Street Takeaways - JC Penney CEO Ellison resigning to become Lowe's CEO
Tuesday, May 22, 2018 06:06:18 PM (GMT)

- **Overview:**
  - Shares of JCP are trading off (4.8%) while shares of LOW are off (0.9%) vs the Consumer Discretionary's (0.2%) move lower today, following the announced resignation of JC Penney's Chairman and CEO, Marvin Ellison, to pursue the President/CEO role at Lowe's Companies. Mr. Ellison will remain a director and CEO through 1-Jun, he will step down from his position as chairman of the board effective immediately. JC Penney has elected current Lead Independent Director, Ronald Tysoe, as Chairman of the Board and has created an Office of the CEO with the current CFO/CIO-Chief Digital Officer/Chief Customer Officer/EVP of Supply Chain sharing equal responsibility for the company's day-to-day operations until a new CEO is appointed.
  - While likely a near-term execution/operational headwind for JCP and it appears the JCP board was largely unaware of Mr. Ellison's intentions due to his involvement in last week's earnings conference call, that said, analysts did point to the scoreboard during his tenure that was not necessarily met with much positive investor follow through, as shares were at $8 when he took over, went to $12, and now rest just above $2. Firms suggested that was largely a product of secular challenges in a difficult department store environment and were constructive towards his initiatives, but the marriage between Mr. Ellison and JCP was expected to end, sooner than later, per notes.
  - For LOW, some firms suggested the move was largely expected given Mr. Ellison's extensive home industry experience and is seen as a positive catalyst for LOW shares as well as a better fit than at JCP. Coupled with, what some firms called an overlooked appointment of Richard Dreiling as Chairman of the Board, firms were quite upbeat on the new management team in place at Lowe's. Analysts look for more incremental color on tomorrow morning's earnings call and further detail on specific initiatives, likely at Lowe's mid-December Investor Day event. Notes were a bit mixed on the overall impact vs HD as while improvement is expected given Mr. Ellison's/Mr. Dreiling's track records, it wasn't quite clear if analysts expect the gap to Home Depot to be closed all that significantly.
- **Analyst Commentary:**
- **JCP:**
  - **Gordon Haskett** analyst Chuck Grom
    - For JCP, given Mr. Ellison had been groomed under former CEO for over a year before taking over for Ron Johnson, suggests it's hard to construct the news as a positive development and adds that it's pretty evident the Penney board was unaware of Mr. Ellison's plans to leave last week with him so involved in the Q1 conference call.
    - That said, given the scoreboard during his tenure at JCP not being pretty with the company continuing to struggle on the apparel front, it was becoming clearer, in their view, that the marriage needed to come to an end and sooner rather than later. Remains Hold-rated on JCP.
    - For LOW, the move appears logical for both parties and was clearly the consensus choice for LOW. While closing the productivity gap with HD will be no small feat, sees the announcement as a favorable development; furthermore, and perhaps, slightly overlooked, the company named Richard Dreiling, previously CEO of Dollar General, its Chairman of the Board; remains Accumulate rated on shares of LOW with a $102 price target.
  - **Piper Jaffray** analyst Erinn Murphy
    - They are concerned around increased execution risk in the near-term and the resignation, coupled with inconsistent execution over the past year, raises risk to the turnaround story, in their view.
    - They note that Mr. Ellison last purchased JCP stock in the open market during August '17.
    - In their quick catch up with JCP IR, notes that IR mentioned that Ron Tysoe was the closest aligned with Mr. Ellison on the strategy set forth, though they do add that Mr. Tysoe is not a permanent solution.
    - While they believed the turnaround initiatives under Mr. Ellison were unique and made in an effort to be less susceptible to Amazon, they ultimately see secular dynamics as the

more powerful driver for shares; also believes an exceptionally strong macro backdrop has aided results over the past few quarters. They believe the Street's estimates for department stores in CY19 are set too high considering Bon-Ton closures and AMZN share gains within softlines.
    - Remains Neutral rated with a $3.00 target.
- **LOW:**
  - **RBC Capital Markets** analyst Scot Ciccarelli
    - Points to the somewhat mixed levels of success for Mr. Ellison, but highlights his strong home improvement experience aided by their belief that the home improvement industry is a much better industry vs department stores.
    - They think there are several changes Lowe's can implement to improve both their absolute and relative performance levels, including changes in labor structure, marketing, and improvement in some Pro-oriented service categories, though they do believe the performance difference between LOW and HD is more structural in nature.
    - As a result, while they do believe Mr. Ellison can help improve certain operating aspects of the business, especially due to his vast experience in retail/home improvement, they still believe there are major structural differences between the two companies that will likely limit the amount of 'catch-up' that Lowe's can make vs HD.
    - Is Outperform rated with a $101 target.
  - **Telsey Advisory Group** analyst Joseph Feldman
    - Views Mr. Ellison as having the right combination of home improvement knowledge and CEO experience to take on the challenge of leading Lowe's and given the focus on home, the role at Lowe's seems to be a better fit for him.
    - Thinks Mr. Ellison's experience at HD should allow him to implement some of the company's best practices at Lowe's, particularly on merchandising, labor management, Pro services, and supply chain, helping narrow the gap with HD on both sales growth and profitability; also believes Lowe's will continue to invest in e-commerce to keep pace with HD and Mr. Ellison's role on FedEx's board could help strengthen Lowe's supply chain/omnichannel capabilities.
    - Maintains their Outperform rating and $110 target as they expect the transition to be well received by investors and should prove to be an inflection point toward improved operational execution; Believes LOW is well positioned to capitalize on strong housing trends over the next few years.
  - **Wells Fargo** analyst Zachary Fadem
    - Given Mr. Ellison's well regarded track record at HD, believes the announcement was widely expected by investors and likely to be viewed favorably; views additional changes to LOW management as likely and expects his agenda to include operational improvement at LOW across its stores, supply chain/go-to market strategy, which they expect to be highlighted at Lowe's Investor Day in mid-December.
    - View's the announcement as a positive catalyst for shares and the first step in what they believe to be a likely multi-year turnaround at LOW; based on their analysis, calculates an least $900M in cost savings opportunities and sees potential for 25-35% shares upside over 2-3 years assuming the low end of 2-3 points of EBIT margin improvement and 2-3x P/E turns.
    - On Richard Dreiling, given his experience and significant role in DG's supply chain initiatives, sees the opportunity for involvement to improve LOW's supply chain efficiency.
    - Reiterates Outperform rating and $100 target and looks for more incremental color on their earnings conference call tomorrow morning.

Industries: Retail (Department & Discount), Retail (Home Improvement)
Primary Identifiers: HD-US, JCP-US, LOW-US
Related Identifiers: HD-US, JCP-US, LOW-US
Subjects: Street Takeaways, Street Takeaways - Other
Related Stories:
- JC Penney announces resignation of Chairman and CEO Marvin Ellison