Final Group Project Report

HOME DEPOT VS. LOWE'S

Financial Comparison and Valuation Analysis

Instructor: Professor Michael Vitek
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Group: 17

Name	Email ID
Sharang Mantri	**smantri3@illinois.edu**
Mike Feistel	**feistel2@illinois.edu**
Shreya Ahuja	**shreyaa8@illinois.edu**
Priyanka Chandramohan	**pc45@illinois.edu**

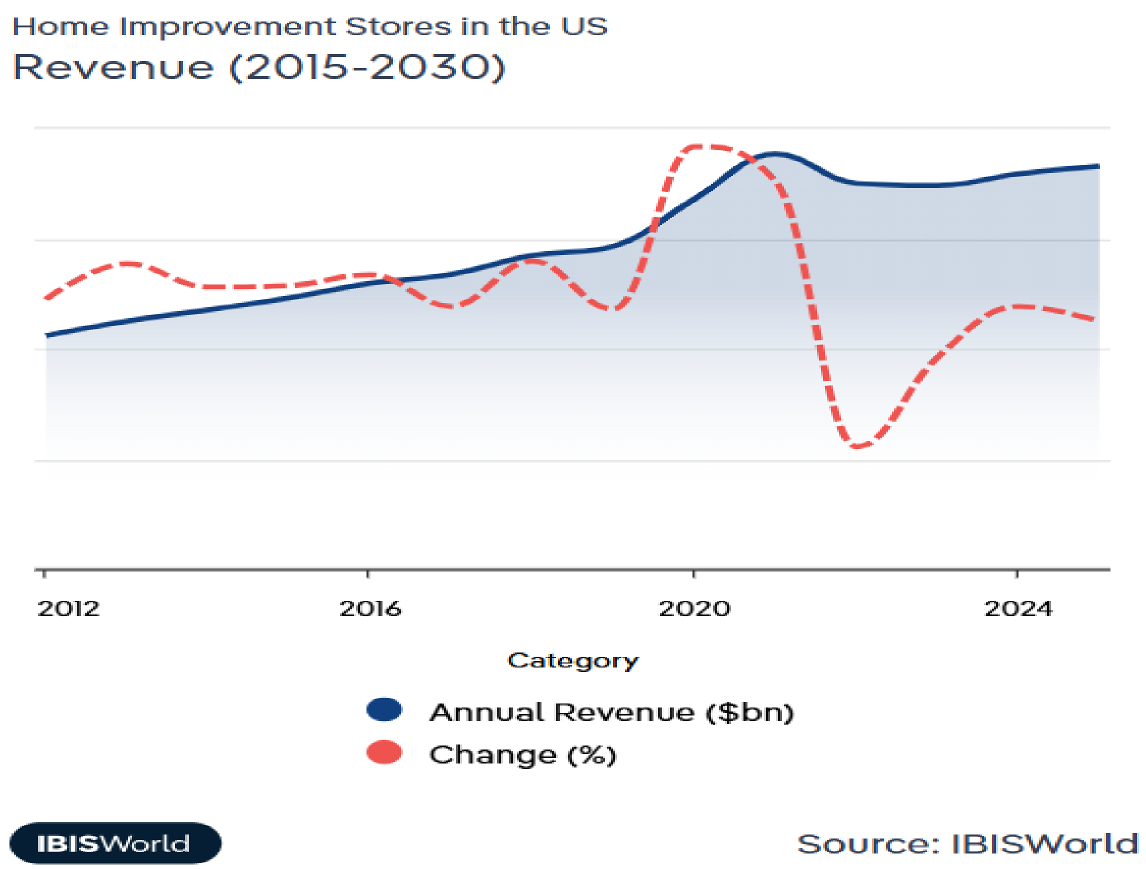
Section 1: Industry and Company Overview

