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LOWE'S (NYSE: LOW)

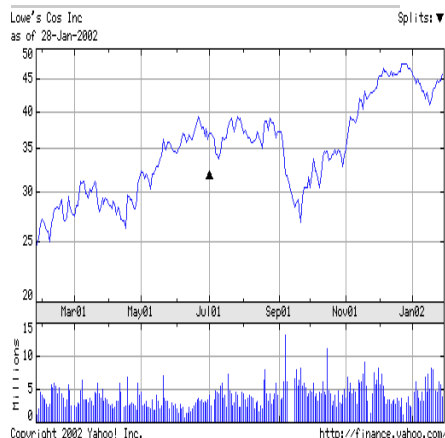
Sell

Jan 30, 2002

S&P Sector Consumer Discretionary

MARKET DATA

Price	\$44.79
52 wk range	\$48.88-24.59
Price Target	\$46
Shares Out:	774.3 m
Market Cap:	\$35.5
EPS Growth	25.4 (5 year CGR)
Book Value (per share)	\$8.30
Beta	1.1
Revenue 2000A	\$18.8 billion
Net Income 2000A	\$809 million



COMPANY OVERVIEW

Lowe's Companies Inc. is a retailer of home improvement products, with a specific emphasis on retail do-it-yourself (DIY) and commercial business customers. Lowe's specializes in offering products and services for home improvement, home decor, home maintenance, home repair and remodeling and maintenance of commercial buildings. Though it has stores in 42 states, it is more concentrated in the north east.

INVESTMENT CONCLUSION

SELL CURRENT HOLDINGS OF LOWE'S.

☐ SUMMARY

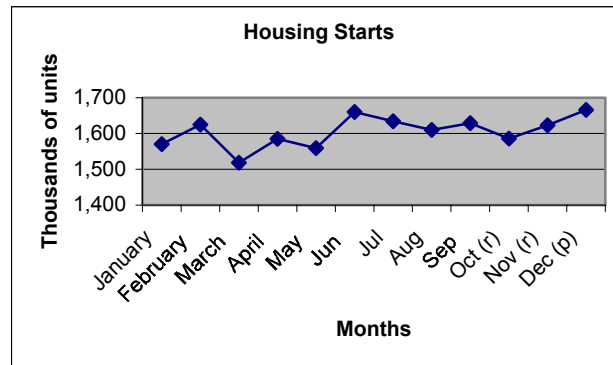
- ☐ STOCK HAS PERFORMED WELL BUT THERE IS LITTLE UPSIDE POTENTIAL LEFT WITH REVISION IN EARNINGS ESTIMATES FROM \$0.31 TO \$0.23
- ☐ APPRECIATION OVER THE PAST YEAR DUE TO INCREASES IN HOUSING STARTS
- ☐ 20% CGR IN SQUARE FOOTAGE INDICATES AGGRESSIVE EXPANSION PLANS IN THE PAST 5 YEARS
- ☐ VALUATION CONSIDERING CONTINUED EXPANSION WITH 15%

INDUSTRY INSIGHT

News & Trends

Lowe's is dependent on the housing market that has seen growth opportunities despite the recession (refer to chart on Pg 2 detailing housing starts). Growth in the housing market has been fuelled by lower mortgage rates. The 30 year mortgage rate tracked by Freddie Mac was 6.97% last year, the second lowest in history, since the rates have been tracked.(<http://cbs.marketwatch.com/>). These rates are expected to increase in the second half of 2002 as the economy recovers, leading to a possible slow down in the housing market.

INDUSTRY INSIGHT (CONTD)



Company Discussion

INVESTMENT HIGHLIGHTS

Lowe's is the world's second largest home improvement retailer. Its closest competitor is Home Depot, which is a much larger company (revenue of \$ 45 billion and market cap of \$ 113 billion compared to Lowe's revenue at \$18 billion and market cap at \$34 billion). The home improvement market of \$400 billion is largely served by regional competitors. Lowe's has taken this opportunity to establish itself as a national player. The company had a 20.4% CGR of square footage over the last 5 years indicating aggressive expansion plans.

