



ANALYST QUICK NOTES

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Lowes Companies Inc. (NYSE: LOW: BUY)

Target Price: \$90

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Where do we stand?

- We continue to rate Lowe's BUY but we are disappointed by lower-than-expected results in 3Q17 and by LOW's fundamental underperformance relative to rival Home Depot.

Any changes to the investment thesis?

- For the last several quarters, our thesis has been that HD has been more successful at delivering on its financial promises, but LOW has more upside potential.
- The recent change in our thinking is that we see a greater urgency for Lowe's to demonstrate that it can realize this upside potential.

So why buy LOW?

- More than 20% potential upside to our price target.
- Still believe Lowe's has the ability to:
 - Boost comparable-sales growth.
 - Slightly improve gross margins with:
 - Private brands,
 - Better merchandising,
 - Collaboration with suppliers,
 - Strategic use of the supply chain.

Recap of 3Q

- On November 16, Lowe's reported fiscal third-quarter earnings of \$0.88 per share on an adjusted, non-GAAP basis. The result was below our estimate of \$0.96 and below the consensus forecast of \$0.96 because of weak sales in the first two months of the quarter.
- Third-quarter sales rose 9.6% to \$15.7 billion, which was below the StreetAccount consensus of \$15.84 billion.
- Comparable sales rose 2.7%, which was below the consensus of 3.0%, according to StreetAccount. U.S. comps increased 2.6%.
- LOW again saw weak sales in northern markets. Management said that comps came in below expectations because traffic slowed more than anticipated in August and September before rebounding in October.

A few BIG questions

- Do we still expect a multi-year housing recovery?
 - Yes
 - Investment well below historical averages.
 - Employment supportive.
 - Affordability is still good.
 - Pro market is strong.
 - What about rising rates?
 - Spoke to LOW Friday and they think affordability is favorable until 30-year mortgage rates reach 6% to 6.5%.
 - Currently about 3.3%.
 - Why the underperformance vs. Home Depot?
 - HD has a bigger Pro business.
 - HD may have a little more exposure to cities/metropolitan areas that may be slightly stronger than suburban markets where LOW has more concentration.
 - LOW's Orchard Hardware had come challenges from drought conditions in California.
 - HD may be executing better particularly on expense management.
 - What is the next event/catalyst for LOW?
 - LOW will host an analyst meeting in North Carolina on 12/7.
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