Industry: Home Improvement Retail

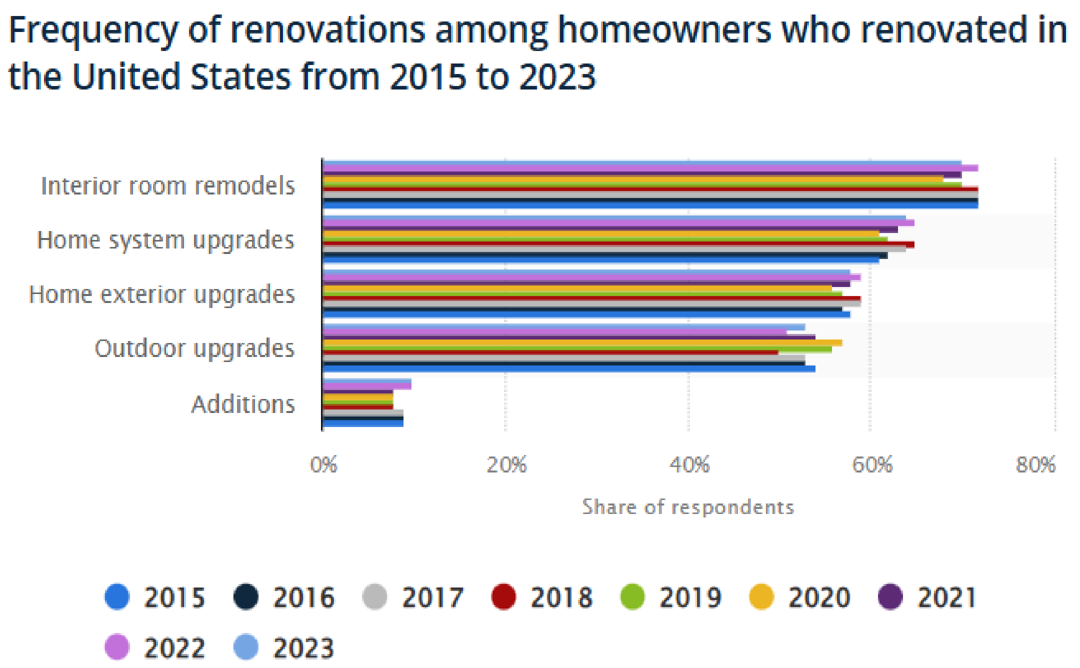
The home improvement industry is growing rapidly as homeowners seek to enhance comfort, functionality, and value through renovations and upgrades. It includes the sale of materials, appliances, furnishings, and services, with stores offering a wide range of repair and maintenance goods such as tools, electrical items, and construction materials, excluding smaller hardware stores. Companies typically source from manufacturers and wholesalers, selling to both DIY consumers and professional contractors.

As a cyclical industry, it is influenced by housing demand, mortgage rates, and broader economic factors. Long-term growth is supported by aging housing stock and increased remodeling activity, with recent trends showing a shift toward Pro customers and integrated e-commerce and omnichannel strategies.

The home improvement retail industry exceeds $500 billion globally, with the U.S. market accounting for over 60% of total revenue. Revenue for home improvement stores is expected to swell at a CAGR of 1.7% to $292.8 billion through the end of 2025, including growth of 1.9% in 2025 alone.



Demand for home improvement continues to rise in response to evolving residential trends. Through the end of 2025, there has been a notable increase in consumers pursuing DIY projects, fueled by the abundance of online tutorials and a growing desire for personalized living spaces. DIY initiatives not only help homeowners reduce labor costs but also provide a sense of achievement and creative control.



Source: Statista.com

The home improvement retail market is evolving rapidly due to consumer preferences and technological advancements. Key growth opportunities include:

1. **E-commerce Expansion** – Investing in robust online platforms, omnichannel strategies, and technologies like AR/VR to enhance the digital shopping experience and customer satisfaction.

2. **Smart Home Technologies** – Expanding product offerings to include smart devices, educating consumers, and forming partnerships with tech firms to attract tech-savvy customers.

