

Lowe's Companies, Inc.

Tone Shift Merits a Look, But HD Still Preferred

Tone shift merits a look, but HD still preferred. We believe LOW reacted appropriately to its ongoing difficulties in driving traffic and broader stock market/macro volatility by lowering its comp guidance to flat in the back half. Barring a more significant economic slowdown, these numbers look largely achievable. Therefore, we believe value investors could sharpen the pencil on LOW with it trading at 5.8x EV/EBITDA on our 2011 forecasts (*though we easily prefer OW-rated HD*). Clearly, we also lack a catalyst to be more aggressive and gross margin pressure will persist given the refocusing on EDLP (as well as the growth in the 5% rewards card), but one could fashion a longer-term case on easy comparisons next Spring and the potential for better execution in late 2012 and beyond as strategies take hold. Bigger picture, we were pleased to hear that LOW is taking a greater internal focus on merchandising and customer interaction. It was one of the first signs we've seen that management is becoming more introspective ("what can we do better?") from a somewhat defensive posture. Finally, we don't believe the pricing environment is shifting. Rather, LOW seems to be acknowledging that the consumer is value oriented and that it needs to be more clear in its messaging (and perhaps a bit of signaling to HD). We maintain our Neutral rating and lower our Dec 2011 price target to \$23.

- Guidance bar lowered; appears achievable barring a recession.** Management did as many expected and brought down its comp and earnings expectations for the year. For 3Q and FY11, comps are expected to be flat with earnings of \$0.32-0.35 and \$1.54-1.60. Barring a recession, we view guidance as achievable and are modeling earnings of \$0.34 and \$1.61. Our expectations are for same-store sales trends to remain flattish in the near term as LOW implements new initiatives to improve customer service levels.
- HD – Comp gap maintained.** We expect HD to maintain its 200-300 bp comp gap to LOW when it reports earnings tomorrow. We believe the outperformance is likely to come from 1) stronger execution, 2) less appliance headwind (~30 bps), 3) greater mix to NE (where HD has roughly three percentage points more store exposure), and 4) stronger May comps vs. LOW -2.7% (HD was comping positively at the time of the 1Q call). *We are currently forecasting 2.7% comps for HD (including a 2.5% comp in the U.S.).*

Neutral

LOW, LOW US

Price: \$19.68

▼ Price Target: \$23.00

Previous: \$26.00

Retailing — Hardlines

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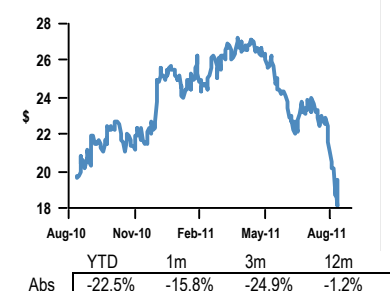
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Price Performance



Lowe's Companies, Inc. (LOW;LOW US)

FYE Jan	2010A	2011E (Prev)	2011E (Curr)	2012E (Prev)	2012E (Curr)
EPS Reported (\$)					
Q1 (Apr)	0.34	0.34A	0.34A	-	-
Q2 (Jul)	0.58	0.63	0.68A	-	-
Q3 (Oct)	0.31	0.33	0.34	-	-
Q4 (Jan)	0.21	0.25	0.24	-	-
FY	1.46	1.58	1.61	1.78	1.80
Bloomberg EPS FY (\$)	1.42	-	1.61	-	1.85

Source: Company data, Bloomberg, J.P. Morgan estimates. 'Bloomberg' above denotes Bloomberg consensus estimates.

Company Data

Price (\$)	19.68
Date Of Price	15 Aug 11
52-week Range (\$)	27.45 - 18.07
Mkt Cap (\$ bn)	25.15
Fiscal Year End	Jan
Shares O/S (mn)	1,278
Price Target (\$)	23.00
Price Target End Date	31 Dec 11

See page 9 for analyst certification and important disclosures.

