



ANALYST QUICK NOTES

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Lowe's Cos. Inc. (NYSE: HD: BUY)

Target Price: \$95

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Overview:

- We remain bullish on both Home Depot and Lowe's.
- We have differentiated our BUY recommendations for Home Depot and Lowe's by suggesting that Lowe's has more potential to raise margins and return on capital while HD is currently executing its business plan at a higher level.

Weekend Store Check:

- In one, admittedly isolated example, HD won a \$400 sale on a widely available Weber grill.
 - #3 best-selling grill on Homedepot.com.
 - #1 highest rated grill on Lowe's.com.
- We will caution that we are looking at an extremely narrow sample: one product, one store in each chain and one geographic market.

What did Depot do well?

- Depot had all three of their top-selling SKUs assembled and covered with plastic in front of the store (outside); there were at least a dozen assembled units.
- We were immediately greeted inside the front door.
 - We did not need to wait for a specific employee or someone from a specific department.
 - The greeter made a call on a phone device. In less than a minute, an associate walked us outside.
 - Associate wrote the SKU number on a piece of paper and said that when we returned from the register he would:
 - Answer any questions about the grill.
 - Provide an inventory of the additional pieces: grilling grates, warming grate, control knobs and battery for the ignitor.
 - Load it into our car.
 - The entire transaction took less than 10 minutes.

What could Lowe's have done better?

- Had to wait almost 10 minutes for an associate in the busy outdoor power equipment department to tell us if the grill was in stock and assembled.
 - Grill was in stock, but not assembled.
 - Told that we could rent a truck and assemble it ourselves.
 - Told we would have to wait four days -- until Wednesday -- to get an assembled grill.
 - Not told if a nearby Lowe's store had the unit available.
 - No effort to sell a similar unit or upsell.
 - No effort to offer a discount or incentive to wait until Weds.
- Lowe's has a very compelling display of seasonal merchandise and at a less busy time may have been able to offer more hands-on assistance.

Conclusion:

- We remain bullish on both stocks, but for different reasons.
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