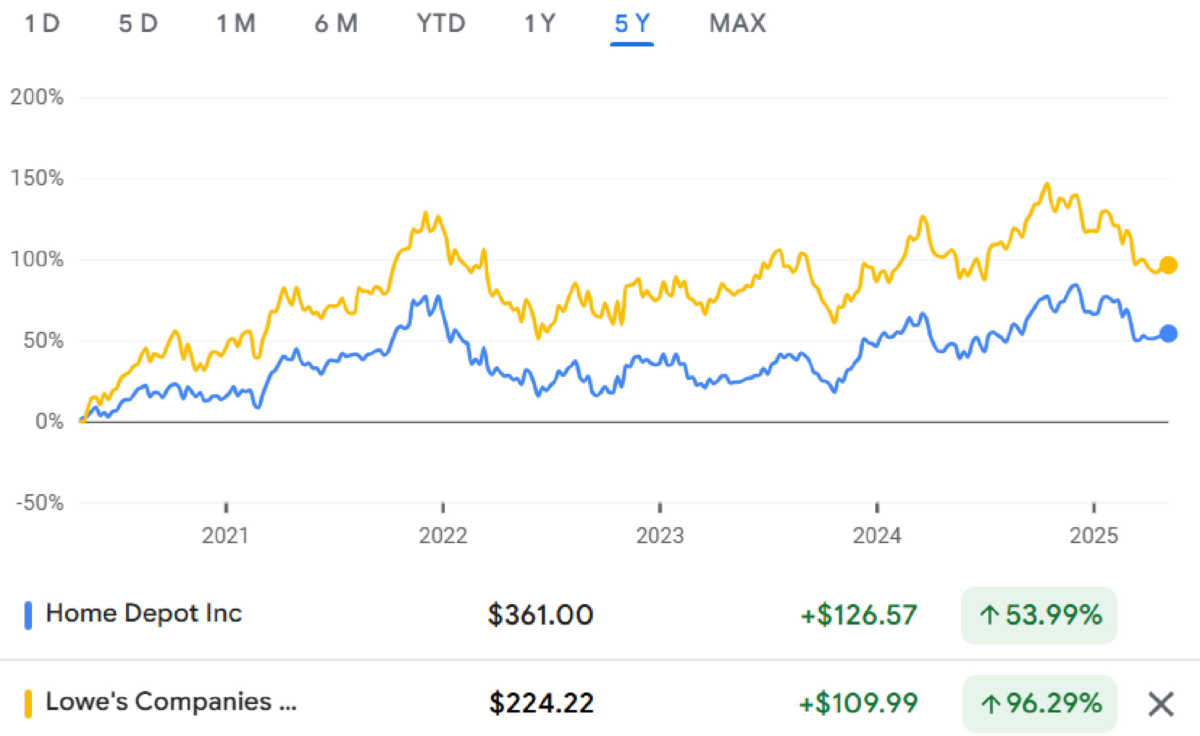
3. **Sustainability** – Offering eco-friendly products, promoting certified brands, and implementing recycling programs to appeal to environmentally conscious consumers and build brand loyalty.

4. **DIY Culture** – Supporting the growing DIY trend with educational content, tutorials, expert advice, and loyalty incentives to encourage repeat business.

5. **Geographic Expansion** – Entering new markets by analyzing local needs, customizing offerings, and forming strategic partnerships to accelerate growth.

These strategies aim to boost customer engagement, diversify product lines, and drive revenue through innovation, sustainability, and targeted expansion.

Home improvement stores form a mature industry dominated by two major companies, Home Depot and Lowe's. Both companies share similar product lines, which fuels high levels of price competition.



Lowe’s Companies, Inc.

Lowe’s Companies, Inc. and subsidiaries (the Company or Lowe’s) is a Fortune 50 company and the world’s second largest home improvement retailer. It was founded in 1921 by L.S. Lowe in North Wilkesboro, North Carolina. It is headquartered in Mooresville, North Carolina. The Company was incorporated in North Carolina in 1952 and has been publicly held since 1961. The Company’s common stock is listed on the New York Stock Exchange - ticker symbol “LOW”.

Product Selection

Lowe’s offers a broad range of home improvement products across categories such as Appliances, Lumber, Flooring, Tools, and Décor, with about 40,000 items in-store and more online. The product mix includes national brands and value-driven private labels, tailored to local markets and customer segments like DIYers and Pros.

Services

Lowe’s provides installation services through contractors for major categories, supported by a central selling team and digital tools for streamlined project management and checkout. Installed sales make up about 5% of revenue. Additionally, Lowe’s offers extended protection plans for various product categories, enhancing post-purchase value and customer peace of mind.

Customers and Market

The home improvement market in which they operate is highly fragmented, serving Pro customers, individual homeowners, and renters completing a wide array of projects that vary along the spectrum of DIY and do-it-for-me (DIFM). The Pro customer at Lowe's is primarily the small to medium sized Pro, which includes three broad categories: tradespeople, repair and remodelers, and property managers.

Supply Chain

Lowe's operates over 120 supply chain facilities, including distribution and fulfillment centers, to efficiently stock stores and deliver to customers. These facilities support fast, flexible delivery—including two-day shipping, same-day delivery for select items, and next-day appliance delivery in most U.S. zip codes. The supply chain is a key pillar of Lowe's Total Home strategy and is continuously optimized for agility, capacity, and sustainability. The five pillars of their Total Home strategy are as follows:

Omnichannel Capabilities

Lowe's offers a seamless omnichannel shopping experience, allowing customers to shop in-store, online, on-site, or through contact centers, with flexible fulfillment options like curbside pickup, home delivery, and touchless lockers. Customers often research online before completing in-store purchases. The company operates 1,748 stores, supported by knowledgeable staff and tools to improve efficiency and service. Online platforms provide 24/7 access to product info, reviews, tutorials, and design tools. On-site specialists and Pro sales managers assist professional and retail customers, while in-home consultations support larger exterior projects. This integrated infrastructure enhances convenience and customer satisfaction across all channels.