Stock Performance and Investment Risks

The stock has appreciated 63% over the last one year, but has seen only 18% of this gain coming in the last 6 months. The company has a high



P/E ratio of 36.8 and P/B ratio of 5.39. As the housing market is expected to slow down in 2002, the company may not be able to sustain such a high market valuation. Unlike its competitor, Home Depot, Lowe's does not have an international presence, making it very susceptible to the US market. The company has financed its expansion plans using debt, giving it a higher debt to equity ratio (0.6) as compared to the industry average (0.2).

RATIO COMPARISON

Valuation Ratios	Company	Industry	Sector	S&P 500
P/E Ratio (TTM)	37.03	38.81	30.64	30.64
P/E High - Last 5 Yrs.	46.41	71.85	50.00	51.08
P/E Low - Last 5 Yrs.	18.87	25.30	16.73	17.44
Beta	1.11	1.18	0.93	1.00
Price to Sales (TTM)	1.64	2.05	2.63	3.91
Price to Book (MRQ)	5.39	6.08	4.26	5.53
Price to Tangible Book (MRQ)	5.39	6.17	6.68	8.66
Price to Cash Flow (TTM)	24.29	29.55	17.77	23.53
Price to Free Cash Flow (TTM)	NM	7.22	32.66	36.60
% Owned Institutions	76.70	62.60	46.11	59.69

Growth Rates(%)	Company	Industry	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	21.10	16.47	9.71	-0.39
Sales (TTM) vs TTM 1 Yr. Ago	18.73	14.82	14.40	5.19
Sales - 5 Yr. Growth Rate	21.56	23.52	20.09	14.29
EPS (MRQ) vs Qtr. 1 Yr. Ago	20.91	20.27	-4.99	-6.11
EPS (TTM) vs TTM 1 Yr. Ago	13.44	6.20	-7.15	4.74
EPS - 5 Yr. Growth Rate	25.30	26.00	19.46	14.70
Capital Spending - 5 Yr. Growth Rate	34.98	25.62	14.13	-1.60

Financial Strength	Company	Industry	Sector	S&P 500
Quick Ratio (MRQ)	0.28	0.39	0.74	1.14
Current Ratio (MRQ)	1.67	1.59	1.30	1.68
LT Debt to Equity (MRQ)	0.59	0.20	0.85	0.69
Total Debt to Equity (MRQ)	0.60	0.21	0.99	0.97
Interest Coverage (TTM)	9.94	9.86	5.79	9.56

RESULTS OF OPERATIONS

(in millions)

Annual Income Statement	1/2002	1/2000	1/1999	1/1998	1/1997
Sales	18,778.6	15,905.6	12,244.9	10,136.9	8,600.2
Cost of Sales	13,486.9	11,524.6	8,949.8	7,446.9	6,374.8
Gross Operating Profit	5,291.7	4,381.0	3,295.1	2,690.0	2,225.4
S G & Admin. Expense	3,479.9	2,870.9	2,189.8	1,824.8	1,454.7
Other Taxes	0.0	0.0	0.0	0.0	0.0
EBITDA	1,811.8	1,510.1	1,105.3	865.2	770.7
Depreciation & Amortization	409.5	337.8	272.2	241.1	199.8
EBIT	1,402.3	1,172.3	833.1	624.1	570.9
Other Income, Net	0.0	38.4	0.0	0.0	-68.3
Total Income Avail for Interest Exp.	1,402.3	1,186.3	833.1	624.1	502.6
Interest Expense	120.8	123.2	74.7	65.6	49.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Pre-tax Income	1,281.5	1,063.1	758.4	558.5	453.5
Income Taxes	471.6	390.3	276.0	201.1	161.5
Special Income/Charges	0.0	-24.4	0.0	0.0	0.0
Net Income from Cont. Operations	809.9	672.8	482.4	357.5	292.2
Net Income from Discont. Ops.	0.0	0.0	0.0	0.0	0.0
Net Income from Total Operations	809.9	672.8	482.4	357.5	292.2
Total Net Income	809.9	672.8	482.4	357.5	292.2