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- **We continue to rate LOW Neutral; adjusting price target to \$23.** We remain Neutral on LOW given underperformance to HD and increasing concerns over the macro economy. Despite valuation levels that are close to historical lows, we await an entry point with greater visibility to sales growth. In the near term, we see limited earnings risk due to share buybacks (LOW expected to buy back nearly 7% of its market cap). We are lowering our Dec 11 price target to \$23 from \$26. This is based on ~11x PE (which equates to ~6x EV/EBITDA) using our 2012 forecasts. This valuation is a discount to LOW's historical FY2 averages and reflects difficulty in driving top-line sales trends combined with concerns over the macro economy.
- **2Q in brief: Cost cutting offsets weak comps and GM.** LOW reported 2Q11 operating EPS of \$0.68 vs. \$0.63E and consensus of \$0.66. Sales improved 1.3%, with comps of (0.3%) in line with our flat estimate. Gross margin declined 40 bps, and operating expense leverage of 80 bps contributed to operating margin expansion of 40 bps.

Investment Thesis

We continue to rate LOW Neutral. We are maintaining our Neutral rating as we believe: (1) comp growth remains muted in the near and medium term, driven by macro and execution concerns; (2) margin expansion becomes more sales-leverage driven once LOW anniversaries the initial round of price optimization benefits in 3Q; and (3) the stock represents a balanced risk-reward. *Summer rarely treats our universe nicely, and given these considerations we'd rather focus our near term interest in home improvement on HD, which has more company-specific sales and margin drivers.*

Valuation

LOW: December 2011 price target of \$23. We are lowering our Dec 11 price target to \$23 from \$26. This is based on ~11x PE (which equates to ~6x EV/EBITDA), down from 15x PE, using our new 2012 forecasts. This valuation is a discount to LOW's historical FY2 averages of 15x PE and 7.5X EV/EBITDA, due to lack of top-line growth and concerns over the macro economy.

LOW Valuation Matrix

	2010	2011E	2012E
EPS	\$1.46	\$1.61	\$1.80
PE	13.5x	12.2x	10.9x
Five Year Avg		17.2x	15.1x
Five Year Peak		20.0x	18.0x
Hist Relative PE		1.1x	1.0x
EBITDA	5,294.0	5,298.1	5,437.6
EV/EBITDA	5.8x	5.8x	5.7x
Five Year Avg		9.0x	7.7x
Five Year Peak		12.0x	10.0x
Five Year Trough		6.2x	5.8x
Price Target		\$23.00	
PE	15.7x	14.3x	12.8x
EV/EBITDA	6.7x	6.7x	6.3x
Upside/Downside		17%	

Source: J.P. Morgan estimates, Bloomberg.

Coverage Universe Comparisons

Ticker	PE 2011E	Ticker	EV / EBITDA 2011E	Ticker	FCF / EV 2011E (%)
ODP	NM	GNC	10.7x	BBY	22.5
COST	22.2x	TSCO	10.3x	RSH	12.6
TSCO	20.6x	CAB	9.5x	OMX	10.1
GNC	18.3x	ORLY	8.8x	SPLS	10.1
ORLY	17.1x	COST	8.6x	HD	8.3
PETM	16.8x	GPC	8.1x	AAP	7.7
DKS	16.5x	HD	7.4x	PETM	7.6
GPC	14.4x	AZO	7.2x	LOW	7.5
BBBY	14.4x	BBBY	7.1x	AZO	6.7
AZO	14.3x	PETM	7.1x	BBBY	6.5
WSM	14.0x	DKS	6.9x	ORLY	5.6
HD	13.4x	AAP	6.2x	WSM	5.3
LOW	12.2x	LOW	5.8x	COST	4.8
AAP	12.1x	WSM	5.4x	DKS	4.6
CAB	11.4x	SPLS	5.3x	HGG	4.3
SPLS	10.4x	ODP	5.3x	GNC	4.3
OMX	9.5x	HGG	3.6x	GPC	4.1
HGG	8.2x	RSH	3.5x	TSCO	4.0
RSH	7.6x	BBY	3.1x	ODP	2.6
BBY	7.5x	OMX	2.9x	CAB	0.8
Average	13.7x	Average	6.6x	Average	7.0x
Median	14.0x	Median	7.0x	Median	6.1x

Source: J.P. Morgan estimates and Bloomberg.

