RARITAN
RESEARCH GROUP

October 31 – Maisam Tejani – Rutgers University

Overall Thesis: Hold
Estimated Fair Value: $241.33
Current Price: $238.13 (11/1)
YTD Growth: (3.58%)
LTM Low-High: $206.38-280.64

Lowe's Companies Inc (NYSE:LOW)

Company Overview

Lowe's is the world's second largest home improvement retailer. They operate 1,748 stores and outlets in the United States, totaling 195 million square feet in retail space. Lowe's purports to be an "omnichannel" retailer, focusing on helping customers through several methods including online services, installation, and sales. The key drivers of their strategy are to expand reach to professional clients, who use Lowe's as a place to stock up on hardware for professional projects, as well as accelerating online sales, expanding home installation services, creating loyalty ecosystems like MyLowe's Rewards, and by tailoring inventory to local markets. Top customers include tradespeople, repairmen, remodelers, and property managers, on top of the wide array of individual homeowners and renters who complete personal projects. Among their broad product offering, appliances account for 14.4% of sales, followed by seasonal and outdoor living, lumber, and lawn/garden care with each accounting for 8% of sales. This diversified blend of products lowers concentration risk and allows them to compete in several markets, catering to their wide variety of customers.

Catalysts and Risks

The near term carries much uncertainty regarding the direction of the company, with many risks and catalysts present in the existing landscape. On the catalyst side:

- Lowe's is actively expanding its "pro" segment. This segment accounts for contractors and builders, whose business tends to be less cyclical than individual DIY retail. In its recent Q2 2025 filing, their Pro segment expressed single digit growth, along with a 9.5% increase in online sales
- Digital Innovation: Lowe's is developing an AI framework in partnership with Nvidia, OpenAI, and Palantir to enhance customer service through smarter search algorithms and product recommendations. Broader industry developments, such as the integration of purchases to ChatGPT could increase traffic driven through Lowe's online store as well.
- Rate Cuts: Mortgage rates tend to move alongside cuts to the fed funds rate. With the Fed on a cutting cycle expected to extend into December, consumers may see this as a time to start re-entering the previously weaker housing market. This increases demand for home improvement projects and appliances, which make up a sizable chunk of Lowe's revenue.

At the same time however, macroeconomic factors pose a large risk to the company:

- Tariffs and supply chain interruptions: Tariffs on major product offerings, such as lumber, may increase transportation and inventory costs, pressing margins of the business. Additionally, Lowe's sources a significant portion of products from both China and Mexico (~40%), which would either force costs to rise, margins to shrink, or cost cutting measures to take effect.
- Inflation: With CPI and PPI reports indicating subtle growth in inflation over the last few months, it is possible that a continuation of this trend may lead to eroding consumer discretionary spending. This would decrease the demand for non-essential home renovations and other projects. The recent cutting cycle, along with global tariffs, could add fuel to the fire, raising inflation in the coming periods.

Thesis

With an average YoY top line growth rate of ~4% in the last 10 years, and the looming threat of tariffs and worse discretionary spending on projects, Lowe's is far from likely to surpass the growth it experienced in the late 2010s. A still weak housing market, coupled with macroeconomic headwinds presents an environment that is hard to navigate for Lowe's main consumer lines. However, the diversification of its offerings to cater more towards professional clients may provide less volatile streams of revenue, keeping the top line stable, though not booming.

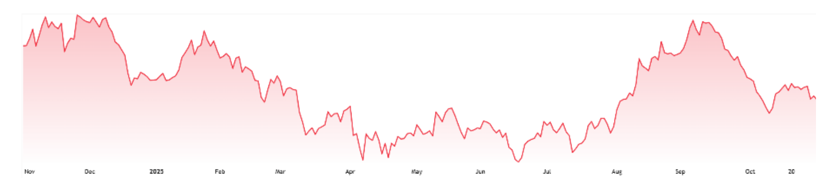

Figure 1: LTM Chart (Source: Trading view)

$241.33	5.38%	5.88%	6.38%	6.88%	7.38%
1.00%	$ 280.95	$ 246.46	$ 218.38	$ 195.09	$ 175.45
1.25%	$ 298.16	$ 259.98	$ 229.24	$ 203.98	$ 182.83
1.50%	$ 317.58	$ 275.04	$ 241.22	$ 213.69	$ 190.84
1.75%	$ 339.68	$ 291.92	$ 254.48	$ 224.35	$ 199.56
2.00%	$ 365.05	$ 310.98	$ 269.26	$ 236.10	$ 209.10

Figure 2: Sensitivity Analysis

WACC and Growth Rate	
TGR	1.5%
WACC	6.38%
Risk Free Rate	3.72%
MRP	4.00%
Beta	0.88
Cost of Equity	7.24%
Cost of Debt	4.00%
After Tax Cost of Debt	3.04%
Total Debt	34,723.0
Total Equity	134,500.0
Total Capital	169,223.0
% of Debt	20.52%
% of Equity	79.48%