Earnings Per Share - Quarterly Results

	FY (1/02)	FY (1/01)	FY (1/00)
1st Qtr	\$0.29	\$0.25	\$0.17
2nd Qtr	\$0.42	\$0.37	\$0.30
3rd Qtr	\$0.32	\$0.27	\$0.22
4th Qtr	NA	\$0.19	\$0.19
Total	\$1.03	\$1.08	\$0.88

RESULTS OF OPERATIONS

(in millions)

Annual Balance Sheet	1/2001	1/2000	1/1999	1/1998	1/1997
Assets					
Current Assets					
Cash and Equivalents	455.7	491.1	222.7	195.1	40.4
Receivables	161.0	147.9	143.9	118.4	117.6
Inventories	3,285.4	2,812.4	2,104.8	1,714.6	1,605.9
Other Current Assets	273.0	258.2	114.3	81.5	87.7
Total Current Assets	4,175.0	3,709.5	2,585.7	2,109.6	1,851.5
Non-Current Assets					
P P& E, Gross	8,628.4	6,447.3	4,608.7	3,795.0	3,104.1
Accum. Depreciation	1,593.4	1,270.1	971.8	789.8	609.7
P P& E, Net	7,035.0	5,177.2	3,636.9	3,005.2	2,494.4
Intangibles	0.0	0.0	0.0	0.0	0.0
Other Non-Current Assets	165.8	125.6	122.0	104.5	89.1
Total Non-Current Assets	7,200.8	5,302.8	3,758.9	3,109.7	2,583.5
Total Assets	11,375.8	9,012.3	6,344.7	5,219.3	4,435.0
Liabilities & Shareholder's Equity					
Current Liabilities					
Accounts Payable	1,732.0	1,566.9	1,133.2	969.8	914.2
Short Term Debt	292.2	152.4	191.5	110.6	103.5
Other Current Liabilities	904.5	666.6	440.6	369.0	331.0
Total Current Liabilities	2,928.6	2,386.0	1,765.3	1,449.3	1,348.5
Non-Current liabilities					
Long Term Debt	2,697.7	1,726.6	1,283.1	1,045.6	767.3
Deferred Income Taxes	251.5	199.8	160.3	123.8	101.6
Other Non-Current Liabilities	3.2	4.5	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total Non-Current Liabilities	2,952.4	1,930.9	1,443.4	1,169.4	868.9
Total Liabilities	5,881.1	4,316.8	3,208.7	2,618.8	2,217.6
Shareholder's Equity					
Preferred Stock Equity	0.0	0.0	0.0	0.0	0.0
Common Stock Equity	5,494.9	4,695.5	3,136.0	2,600.6	2,217.5
Total Equity	5,494.9	4,695.5	3,136.0	2,600.6	2,217.5
Total Liabilities & Stock Equity	11,376.0	9,012.3	6,344.7	5,219.4	4,435.1

INVESTMENT HIGHLIGHTS

Summary of Model

Square Footage Growth	15.00%
Sales	875696.004216474 +0.261563859* square footage
COGS	72.00% of sales
SG&A	18.00% of sales
Store Opening Costs	0.70% of sales
Depreciation	2.20% of sales
Tax Rate	37.00%
Debt	0.03579616300247 18*square footage- 113794
Interest	4.48%
Fixed Assets	0.10270180743722 *square footage- 518413
Deferred Tax Asset	0.70% of total as- sets
Deferred Tax Liabilities	2.20% of total liab and equity
Cash and Short Term Investments	Plug
Accounts Receivable Turnover ratio	98
Merchandise Inventory Turnover ratio	6
Accounts Payable Turnover ratio	7.79
Other Assets	1.28% of total as- sets
Other Current Assets	1.01% of total as- sets
Other Current Liabilities	9.09% of total liab and equity
Cost of equity captial	15%