



Lowe's Companies, Inc.

LOW SLOW GROW

Amid soft housing market and moderate consumer spending, Lowe's continuing to position well, following their beating of expectation Q2 earnings, strengthen in the pro market through expansions, and macro tailwinds. **We initiate \$LOW with a Buy rating and a 12-month price target of \$305**

Thesis Point 1

Lowe's announced the \$8.8 billion acquisition of Foundation Building Materials (FBM), a "transformational move" for advancing the Total Home Strategy and boosting long-term shareholder value. FBM, a leading North American distributor of interior building products (drywall, metal framing, ceiling systems, insulation), operates 370 stores across the US and Canada, generating \$6.4 billion in revenue and \$635 million in adjusted EBITDA with 25-30% CAGR. This positions Lowe's as a full-service partner to professional contractors while closing its competitive gap with Home Depot in the Pro market. Though Lowe's significant revenues are from individual consumers (B2C), the FBM acquisition strengthens its pro-consumer (B2B) segment through expanded capabilities, faster fulfillment, improved digital tools, trade credit platforms, and cross-selling opportunities alongside its other expansions.

Thesis Point 2

The soft housing market has weighed down retailers in recent years, early signs of a housing market rebound supported by macro forces seem likely. UBS evidence lab survey indicates US homeowners show cautious but steady interest in home improvement projects, suggesting early demand recovery with over 2,000 adults surveyed finding 59% showing interest in home improvement, marking a positive shift for the sector. The anticipated Federal Reserve's rate cuts are also tailwinds as it is expected to stimulate housing market status due to lower borrowing costs, improvement of mortgages, and other refinancing activities. Cuts of 25-basis points, described by Fed Chair Jerome Powell as a "Risk Management" amid a slowing labor market. Historically, such policies favor rate declines and easier credit conditions, encouraging homeowners to move or reinvest in their properties, capturing early tailwinds in both DIY and Pro segments.

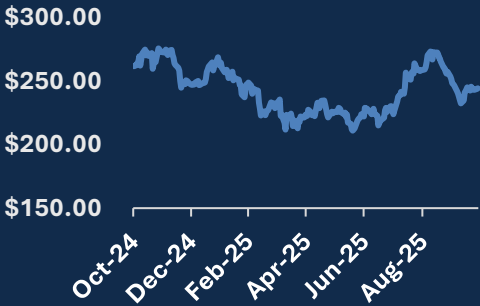
Company Overview

Founded in 1921 Lowe's Companies, Inc. is a Fortune 50 public trading company and the world's second-largest home improvement retailer, helping customers solve problems and fulfill dreams for their homes. Operating 1,748 stores across the US as of 2025, Lowe's provides a wide range of products for home maintenance, repair, remodeling, catering to all consumers from contractors to individual homeowners, whether DIY projects or Pros. Following an omnichannel business model supported by its large retail footprint, established supply chains, and a very drastic growing digital platform with 7.5% growth in online sales in Q2, Lowe's valuation looks attractive as it trades at a discount to Home Depot, despite transformative growth initiatives such as "Total Home Strategy".

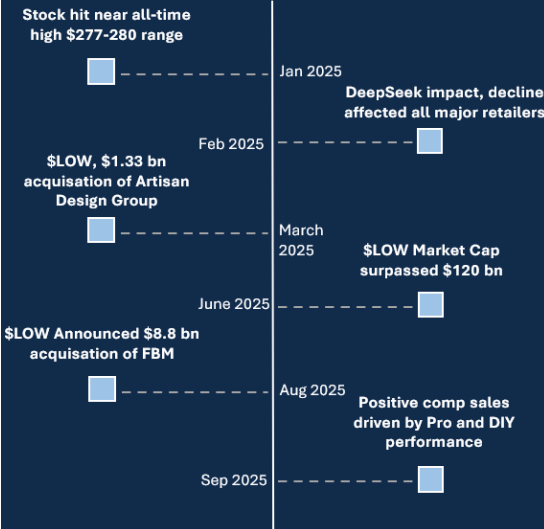


TICKER:	\$LOW
RATING:	BUY
PRICE:	\$240.03
PRICE TARGET:	\$305
MARKET CAP:	\$134.4bn
52-W RANGE:	\$206.39 - \$280.64
P/E:	20.0x
IMPLIED UPSIDE:	28.10%

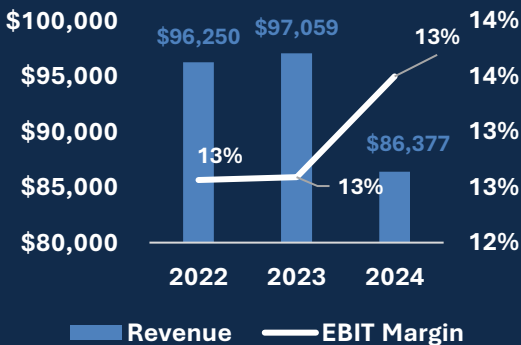
1 Year Price History



Recent Events Timeline



Revenue



Risk 1 The \$8.8 billion acquisition of FBM, assuming the opportunity for Lowe's to expand into the pro segment, carries significant execution risk. Integration and operational challenges could distract management and delay growth. Additionally, the pro segment may face headwinds from macro factors, stimulating Lowe's to struggle in closing the competitive gap with competitors such as Home Depot in this segment slower than expected.