The Home Depot, Inc.

Home Depot, Inc., founded in 1978 and incorporated in Delaware, is the world's largest home improvement retailer by net sales for fiscal 2024, with $151.5 billion in revenue. Headquartered in Atlanta, Georgia, the company offers a wide range of building materials, home improvement and décor products, lawn and garden supplies, and MRO (maintenance, repair, and operations) products through both its physical stores and online platforms. It also provides value-added services such as installation and tool and equipment rentals.

As of the end of fiscal 2024, Home Depot operated 2,347 stores across the U.S. (including Puerto Rico, Guam, and the U.S. Virgin Islands), Canada, and Mexico, with each store averaging 104,000 square feet of indoor space and 24,000 square feet of outdoor garden area. Supported by a robust network of distribution and fulfillment centers and multiple e-commerce websites, Home Depot serves a balanced mix of retail and professional customers across North America.

Products and Services
Home Depot stores typically stock 30,000–40,000 items year-round across key departments such as Appliances, Building Materials, Plumbing, Paint, and more, offering both national and proprietary brands. The company enhances its in-store assortment with a broader range of products online through websites like homedepot.com, hdsupply.com, and others catering to specialty needs like window coverings and professional roofing, landscaping, and pool supplies.

Home Depot emphasizes product innovation, localization, and value while investing in data-driven tools to refine assortments and improve customer experience. Complementing its merchandising strategy, it offers installation services and tool/equipment rentals across the U.S. and Canada, with ongoing investments to expand these services and improve supporting technology.

Customer Segments

1. **DIY Customers**
   Homeowners who complete their own projects. Home Depot supports them through knowledgeable staff, online resources, workshops, and educational content. The company continues to invest in tools and services to meet their evolving needs.

2. **Professional Customers (Pros)**
   These include contractors, remodelers, tradespeople, and facility managers. Home Depot supports them with tailored services like the Pro Xtra loyalty program, Pro House Account, dedicated sales teams, large-order fulfillment, and a wide product assortment. The 2024 acquisition of SRS expands offerings to specialty trade professionals. HD Supply serves MRO customers in commercial and institutional sectors.

3. **DIFM Customers**

Homeowners who hire professionals to handle installations. Home Depot offers in-store, online, and in-home consultation services across multiple product categories. Focusing on supporting Pros also helps drive product sales to this segment.

Supply Chain

Home Depot invests in its supply chain to ensure fast, reliable delivery and product availability. It uses specialized distribution centers and stores as fulfillment hubs to offer same-day or next-day delivery, especially for appliances and large items.

Online orders are supported through services like BOPIS, BOSS, and curbside pickup, with about 50% of U.S. online orders fulfilled from stores. These capabilities give Home Depot a strong logistical edge in home improvement retail.

Interconnected Shopping Experience

Home Depot blends its physical and digital platforms to create a seamless customer journey. It focuses on convenience from product discovery to purchase and after-sales support. Continued investments aim to enhance this unified experience.

1. **Digital Experience**
   Enhancements to websites and mobile apps improve product search, navigation, and checkout. Customers often research online before buying in-store or vice versa. Personalized features and mobile-friendly tools serve both DIYers and Pros.

2. **Store Experience**
   Stores are central to operations, supported by improvements like better signage, curbside pickup, and expanded self-checkout. New stores are being added in high-growth areas. Store-specific mobile maps guide customers to exact product locations.

3. **Associate Productivity**
   Associates use “hdPhones” and Sidekick apps to track inventory and prioritize tasks efficiently. Technology streamlines workflows so staff can focus more on customers. Inventory systems help maintain product availability on shelves.

SRS Acquisition

On March 27, 2024, Home Depot entered into a definitive agreement to acquire SRS, a leading residential specialty trade distribution company serving roofing, landscaping, and pool contractors across multiple verticals. The acquisition was completed on June 18, 2024, following the satisfaction of closing conditions and receipt of regulatory approvals.