Earnings Review

- LOW reported 2Q11 operating EPS of \$0.68 vs. \$0.63E and consensus of \$0.66.
- LOW recognized a charge associated with impairment of long-lived assets, including 7 store closures, which reduced diluted EPS by \$0.04.
- Total sales increased 1.3% to \$14.5B vs. \$14.4B last year. Same-store sales decreased 0.3% vs. a 1.6% increase a year ago and were slightly below our estimate of 0.0%. The lower-than-expected comps were driven by less recovery than anticipated in seasonal businesses and a higher-than-expected impact from lumber deflation, which hurt 2Q comps by ~70 bps.
- 2Q average ticket decreased 0.7% to \$62.44, and total customer transactions increased 2.0%. Comp traffic increased 0.6%, and comp average ticket declined 0.9%.
- Consumers continue to focus on small ticket, less than \$500 repair and maintenance items and projects.
- LOW's recently rolled out 5% customer rewards program is driving increased transactions, gross margin dollars, and EBIT margins.

- LOW experienced a 130-bp increase in online unit share on a rolling four-quarter basis and continues to increase the number of items available online. A Spanish version of Lowes.com is launching this week.
- For the quarter:
 - Monthly comps trends: May (2.7%); June 0.0%; and July 2.2%. The growth in monthly comps during the quarter was driven by an improvement in seasonal businesses as the quarter progressed, sequentially increasing demand associated with efforts to remedy damage, and a tough Cash for Appliances comparison dragging down May comps.
 - The North Central and Northeast regions exceeded the company average comp as customers began delayed spring and summer projects and made repairs after a tough winter. The Gulf Coast region lagged the company average as extreme heat and severe drought dampened sales of outdoor products.
 - Comp store performance for indoor categories was down 2%, while outdoor categories increased 3%. Nursery, lawn and landscape sales were strong in the Northeast, North Central, and West, while building materials performed well in the Southeast, Central, and North Central regions following strong storms in the spring. For indoor categories, tools comped MSD, driven by Father's Day offers and the launch of new Kobalt mechanics tools. Paint also comped positively.
 - Overall, categories that performed above the company's average comp include building materials, rough electrical, landscape, nursery, tools, rough plumbing, paint, hardware, and seasonal living. Appliances reported negative MSD comps due to tough comparisons from last year's Cash for Appliances program, though LOW continues to gain market share in the category.
- Gross margin contracted 37 bps over last year's second quarter, to 34.5%, worse than our 35.0%E. Promotional activity negatively impacted gross margin by ~20 bps, while higher transportation costs had a negative 15-bp impact. Lowe's 5% off everyday offer for consumer credit cardholders drove down gross margin by 11 basis points, though this was more than offset by leverage in tender and other costs associated with the proprietary credit program which are components of SG&A. Clearance activity associated with resets decreased gross margin by ~10 bps. Slightly offsetting these items, base price optimization and patch area expansion increased gross margin by ~15 bps.
- The operating expense ratio levered ~80 bps to 24.2% vs. 25.2%E, and SG&A levered ~50 bps to 21.7% of sales *in 2Q*. An \$83MM charge related to asset impairment, including 7 store closures, compares to an \$11MM charge in 2Q10, resulting in deleverage of 49 bps. Investments to improve customer experience resulted in an additional 15 bps of deleverage. Store payroll deleveraged 10 bps due to a slight increase in average hourly rate and new stores, and payroll taxes deleveraged 7 bps. Almost completely offsetting these items was 44 bps of leverage associated with the proprietary credit program. The leverage resulted from fewer losses and less promotional financing (vs. 5% off) as well as lower tender costs in 2Q as proprietary credit increased 240 bps to 21% of sales. Also, bonus expense leveraged 35 bps. Depreciation in 2Q was \$365MM, which was ~2.5% of sales and leveraged ~25 bps versus 2Q10.

Balance Sheet & Other

- Inventory increased 2.0% YOY to \$8.825MM. Turnover declined 3.1% to 3.6x, and per square foot was roughly flat. The increase in inventory was driven by new stores and an increase in distribution center inventory. A 10% increase in accounts payable was higher than the 2.0% increase in inventory.
- Cash and equivalents decreased to \$568MM vs. \$1,191MM LY.
- Total debt-to-capital ratio increased to 28.3% vs. 22.5% LY.
- LOW repurchased 59.7MM shares at an average price of \$23.46 in 2Q, totaling \$1.4B and exhausting their authorization.

Risks to Rating and Price Target

Key upside risks. An unexpected rise in home prices or improvement in job growth would create major tailwinds for LOW, which may prove our price target and Neutral rating too conservative. Successful gross margin improvements or SG&A cuts may also result in upside for LOW. Additionally, the buybacks anticipated in the coming year could cause a higher-than-expected rise in the stock price.