Risk 2 Macro headwinds may put major pressure on Lowe's platform, as it is dependent on the health and well-being of the general economy. Lowe's sources a significant portion of products from international manufacturers, with China being dominant. Recent changes in tariffs and trade policies could strain consumer demand, with long-term macro consequences including slower growth and inflation. Lowe's may not be able to adjust prices to sufficiently offset costs without negatively impacting growth and consumer demand. Higher costs could compress Lowe's EBIT margin growth, potentially pressuring their attempts to capitalize on the housing market recovery.

Catalysts Upcoming quarterly earnings reports are a major catalyst, as they may demonstrate early integration success with the FBM acquisition. This would signal the strategic benefit of Lowe's Total Home Strategy, as the acquisitions are materializing. Additionally, if Lowe's exceeded expectations of its penetration into the pro segment as market share gains against Home Depot, this could drive investor confidence in Lowe's ability to close the competitive gap.

Valuation

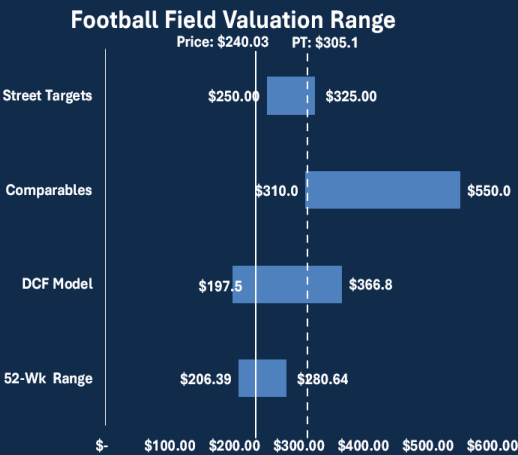
DCF Analysis (\$mm)							
	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/24	12/31/25	12/31/26	12/31/27	12/30/28	12/30/29	12/31/30
Revenue	83,674	85,000	90,950	96,634	101,949	106,792	111,064
Revenue Growth	-3%	2%	7%	6%	6%	5%	4%
Sales Revenue	83,674	85,000	90,950	96,634	101,949	106,792	111,064
EBIT	10,643	11,050	12,278	13,166	14,018	14,817	15,549
EBIT Margin	13%	13%	14%	14%	14%	14%	14%
Tax Expense	2,196	2,210	2,456	2,650	2,839	3,019	3,188
Effective Tax Rate	21%	20%	20%	20%	20%	20%	21%
NOPAT	8,447.00	8,840.00	9,822.60	10,516.69	11,179.37	11,798.33	12,361.37
D&A	1,972	2,125	2,228	2,440	2,651	2,857	3,054
Capex	1,927	4,250	4,548	4,228	3,823	3,337	2,777
Changes in NWC	(617)	680	728	821	918	1,015	1,111
UFCF	9,109	6,035	6,776	7,908	9,089	10,303	11,528
PV of FCF		6,000	6,471	7,050	7,564	8,003	8,359

Our DCF model assumes revenue growth at a CAGR of 5.1% over 5 years with an exit multiple of 12.0x EV/EBITDA, as Lowe's benefits from steady housing market recovery and growth after the FBM acquisition driving Pro market growth under CEO Marvin Ellison's vision for Lowe's long-term sustainable growth through his "Total Home Strategy". We project EBIT margins growth of 12.7% in FY2024 to 13.8% by FY2028, reflecting revenue recovery. Our projection represents approximately a 28% upside from current, supported by housing market tailwinds, successful in FBM integration, and long-term sustainable growth.

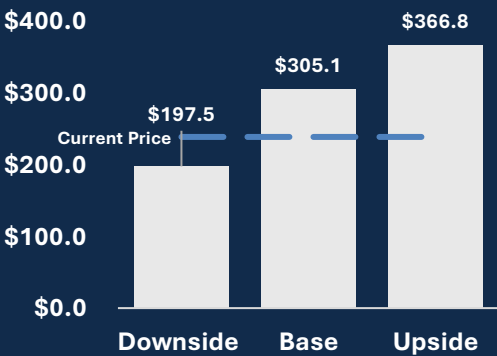
Conclusion We rate Lowe's, a BUY, given their effort to margin expansion through the Pro segment with initiative growth plan strategy for their company with major acquisition such as of FBM. Lowe's omnichannel investment strengthen it competitive positioning against Home Depot with the addition of macro tailwinds of market recovery.



Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$18,603
EV/EBITDA Exit Multiple	12.0x
Terminal Value	\$223,238
PV of Terminal Value	\$161,856
PV of Projection Period	\$43,447
PV of Terminal Value	\$161,856
Implied TEV	\$205,303
(-) Debt	\$39,090
(+) Cash	\$4,860
Implied Equity Value	\$171,073
Diluted Shares Outstanding	561
Implied Share Price	\$305.04
Upside/Downside	28.1%



Risk vs. Reward - DCF Cases



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	83,674	85,000	90,950	96,634	101,949	5.1%
EBITDA	12,615	13,175	14,507	15,606	16,669	7.2%
EBIT	10,643	11,050	12,278	13,166	14,018	7.1%
NOPAT	8,447	8,840	9,823	10,517	11,179	7.3%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	15.1%	15.5%	16.0%	16.2%	16.4%	15.8%
EBIT Margin	12.7%	13.0%	13.5%	13.6%	13.8%	13.3%
Revenue Growth	-3.1%	1.6%	7.0%	6.3%	5.5%	3.4%
EBIT Growth	-8.7%	3.8%	11.1%	7.2%	6.5%	4.0%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	14.7x	22.1x	19.7x	16.9x	14.7x	17.6x
EV/Sales	2.0x	2.0x	1.8x	1.7x	1.6x	1.8x
EV/EBITDA	13.3x	12.7x	11.6x	10.8x	10.1x	11.7x
FCF Yield	6.8%	4.5%	5.1%	5.9%	6.8%	5.8%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
The Home Depot, Inc. (NYSE:HD)	\$386,509	\$445,625	26.4x	\$165,054	\$21,601
Floor & Decor Holdings, Inc. (NYSE:FND)	\$7,630	\$9,405	36.5x	\$4,600	\$264
HORNBACH Baumarkt AG (HMSE:HBM)	\$2,368	\$4,266	17.6x	\$6,802	\$256
Tile Shop Holdings, Inc. (NasdaqCM:TTSH)	\$284	\$398	-634.4x	\$340	\$0
Lowe's Company Inc.	\$135,456	\$169,290	19.8x	\$83,612	\$12,491

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth Rate LF
The Home Depot, Inc. (NYSE:HD)	20.6x	33.3%	15.5%	13.1%	8.5%
Floor & Decor Holdings, Inc. (NYSE:FND)	35.7x	44.5%	10.9%	5.7%	4.9%
HORNBACH Baumarkt AG (HMSE:HBM)	16.7x	35.4%	5.5%	3.8%	1.2%
Tile Shop Holdings, Inc. (NasdaqCM:TTSH)	1991.0x	65.3%	4.4%	0.1%	(5.4%)
Lowe's Company Inc.	13.6x	33.5%	14.9%	12.5%	(0.5%)

High	1991.00x	65.3%	15.5%	13.1%	8.5%
75th Percentile	35.68x	44.5%	14.9%	12.5%	4.9%
Average	415.50x	42.4%	10.2%	7.0%	1.7%
Median	20.63x	35.4%	0.0%	5.7%	1.2%
25th Percentile	16.66x	33.5%	5.5%	3.8%	-0.5%
Low	13.55x	33.3%	4.4%	0.1%	-5.4%

Lowe's Company Inc.

Implied Enterprise Value (25th Percentile)	\$	208,089
Implied Enterprise Value (Median)	\$	257,687
Implied Enterprise Value (75th Percentile)	\$	445,662

Implied Share Price (25th Percentile)	\$	310.01
Implied Share Price (Median)	\$	398.44
Implied Share Price (75th Percentile)	\$	733.62

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	0.87
Risk Free Rate	4.39%
Cost of Equity	6.31%
Weighted Average Cost of Debt	4.53%
Tax Rate	20.00%
Cost of Debt	0.82%
Total Equity	\$133,286
Total Debt	\$34,230
Equity/Total Capitalization	77.32%
Debt/Total Capitalization	22.68%
WACC	7.13%

Downside Case: Our downside case project poor revenue growth, and company failure to penetrate the pro-segment, given if the housing market does recover as expected with other macro headwinds of tariff and trade policies accounted. We used the multiple of 10.0x EV/EBITDA, bringing our downside valuation to \$197.

Upside Case: Our upside case project strong revenue growth driven by success in the pro-segment and successful integration of FBM. Accounting there is macro tailwinds with favorable trade and tariffs policies and addition of great housing recovery. We used multiple of 13.0x EV/EBITDA, bringing our upside valuation to \$366.

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.