With over 780 branch locations in the U.S., SRS strengthens Home Depot’s position as a major distributor in the specialty trade market, complementing its existing capabilities. This acquisition is expected to accelerate Home Depot's growth with professional customers, establishing it as a leading specialty trade distributor and enhancing its ability to serve complex project needs for renovators and remodelers.

Despite its operations across multiple countries, Home Depot reports as a single geographic segment, consolidating its efforts to better serve both retail and professional customers.

Section 2: Normalized Income Statements & ROIC

Unless mentioned explicitly all $ numbers for Normalization, DCF, multiple parts are in millions of USD ($).

Explanation of Normalization

To compare performance accurately across fiscal years and between firms, we normalized each income statement by removing one-time or non-operational items.

- **Lowe's**: They sold their Canadian retail business in Nov'22 and as part of agreement they receive add-ons from time to time, when certain performance measures are triggered and since it's not part of their organic or continuous income, we adjusted that in both FY2023-24, FY2024-25.

- **Home Depot**: Adjusted for integration costs and one-time expenses related to the 2024 acquisition of SRS Distribution.
  In 2023-24 we adjusted for early debt repayment by the company and any benefits/expense related to that.

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- For both Home Depot and Lowe's, we also adjusted some of D&A which was included in COGS back to D&A to get better picture of Gross Margins and D&A as % of revenue

- For ROIC calculation it's worthwhile noting that both companies provide their own ROIC calculation, which is slightly higher than ours as both include lease expenditure as non-operating and use that to inflate their ROIC, which we think for all purposes is not ideal

Lowe's Normalized Income Statement (in millions)

Lowe's Normalized Income Statement for the FY 2024-25:

Lowe's FY 2024-25 Normalized Statement	Reported ($)	%	Depreciation Expense	Canadian Store Sales	Normalized	%
Revenue	$83,674.00	100.00%			$83,674.00	100.00%
COGS	$55,797.00	66.68%	$(243.00)		$55,554.00	66.39%
Gross Margin	**$27,877.00**	**33.32%**			**$28,120.00**	**33.61%**
SG&A	$15,682.00	18.74%		$240.00	$15,922.00	19.03%
Depreciation & Amortization	$1,729.00	2.07%	$243.00		$1,972.00	2.36%
Total Operating Expenses	**$17,411.00**	**20.81%**			**$17,894.00**	**21.39%**
Operating Income	$10,466.00	12.51%			$10,226.00	12.22%

Lowe's FY 2024-25 Normalized Statement	Reported ($)	%	Depreciation Expense	Canadian Store Sales	Normalized	%
Pretax Income	**$9153**				**$8,913.00**	
Income Taxes	$2196			$(42.00)	$2,154.00	
Adjusted Net Income	**$6957**				**$6,759.00**	
Effective tax rate	23.99%				**24.17%**	

Lowe's Normalized Income Statement for the FY 2023-24:

Lowe's FY 2023-24 Normalized Statement	Reported ($)	%	Depreciation Expense	Canadian Store Sales	Normalized	%
Revenue	$86,377.00	100.00%			$86,377.00	100.00%
COGS	$57,533.00	66.61%	$(206.00)		$57,327.00	66.37%
Gross Margin	**$28,844.00**	**33.39%**			**$29,050.00**	**33.63%**
SG&A	$15,570.00	18.03%		$63.00	$15,633.00	18.10%
Depreciation & Amortization	$1,717.00	1.99%	$206.00		$1,923.00	2.23%
Total Operating Expenses	**$17,287.00**	**20.01%**			**$17,556.00**	**20.32%**
Operating Income	$11,557.00	13.38%			$11,494.00	13.31%
Pretax Income	$10,175.00				$10,112.00	
Income Taxes	2449			$1.00	$2,450.00	
Adjusted Net Income	**7726**				**$7,662.00**	
Effective tax rate	24.07%				24.23%	

- In FY2024-25 Lowe's saw a decline in revenue compared to FY2023-24 by 3.13%

- While gross margins also declined by 20 basis points YoY while operating income decreased by 109 basis points YoY
- NI to equity holders for the FY2024-25 was 6,759 million compared to 7,662 million previous years
- Effective tax rate for FY2024-25 was 24.17% and for the year before that was 24.23%

ROIC Lowe's FY 2024-25: (All detailed calculations are in MS Excel)

- Net Income to all Stakeholders: $7,754.69
- IC 24-25: $26931
- IC 23-24: $26764
- Avg IC: $26,847.50
- Revenue: $83,674.00
- Profit Margin: 9.268%
- Asset Turnover: 311.664%
- **ROIC: 28.88%**

