



ANALYST QUICK NOTES

New products, M&A announcements, management shakeups, earnings surprises. Whatever the news, you want to know what Argus thinks. Our Quick Notes fill this need by providing real-time analysis of current news about Argus-covered companies or other market-moving events. Please check back regularly for new Quick Notes. **Important disclaimer information is on the last page of this document.**

Lowes Cos. Inc. (NYSE: LOW: BUY)

Target Price: \$95

Christopher Graja, CGA

5/8/2017

What's New?

- LOW is scheduled to report 1Q earnings on May 24.
 - The earnings release is normally at 6:00 a.m.
 - The conference call is scheduled for 9:00 a.m.

What We Expect

- We are modeling 1Q sales at \$16.6 billion.
 - Consensus is \$16.9 billion.
- Our EPS estimate is \$1.01.
 - Consensus is \$1.05.
- Recent earnings dynamics.
 - 1Q EPS consensus is little changed over last 4 weeks.
 - Over last 4 weeks, there has been 1 estimate increase and 1 reduction.

Performance Stats

- LOW earnings have topped consensus in 5 of the last 8 quarters.
 - Last miss was November of 2016.
- Average price move on earnings day is 3.6%.
 - Options market implies 4% move on 5/24, based on Bloomberg analytics.
- Shares up 22% YTD vs. 8% for S&P 500.

Why are we comfortable going into the quarter?

- Consensus forecast for comp sales is +2.4% (fiscal quarter is Feb, March, April).
 - SpendTrend Comp sales for Building Material stores was +6.4 in Feb, 6.7% in March. April not yet reported.
 - Commerce Dept. Building Materials sales +4.4 in Feb, +6.3 in March.
- MAS management is seeing strong demand in the repair and remodeling.

- MAS sees continuing growth in the housing market driven by:
 - Favorable demographics.
 - Rising home prices.
 - The best housing turnover in a decade.
 - Aging homes that are in need of updates or repairs.

Why do we like LOW over the next year?

- We believe LOW has substantial room for earnings improvement.
 - Our five-year EPS growth rate forecast is 14%.
 - Lowe's updated its long-term financial outlook in December of 2016. The company sees EPS rising at a three-year CAGR of about 15% for what we are calling FY18, 19, and 20.
 - The company is modeling an operating margin of approximately 11.2% for FY20 up from 9.7% in 2016.
 - We expect gross margin to be relatively flat with the gains coming from expense leverage, some cost efficiencies, leveraging depreciation and efficiency improvements.
 - LOW expecting about 4% annual sales growth.
 - We are modeling share repurchases at about \$3 billion a year.
 - LOW's goal is to raise return on invested capital to 22% from 15.8% at the end of FY17. Improving profitability while reducing capital with share repurchases is a good start.
-

DISCLAIMER

This Note reflects the current thinking of an Argus analyst anticipating or responding to corporate earnings reports or other news relevant to covered companies. This Note may be an initial, real-time response to developments that are expected to impact stocks under coverage; as such, it does not imply that the information in it is correct as of any time after its preparation or that there has been no change in the business, financial condition, prospects, creditworthiness or status of a covered company. The views or opinions expressed in this Note are subject to change pending further analysis. This Note is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This Note is not an offer to sell or a solicitation of an offer to buy any security. The information presented in this Note is for general information only and does not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this Note. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this Note constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions and opinions than those represented in this Note, and all opinions are reflective of judgments made on the original date of publication. Those reports may reflect the different assumptions, views and analytical methods of the analysts who prepared them and Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this Note or to update or keep current the information contained in other reports so that such information is consistent with, or not contrary to, the information contained in this Note. Argus Research is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc., is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock.

Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.