Figure 3: WACC and Perpetuity Growth Rate Selection

	P/E	EV/EBITDA	EV/Revenue
LOW	20.3x	13.8x	2.1x
HD	26.9x	17.6x	2.7x
FND	38.0x	19.1x	2.1x
HVT	18.3x	10.6x	0.6x
WMT	38.4x	19.4x	1.3x
COST	50.3x	29.8x	1.5x
TGT	10.4x	6.6x	0.5x

Figure 4: Current Trading Comps Alongside Competitors

DCF Model

All # in millions				1	2	3	4	5
	A	A	A	E	E	E	E	E
	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	$97,059.0	$86,377.0	$83,674.0	$85,347.5	$87,907.9	$90,545.1	$94,166.9	$97,933.6
% Growth	N/A	-11.0%	-3.1%	2.0%	3.0%	3.0%	4.0%	4.0%
EBIT	10,159.0	11,557.0	10,466.0	10,583.1	10,812.7	10,865.4	11,300.0	11,752.0
% of Revenue	10.5%	13.4%	12.5%	12.4%	12.3%	12.0%	12.0%	12.0%
Taxes	2,599.0	2,449.0	2,196.0	2,222.4	2,270.7	2,281.7	2,373.0	2,467.9
% of EBIT	25.6%	21.2%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
EBIAT	7,560.0	9,108.0	8,270.0	8,360.6	8,542.0	8,583.7	8,927.0	9,284.1
D&A	1,981.0	1,923.0	1,972.0	$1,877.64	$1,933.97	$1,991.99	$2,071.67	$2,154.54
% of Revenue	2.0%	2.2%	2.4%	2.2%	2.2%	2.2%	2.2%	2.2%
CapEx	1,829.0	1,964.0	1,927.0	$1,962.99	$2,021.88	$2,082.54	$2,165.84	$2,252.47
% of Revenue	1.9%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Change in NWC	(1,083.0)	(102.0)	2,287.0	$512.08	$527.45	$543.27	$565.00	$587.60
% of Revenue	(1.1%)	(0.1%)	2.7%	0.6%	0.6%	0.6%	0.6%	0.6%
Unlevered FCF	8,795.0	9,169.0	6,028.0	7,763.2	7,926.7	7,949.9	8,267.9	8,598.6
Terminal Value								178,909.3
Discount Factor				0.94	0.88	0.83	0.78	0.73
Discounted Cash Flows				$ 7,297.7	$ 7,004.6	$ 6,603.9	$ 6,456.3	$ 137,643.7

Implied Enterprise Value	$ 165,006.3
(-) Debt	34,723
(+) Cash	4,860
(-) NCI	0
(-) Associate Investments	0
Implied Equity Value	$ 135,143.26
Diluted Shares Outstanding	560
Implied equity price	$ 241.33
Current Price (10/30/25)	$ 239.82

Case Analysis		Discount/(Premium)
Implied Price (Base)	241.33	0.6%
Implied Price (Bear)	228.64	(4.7%)
Implied Price (Bull)	283.43	18.2%
Current Price	$ 239.82	

Figure 5: DCF Model

DCF and Comps Overview

After conducting an intrinsic valuation analysis for Lowe's, results indicate that expectations for future growth or slowdowns are accurately priced in. With all three cases (Base, Bear, Bull), yielding similar results, with marginal discounts or premiums paid to the current share price, investors should likely hold off on increasing their portfolio weight in Lowe's. The discount rate used for the analysis was calculated using a WACC of 6.38%, indicative of the lower risk of Lowe's compared to companies in more high-growth industries, but also reflective of its rather large amounts of debt on their balance sheet. Despite that, S&P Global forecasts Lowe's to manage their debt load through decreasing share buybacks and increasing paydowns on principal for existing debt. The terminal growth rate selected was 1.5%, balancing both expectations of future GDP and inflation growth, while recognizing that Lowe's operates in a lower growth sector. In the base case, both modest top line growth and decreasing operating margins still indicate a fair share price that is less than 1% above the trading price as of the 30th of October. On the other hand, a relative valuation analysis indicates that Lowe's is significantly undervalued compared to trading comps of leading competitors. From the broader perspective of large retailers, which often share similar supply chain and consumer headwinds and tailwinds, fair value as a function of P/E and EV/EBITDA soars into the $300s. At the same time, an EV/Revenue perspective yields an alarmingly lower price. When reducing the amount of comparables to direct competitors, namely Home Depot, Floor and Décor, and Haverty Furniture, Lowe's trading comps stand out as showing incredible undervaluation intrinsic to the company. When calculating a fair value under those metrics, the share price comes out to consistently higher than the current trading price, ranging from $260-$340 a share.