Home Depot Normalized Income Statement (in millions)

Home Depot's Normalized Income Statement for the FY 2024-25:

Home Depot FY 2024-25 Normalized Statement	Reported ($)	%	Depreciation Expense	Intangible Amortization	Normalized	%
Revenue	$159,514.00	100.00%			$159,514.00	100.00%
COGS	$106,206.00	66.58%	$(302.00)		$105,904.00	66.39%
Gross Margin	$53,308.00	33.42%			$53,610.00	33.61%
SG&A	$28,748.00	18.02%			$28,748.00	18.02%
Depreciation & Amortization	$3,034.00	1.90%	$302.00		$3,336.00	2.09%
Total Operating Expenses	$31,782.00	19.92%			$32,084.00	20.11%
Operating Income	$21,526.00	13.49%		$425.00	$21,951.00	13.76%
Pretax Income	$19,406.00				$19,831.00	
Income Taxes	$4,600.00			$(107.00)	$4,493.00	
Adjusted Net Income	$14,806.00				$15,338.00	

Home Depot FY 2024-25 Normalized Statement	Reported ($)	%	Depreciation Expense	Intangible Amortization	Normalized	%
Effective tax rate	23.70%				**22.66%**	

Home Depot's Normalized Income Statement for the FY 2023-24:

Home Depot FY 2023-24 Normalized Statement	Reported ($)	%	Depreciation Expense	Intangible Amortization	Normalized	%
Revenue	$152,669.00	100.00%			$152,669.00	100.00%
COGS	$101,709.00	66.62%	$(574.00)		$101,135.00	66.24%
Gross Margin	$50,960.00	33.38%			$51,534.00	33.76%
SG&A	$26,598.00	17.42%			$26,598.00	17.42%
Depreciation & Amortization	$2,673.00	1.75%	$574.00		$3,247.00	2.13%
Total Operating Expenses	$29,271.00	19.17%			$29,845.00	19.55%
Operating Income	$21,689.00	14.21%			$21,689.00	14.21%
Pretax Income	$19,924.00			$(58.00)	$19,627.00	
Income Taxes	$4,781.00			$14.00	$4,795.00	
Adjusted Net Income	$15,143.00				$14,832.00	
Effective tax rate	24.00%				**24.43%**	

- Home Depot saw a revenue growth of 4.48% for the year FY2024-25 compared to FY2023-24
- While Gross margins saw a decline of 15 basis points YoY, saw a decline of 45 basis points YoY
- NI to equity holders for the FY2024-25 was 15,338 million compared to 14,832 million previous years

- The effective tax rate for FY2024-25 was 22.66% and the year before that was 24.43%

ROIC Home Depot FY 2024-25: (All detailed calculations are in MS Excel)

- Net Income to all Stakeholders: $16,977.68
- IC 24-25: $72,356.00
- IC 23-24: $55,883.00
- Avg IC: $64,119.50
- Revenue: $159,514.00
- Profit Margin: 10.643%
- Asset Turnover: 248.776%
- **ROIC: 26.48%**

Remarks

- Lowe's has a better ROIC (28.88%) compared to Home Depot (26.48%)
- It's worthwhile noting that Home Depot has a slightly better Profit Margin compared to Lowe's, Lowe's compensate it more than enough to have better ROIC through its much better asset turnover compared to Home Depot

Section 3: DCF Valuation

For Both DCF Models

- Risk Free Rate (10-Y treasury), Debt/Capital, Stock price are based on EoD prices for Friday, April 25, 2025
- Beta, Equity risk premium, k(d) taken from Bloomberg for same EoD
- Cash, debt, diluted number of common equities taken from latest 10-K filling

Lowe's DCF Assumptions

Base Year Revenue (FY24-25): $83,674 million

Lowe's management provided two guidance a base case and a bull case for both current financial year and beyond that also separately, below are the following assumptions

Base Case (Operating Scenario 1 in Excel in Sheet "Assumptions")

- Revenue to Remain flattish with expected growth of 1% for current financial year and beyond that company expects an uptick in economy and an average CAGR growth of 3% in base scenario, which was incorporated in the model

- The company expects Gross margins to remain flattish/similar with respect to the previous year, and they were kept constant based on normalized statement at 33.6% for the model

- For Fy25-26 company expects an operating margin of 12.4% and after that they expect an improvement in operating margin by 30 basis point per year which was included in model with improvement in SG&A and CapEx as % of revenue

