Company Overview:

Founded in 1946, Lowe's Companies (LOW) is a leading home improvement retailer with over 1,700 stores in the US. The company is focusing investments on Pro-focused initiatives, technology, and omnichannel capabilities, in addition to improving its retail store productivity.

Name	Ticker	Yield	Growth	D + G
Lowe's Companies, Inc.	LOW	2.14%	9.25%	11.39%

Recent Highlights:

While the five pillars of LOW's "Total Home Strategy" are unchanged, the company is leveraging its modernized enterprise tech stack to build on recent momentum and drive continued market share gains (targeting 100-200bps annually). Pro remains the biggest unlock, with assortment (private brand expansion within DIY-centric categories like decor), localization (product and pricing), omni-channel (visualizer capabilities to enhance user experience, faster fulfillment), and installation services other key levers.

Bull Case:

- ***Total Home Strategy Positions LOW to Capitalize on an Eventual Inflection in Demand –*** The key elements of LOW's Total Home strategy include: 1) drive Pro penetration, 2) accelerate online sales, 3) expand home services, 4) create a loyalty ecosystem, and 5) increase space productivity. Technology (including gen AI) remains at the center of the strategy to enhance customer experience and drive productivity/efficiencies, with ongoing supply chain investments (three-year project to modernize inventory replenishment and demand planning systems) key top-line enablers. All told, LOW expects its Total Home strategy to drive ~100bps of annual share gains.
- ***Focused on Capturing the Pro Planned Purchase –*** LOW's improved Pro product/service offering has driven a material increase in sales penetration vs. pre-pandemic levels (~30% in FY24 vs. FY19's ~19%). Looking ahead, LOW is focused on increasing its share of planned purchases with small-/medium-sized Pros by introducing its "Extended Aisle" initiative (simplifying the quote process; expanding special order catalog, with supplier delivery to jobsite), enhancing fulfillment capabilities (converting half of LOW's flatbed DCs into dual-purpose fulfillment facilities), and leveraging Lowe's Pro Supply (making LPS inventory easily accessible for Pro orders). All told, LOW continues to target Pro growth at ~2x the market.
- ***Returning Significant Capital to Shareholders –*** LOW expects to generate $9B-$10B of annual operating cash flow in FY26/beyond. Capex is stepping up to ~$2.5B (from prior ~$2B), which includes 10-15 new stores per year (5-10 planned for FY25). When combined with $1B-$2B of additional net debt per year (after returning to its 2.75x lease-adjusted leverage target; seemingly by early FY26 under the "moderate" scenario), LOW expects to have $7.5B-$9.5B of cash available for annual shareholder returns (M-HSD% of current market cap).

Bear Case:

- ***Housing Market Risk –*** The primary cyclical risk we see to our LOW price target is from LOW's exposure to the housing market. If the housing market correction is sharper or lasts longer than we expect, LOW's sales and earnings will be worse than we are modeling, presenting a downside risk to our price target.
- ***Market Saturation –*** Saturation, is that the home improvement sector is increasingly well penetrated at the individual market level, leading to greater impact from own store cannibalization and competitive openings. Ensuing pricing pressure and comp store drags could create downside risk to our growth rate. Though, saturation through penetration risk is lower than Home Depot, Inc. (HD).
- ***Poor Macro Environment –*** A prolonged deep recession could weigh on consumer home improvement spending directly, and / or the trading multiples for consumer discretionary stocks.

Overall Thesis:

Since Marvin Ellison took the helm as CEO in July 2018, Lowe's has undergone a series of strategic changes aimed at enhancing operating capabilities and improving the company's product and service offerings, all while driving productivity gains. Particular emphasis has been placed on upgrading technology, refreshing the company's merchandise offering, and increasing the efficiency of its supply chain to better serve the DIY/DIFM and Pro customers. The curve of EPS growth is, however, highly dependent on the macro and pace/ magnitude of rate cuts. But we believe that shares are undervalued in the current environment, which necessitates ownership.

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