Comps Model

	P/E	EV/EBITDA	EV/Revenue	Gross Margin	EBIT Margin	Profit Margin
LOW	20.3x	13.8x	2.1x	33.46%	12.35%	8.18%
HD	26.9x	17.6x	2.7x	33.35%	13.09%	8.86%
FND	38.0x	19.1x	2.1x	43.65%	6.65%	4.59%
HVT	18.3x	10.6x	0.6x	61.04%	2.76%	2.71%
WMT	38.4x	19.4x	1.3x	24.90%	4.18%	3.08%
COST	50.3x	29.8x	1.5x	12.78%	3.75%	2.92%
TGT	10.4x	6.6x	0.5x	27.83%	5.13%	3.72%

Calculations Using Competitors and General Retailers

Low	10.4x	6.6x	0.5x	12.78%	2.76%	2.71%
25th %	20.4x	12.3x	0.8x	25.63%	3.86%	2.96%
Median	32.4x	18.3x	1.4x	30.59%	4.66%	3.40%
75th %	38.3x	19.3x	1.9x	41.08%	6.27%	4.37%
High	50.3x	29.8x	2.7x	61.04%	13.09%	8.86%

Calculations Using Just Direct Competitors (HD, FND, HVT)

Low	18.3x	10.6x	0.6x	33.35%	2.76%	2.71%
25th %	22.6x	14.1x	1.4x	38.50%	4.71%	3.65%
Median	26.9x	17.6x	2.1x	43.65%	6.65%	4.59%
75th %	32.4x	18.3x	2.4x	52.35%	9.87%	6.73%
High	38.0x	19.1x	2.7x	61.04%	13.09%	8.86%

Calculations Using Competitors and General Retailers

Calculations	
Current Cash	4,860
Current ST Debt	4,175
LT Debt	30,548
Total Debt	34,723
Net Debt	29,863
Diluted Shares	560
LTM Net Income	6,840
LTM Revenue	83,610
LTM EBITDA	12,509

Ratio	P/E	EV/EBITDA	EV/Revenue
Multiple	32.4x	18.3x	1.4x
Driver	6,840	12,509	83,610
EV	0	229,165	112,874
(-) Net Debt	0	29,863	29,863
Equity Value	221,719	199,302	83,011
NOSH	560	560	560
Share Price	$395.9	$355.9	$148.2

Calculations Using Just Direct Competitors (HD, FND, HVT)

Calculations	
Current Cash	4,860
Current ST Debt	4,175
LT Debt	30,548
Total Debt	34,723
Net Debt	29,863
Diluted Shares	560
LTM Net Income	6,840
LTM Revenue	83,610
LTM EBITDA	12,509

Ratio	P/E	EV/EBITDA	EV/Revenue
Multiple	26.9x	17.6x	2.1x
Driver	6,840	12,509	83,610
EV	0	219,783	176,417
(-) Net Debt	0	29,863	29,863
Equity Value	183,654	189,920	146,554
NOSH	560	560	560
Share Price	$328.0	$339.1	$261.7

Figure 6: Comparative Companies Model

Assumption Drivers

Case	Base				

Selected Case

	2025	2026	2027	2028	2029
Revenue Growth	2.0%	3.0%	3.0%	4.0%	4.0%
EBIT Margin	12.4%	12.3%	12.0%	12.0%	12.0%
D&A Margin	2.2%	2.2%	2.2%	2.2%	2.2%
CapEx Margin	2.3%	2.3%	2.3%	2.3%	2.3%
Change in NWC	0.6%	0.6%	0.6%	0.6%	0.6%

	1	*2*	*3*	*4*	*5*
Base	2025	2026	2027	2028	2029
Revenue Growth	2.0%	3.0%	3.0%	4.0%	4.0%
EBIT Margin	12.4%	12.3%	12.0%	12.0%	12.0%
D&A Margin	2.2%	2.2%	2.2%	2.2%	2.2%
CapEx Margin	2.3%	2.3%	2.3%	2.3%	2.3%
Change in NWC	0.6%	0.6%	0.6%	0.6%	0.6%

	1	*2*	*3*	*4*	*5*
Bear	2025	2026	2027	2028	2029
Revenue Growth	1.2%	1.3%	1.5%	1.5%	1.5%
EBIT Margin	12.1%	11.7%	11.5%	11.5%	11.5%
D&A Margin	2.2%	2.2%	2.2%	2.2%	2.2%
CapEx Margin	2.3%	2.3%	2.3%	2.3%	2.3%
Change in NWC	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%

	1	*2*	*3*	*4*	*5*
Bull	2025	2026	2027	2028	2029
Revenue Growth	2.9%	3.5%	4.5%	4.5%	4.5%
EBIT Margin	12.5%	13.0%	13.5%	13.5%	13.5%
D&A Margin	2.2%	2.2%	2.2%	2.2%	2.2%
CapEx Margin	2.3%	2.3%	2.3%	2.3%	2.3%
Change in NWC	0.8%	0.8%	0.8%	0.8%	0.8%

Figure 7: Assumption Inputs For Base, Bear, and Bull Bases in The DCF Model