Bull Case (Operating Scenario 2 in Excel in Sheet "Assumptions")

- Revenue to grow at a rate of 4% for the current financial year and beyond that at rate of 5%, for bull economy before returning to base of 3% which was incorporated in the DCF model

- Even in bull scenario the company expects Gross margins to remain flattish/similar with respect to the previous year, and they were kept constant based on normalized statement at 33.6% for the model

- For FY25-26 the company expects an operating margin of 12.7% and after that they expect an improvement in the operating margin by 50 basis points per year which was included in the model with improvement in SG&A and CapEx as % of revenue

Common Points for both Base and Bull Scenario

- Company management expects a CapEx of $2.5 billion in FY 2025-26, which was incorporated in model as % of revenue and for later periods CapEx as % of revenue was incorporated by looking at previous years CapEx where it has been between $2 billion to $2.5 billion per year on an absolute basis and the same was incorporated in the DCF model

- Company states that they have deprecation going ranging from 12 – 45 years and therefore we selected a D&A schedule of 20 years for our model based on observing D&A/Rev ratio for previous years

- Company doesn't have any Goodwill on its balance sheet and therefore no Amortization cost

- The company also provided that they expect an effective tax rate for the current year to be 25%

- Net PP&E was taken from 10-k

Data Points

- **Working Capital / Revenue = 3.7%** (WC/Rev was observed for FY 21, 22, 23, 24, to observe its movement with economic cycle, as home improvement and building depends on economic cycle and therefore WC/Rev was taken as avg WC/Rev for the four FY observed)

- Diluted Shares Outstanding: 568 million
- Cash: 1,761 million
- Debt: 35,487 million
- Risk-Free: 4.23%
- Equity Risk Premium: 4.47%
- Beta: 0.872
- K(e): 8.182%
- K(d): 4.40%
- Tax Rate: 25%
- Debt/ Capital: 22%

Using all this we calculated WACC to be 7.06%

- **Terminal Growth Rate: 0.75%** (We used terminal growth rate of just 0.75% as it's a very matured business with heavy reliability of revenue from US only, and considering a US GDP is expected to have terminal growth of 1.5-2% it is fair to have growth of 0.75% only for fairly matured business)

- **ROIC: 28.88%** (Calculated for FY2024-25, along with normalized statement)

Valuation Results

- Market Price: $220.91
- Price Base Case per DCF: $234.04 (Upside of 5.95% from the Market Price)
- Price Bull Scenario per DCF: $282.25 (Upside of 27.77% from Market Price)

Home Depot DCF Assumptions

- **Base Year Revenue (FY2024-25)**: $159,514 Million
- Home Depot had a FY2024-25 of 53 weeks thus making revenue growth for further years elevated by a bit thus increasing the intrinsic value of share calculated from the model by a bit too

Home Depot management provided guidance for FY2025-26 only, beyond that we used market consensus and industry growth expectation to make our DCF model

Assumptions

- Management expects revenue growth of 2.8% for the current financial year, after that we gave it growth of 3.5% for next year, 4.5% for 3 years beyond that and 4% beyond that, Home Depot was provided with better growth in base scenario compared to Lowe's accounting for their better performance in professional segment for home improvement and their market leading position compared to Lowe's

- The company expects Gross Margins to be around 33.4%, which gradually improved to 35.25% over 10 years in the model, accounting for synergies from their recent acquisition and overall cost improvement as % of revenue overtime

- Management Expects Operating margin for current fiscal year to be around 13.4% as % of revenue on adjusted basis which was gradually increased to 16.4% over the course of 10 years accounting for improvement in SG&A as % of revenue and Capex as % of Revenue, (based on historical data capex in $ terms for Home depot is also between a range, therefor is expected to be same which will improve in % of revenue)

- For current year management expects Capex to be 2.5% of revenue, higher than average accounting for capital usage for integrating the new acquired company in FY2024-25, beyond that we have used how $ number of company's Capex has varied over years, which is almost 3.3 to 4 billion per year and therefore Capex as % of revenue was selected such that, it reflects the same throughout the model

- Company states that they have deprecation going ranging from 12 – 45 years and therefore we selected a D&A schedule of 20 years for our model based on observing D&A/Rev ratio for previous years

- The company has provided Amortization schedule explicitly till year 2029 in 10-k, beyond that they provide combined number, therefore we kept the same number as 2029 for year beyond that for amortization in our DCF model (Remaining Amortization number was very high, 5669 million to be precise to incorporate in remaining years, for all practical purposes)