Key downside risks. Lowe's faces headwinds with the duration of the housing downturn and pullback of discretionary, big ticket purchasing. The comp gap between LOW and HD may continue to widen as HD's turnaround initiatives gain momentum. Additionally, Lowe's higher-touch customer service model may inhibit SG&A cuts in this difficult sales environment, which could result in more cost deleverage versus Home Depot. Finally, gross margins expansion may prove challenging due to rational pricing and the everyday low price strategy, rendering our price target and Neutral too moderate.

Consolidated Income Statement

Lowe's — Quarterly Income Model (\$ millions, except per share amounts)																									
	2008					2009					2010					2011									
	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11E	4Q11E	2011E	2012E				
Sales	\$12,009	\$14,509	\$11,728	\$9,984	\$48,230	\$11,832	\$13,844	\$11,375	\$10,168	\$47,219	\$12,388	\$14,361	\$11,587	\$10,480	\$48,816	\$12,185	\$14,543	\$11,748	\$11,198	\$49,675	\$50,909				
Cost of goods	7,843	9,527	7,743	6,616	31,729	7,636	9,021	7,485	6,614	30,756	8,030	9,355	7,526	6,454	31,665	7,866	9,527	7,679	7,246	32,318	33,119				
Gross margin	4,166	4,982	3,985	3,368	16,501	4,196	4,823	3,890	3,554	16,463	4,358	5,006	4,061	3,726	17,151	4,319	5,016	4,069	3,952	17,357	17,790				
SG&A	2,725	3,014	2,726	2,610	11,075	2,944	3,061	2,815	2,763	11,583	3,093	3,189	2,881	2,792	11,955	3,120	3,149	2,909	3,000	12,179	12,473				
Store opening costs	18	21	31	32	102	13	14	10	12	49															
Depreciation	375	381	385	397	1,538	401	408	403	401	1,613	397	398	399	392	1,586	371	365	370	370	1,476	1,436				
Operating income	1,048	1,566	843	329	3,786	838	1,340	662	378	3,218	868	1,419	781	542	3,610	828	1,502	790	582	3,702	3,882				
Interest expense	76	69	65	70	280	78	76	77	56	287	82	84	80	86	332	88	90	98	106	382	448				
Pretax income	972	1,497	778	259	3,506	760	1,264	585	322	2,931	786	1,335	701	456	3,278	740	1,412	692	476	3,320	3,434				
Taxes	365	559	290	97	1,311	284	475	227	117	1,103	297	503	265	171	1,236	279	532	261	179	1,252	1,295				
Net income	607	938	488	162	2,195.0	476	789	358	205	1,828	489	832	436	285	2,042	461	880	431	297	2,068	2,139				
EPS	\$0.41	\$0.64	\$0.33	\$0.11	\$1.50	\$0.32	\$0.53	\$0.24	\$0.14	\$1.25	\$0.34	\$0.58	\$0.31	\$0.21	\$1.46	\$0.34	\$0.68	\$0.34	\$0.24	\$1.61	\$1.80				
Diluted shares o/s	1,477.0	1,473.0	1,464.0	1,466.0	1,472.0	1,464.0	1,466.0	1,469.0	1,458.0	1,464.0	1,438.0	1,419.0	1,392.0	1,361.0	1,403.0	1,328.0	1,278.0	1,258.0	1,236.0	1,275.0	1,178.0				
Participating Securities Dividends											(4.0)	(7.0)	(3.0)	(3.0)	(17.4)	(3.0)	(7.0)	(3.0)	(3.0)	(16.0)	(16.0)				
