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	1.92%	12.50%	14.42%

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:

- ***Taking Share from the "Pros"*** - LOW's improved Pro product/service offering has driven a ~600bps increase in sales penetration (to ~25%) since FY19. Looking ahead, LOW is reinvesting less productive inventory dollars into Pro "Never Out" SKUs while also leaning into loyalty (MVPs program) and technology (CRM, dedicated MVPs online experience) to expand wallet share. Further, LOW is focused on capturing more planned purchases by expanding same-day/next-day jobsite delivery capabilities. While this requires some additional Pro- dedicated FCs, LOW is leveraging its existing assets (including flatbed DCs) and the gig economy, so a fairly capital-light Pro fulfillment network. All told, LOW continues to target Pro growth at ~2x the market and sees a path to ~30% sales penetration.
- ***Increasing Return on Invested Capital ("ROIC") vs. Home Depot*** - We also expect LOW's ROIC gains (now at ~parity) vs. HD to persist, and this firming-up LOW's relative ROIC performance gap vs. HD will help drive modest multiple expansion for LOW over the next 24 months.
- ***Transformation to Market-Based Delivery Model Will Be Complete by the End of FY '23*** - LOW has completed the transition from a store-based delivery model for big/bulky items (appliances/riders/patio furniture) to a market- based model in twelve of fifteen regions, with plans to complete the rollout by the end of FY '23. By centralizing inventory in bulk distribution centers and consolidating deliveries from a cross-dock facility, LOW is realizing higher sales (wider assortment) and profit (fewer touches) on a lower overall inventory investment. Customer satisfaction is also benefiting from reduced delivery times, and the backroom space freed up in stores will allow LOW to enhance its same-day/next-day delivery capabilities

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:
We believe a healthy consumer backdrop (and particularly strong homeowner balance sheets) will provide support to LOW in the medium term, particularly as it continues to see the benefits of its restructuring initiatives over time. We believe LOW's profitability will also continue to improve and its comp & margin gap with HD will continue to narrow as it gains traction with Pros.

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