 2023 by Quinn Mohammed

## Key Metrics

|                             |       |                                            |       |                                      |            |
|-----------------------------|-------|--------------------------------------------|-------|--------------------------------------|------------|
| <b>Current Price:</b>       | \$198 | <b>5 Year CAGR Estimate:</b>               | 13.1% | <b>Market Cap:</b>                   | \$114 B    |
| <b>Fair Value Price:</b>    | \$241 | <b>5 Year Growth Estimate:</b>             | 7.0%  | <b>Ex-Dividend Date<sup>1</sup>:</b> | 01/23/2024 |
| <b>% Fair Value:</b>        | 83%   | <b>5 Year Valuation Multiple Estimate:</b> | 3.9%  | <b>Payment Date<sup>2</sup>:</b>     | 02/07/2024 |
| <b>Dividend Yield:</b>      | 2.2%  | <b>5 Year Price Target</b>                 | \$337 | <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 \$114 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 third quarter 2023 results on November 21<sup>st</sup>, 2023. Total sales came in at \$20.5 billion compared to \$27.5 billion in the same quarter a year ago. Comparable sales decreased by 7.4%, while net earnings-per-share of \$3.06 compared to \$0.25 in third quarter 2022. Adjusted EPS in the year-ago period was \$3.27. Lowe's opened one store and three Lowe's Outlet stores during the quarter. The company suffered from a reduction in DIY discretionary spending.

The company repurchased 7.3 million shares in the third quarter for \$1.6 billion. Additionally, it paid out \$642 million in dividends.

The company reduced its fiscal 2023 outlook and believes it can achieve adjusted diluted EPS of \$13.00 (compared to \$13.20 to \$13.60 expected previously) on total sales of roughly \$86 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>\$13.00</b> | <b>\$18.23</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 has increased its earnings-per-share at an incredibly attractive pace in the recent past, despite not significantly expanding its store count. 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. We expect Lowe's to increase earnings-per-share at a 7.0% annual growth rate in the next five 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>15.3</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>2.2%</b> | <b>2.1%</b> |

Lowe's trades at 15.3 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 fair value estimate of 18.5 times expected earnings. As a result, we estimate the potential for a moderate 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>34%</b> | <b>39%</b> |

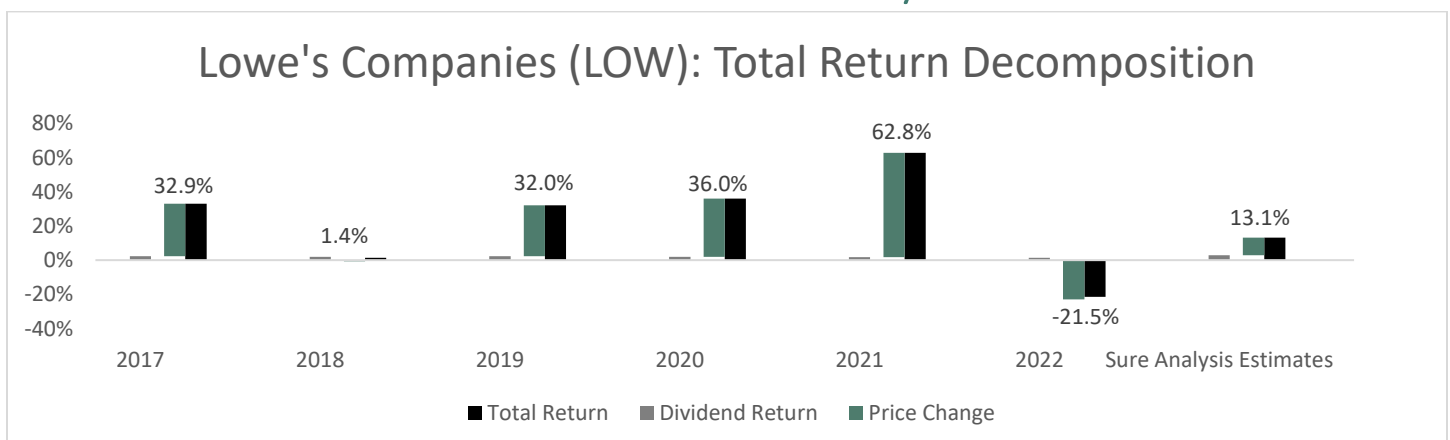
Lowe's is a Dividend King, the company has raised its dividend annually for 60 years in a row, even during recessions, the great financial crisis, and the covid pandemic. This extraordinarily strong track record, coupled with the fact that Lowe's dividend payout ratio is quite low, shows that Lowe's 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 13.1% 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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