- The company also provided that they expect an effective tax rate for the current year to be 24.5%

- Net PP&E was taken from 10-k

Data Points

- **Working capital / revenue = 4.5%** (WC/Rev was observed for FY 21, 22, 23, 24, to observe its movement with economic cycle, as home improvement and building depends on economic cycle and therefore WC/Rev was taken as avg WC/Rev for the four Fy observed, Home depot has higher WC/Rev than Lowe's accounting for their more heavy presence in professional customers)

- Diluted Shares Outstanding: 993 million
- Cash: 1,659 million
- Debt: 53,383 million
- Risk-Free: 4.23%
- Equity Risk Premium: 4.53%
- Beta: 0.88
- K(e): 8.218%
- K(d): 4.10%
- Tax rate: 24.5%
- Debt/Capital: 13%

Using all this we calculated WACC to be 7.55%

- **Terminal growth Rate: 0.75%** (We used terminal growth rate of just 0.75% as it's a very matured business with heavy reliability of revenue from US only, and considering US GDP is expected to have terminal growth of 1.5-2% it is fair to have growth of 0.75% only for fairly matured business)

- **ROIC: 26.48%** (Calculated for FY2024-25, along with normalized statement)

Valuation Results:

- Market Price: $357.58
- DCF Value per Share: $318.80
- Downside of 10.85%

Section 4: Valuation Multiples & Final Recommendation

- Multiple Calculation can be found in DCF excel in sheet named "Multiples"

- For Lowe's changing the scenario changes the Est. ROIC calculation in the sheet automatically

- We used CapIQ to find estimated EPS and EBITDA for both companies. Since their financial end in January, the next financial year 2025-26 is listed as 2026 for both companies in CapIQ

- We used the following formula for

  EV = EoD market Price of share * Diluted number of Shares + Debt – Cash

- For estimating invested capital for FY2025-26 we used the following formula

  IC (2025-26) = IC (2024-25) + Capital Expenditure + Addition to Working Capital – Depreciation & Amortization

	Lowe's	Home Depot
Price	$220.91	$357.58
EPS	$12.30	$15.06
EV	$159,202.88 mil	$406,800.94 mil
EBITDA	$12,343.21 mil	$25,544.40 mil
P/E	**17.96**	**23.74**
EV/EBITDA	**12.89**	**15.92**

	Lowe's Base Case	Lowe's Bull Case	Home Depot
IC FY24-25	$26,931	$26,931	$72,356
Est. IC FY25-26	$27,689.65833	$28,119.88566	$73,355.47433
Avg IC	$27,310.32916	$27,525.44283	$72,855.73717
Est NI to all Stakeholders	$7,866.51706	$8,304.34391	$16,573.72773
Est Rev	$84,510.74	$87,020.96	$163,980.39
Est. Profit Margin	**9.308%**	**9.543%**	**10.107%**
Est. Asset Turnover	**309.446%**	**316.147%**	**225.075%**
Est ROIC FY25-26	**28.80%**	**30.17%**	**22.75%**

Interpretation

Both Lowe's & Home Depot are excellently established profit-generating businesses earning at a rate above their WACC, thus making them excellent businesses, despite that we observe the following:

- Lowe's trades at a 24% discount on P/E and a 19% discount on EV/EBITDA compared to its peer Home Depot
- Lowe's expected ROIC for base case is 26.6% higher for the FY2025-26 compared to Home Depot, highlighting more efficient and profitable capital deployment.
- While Home Depot is slightly better in terms of profit margin compared to Lowe's; Lowe's more than make up for it through their Asset turnover for a higher ROIC
- It's worthwhile to note Home Depot has lower estimated ROIC compared to 2024-25 due to their acquisition of SRS distribution, raising their Invested Capital heavily
- DCF valuation shows Lowe's to have an upside of 5.95% in base case & 27.77% in bull case while Home Depot shows a downside of 10.85%
- It seems Home Depot being market leader in the segment in both Revenue and Net Income commands higher multiple, compared to its peers, still it seems their valuation is stretched right now

Final Recommendation

We recommend **buying Lowe's** based on:

- Higher ROIC
- Lower valuation multiples
- Conservative DCF indicating fair value is higher than market price

Home Depot is an excellent company but currently priced above intrinsic value. Lowe's offers a more compelling investment based on fundamentals.

Attachments:

- Normalized Income Statements (2023–2024)
- Lowe's and Home Depot DCF Models
- ROIC & Valuation Multiples Calculations