GAAP EPS	0.41	0.64	0.33	0.11	1.50	0.32	0.51	0.24	0.14	1.25	0.34	0.58	0.29	0.21	1.46	0.34	0.64	0.34	0.24	1.61	1.80				
% of sales																									
Gross profit	34.7%	34.3%	34.0%	33.7%	34.2%	35.5%	34.8%	34.2%	35.0%	34.9%	35.2%	34.9%	35.0%	35.6%	35.1%	35.4%	34.5%	34.6%	35.3%	34.9%	34.9%				
SG&A	22.7%	20.8%	23.2%	26.1%	23.0%	24.9%	22.1%	24.7%	27.2%	24.5%	25.0%	22.2%	24.9%	26.6%	24.5%	25.6%	21.7%	24.8%	26.8%	24.5%	24.5%				
Store opening costs	0.1%	0.1%	0.3%	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%															
Depreciation	3.1%	2.6%	3.3%	4.0%	3.2%	3.4%	2.9%	3.5%	3.9%	3.4%	3.2%	2.8%	3.4%	3.7%	3.2%	3.0%	2.5%	3.1%	3.3%	3.0%	2.8%				
Operating expenses	26.0%	23.5%	26.8%	30.4%	26.4%	28.4%	25.2%	28.4%	31.2%	28.1%	28.2%	25.0%	28.3%	30.4%	27.7%	28.6%	24.2%	27.9%	30.1%	27.5%	27.3%				
Operating income	8.7%	10.8%	7.2%	3.3%	7.8%	7.1%	9.7%	5.8%	3.7%	6.8%	7.0%	9.9%	6.7%	5.2%	7.4%	6.8%	10.3%	6.7%	5.2%	7.5%	7.6%				
Tax rate (% of pretax)	37.6%	37.3%	37.3%	37.5%	37.4%	37.4%	37.6%	38.8%	36.3%	37.6%	37.8%	37.7%	37.8%	37.5%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%				
Net income	5.1%	6.5%	4.2%	1.6%	4.6%	4.0%	5.7%	3.1%	2.0%	3.9%	3.9%	5.8%	3.8%	2.7%	4.2%	3.8%	6.0%	3.7%	2.6%	4.2%	4.2%				
YOY % growth																									
Sales	(1.3%)	2.4%	1.4%	(3.8%)	(0.1%)	(1.5%)	(4.6%)	(3.0%)	1.8%	(2.1%)	4.7%	3.7%	1.9%	3.1%	3.4%	(1.6%)	1.3%	1.4%	6.9%	1.8%	2.5%				
Gross profit	(2.2%)	2.0%	0.5%	(7.0%)	(1.3%)	0.7%	(3.2%)	(2.4%)	5.5%	(0.2%)	3.9%	3.8%	4.4%	4.8%	4.2%	(0.9%)	0.2%	0.2%	6.1%	1.2%	2.5%				
SG&A	1.5%	6.2%	8.9%	4.9%	5.3%	8.0%	1.6%	3.3%	5.9%	4.6%	5.1%	4.2%	2.3%	1.0%	3.2%	0.9%	(1.3%)	1.0%	7.5%	1.9%	2.4%				
Depreciation	16.1%	14.8%	13.2%	7.3%	12.7%	6.9%	7.1%	4.7%	1.0%	4.9%	(1.0%)	(2.5%)	(1.0%)	(2.2%)	(1.7%)	(6.5%)	(8.3%)	(7.3%)	(5.6%)	(6.9%)	(2.7%)				
Operating expenses	3.2%	6.9%	8.9%	4.1%	5.8%	7.7%	2.0%	2.7%	4.5%	4.2%	3.9%	3.0%	1.6%	0.3%	2.2%	0.0%	(2.0%)	(0.0%)	5.8%	0.8%	1.9%				
Operating income	(15.4%)	(7.1%)	(21.9%)	(53.0%)	(19.5%)	(20.0%)	(14.4%)	(21.5%)	14.9%	(15.0%)	3.6%	5.9%	18.0%	43.4%	12.2%	(4.6%)	5.8%	1.2%	7.4%	2.6%	4.8%				
Net income	(17.9%)	(7.9%)	(24.1%)	(60.3%)	(21.9%)	(21.6%)	(15.9%)	(26.7%)	26.5%	(16.7%)	2.7%	5.5%	21.8%	39.0%	11.7%	(5.7%)	5.7%	(1.1%)	4.0%	1.3%	3.4%				
Earnings - diluted	(14.3%)	(5.1%)	(22.3%)	(59.6%)	(19.8%)	(22.4%)	(16.9%)	(26.8%)	26.9%	(16.2%)	5.4%	9.7%	27.0%	45.9%	16.7%	2.3%	17.4%	9.4%	14.6%	10.0%	12.0%				
Sales/Store Analysis																									
Comp transactions	(5.3%)	(2.7%)	(3.5%)	(5.3%)	(4.1%)	(2.6%)	(0.9%)	(0.8%)	0.5%	(1.1%)	4.8%	(0.5%)	0.1%	(0.8%)	0.9%	(3.4%)	0.6%								
Comp ticket	(3.1%)	(2.6%)	(2.3%)	(4.9%)	(3.1%)	(4.2%)	(8.6%)	(6.7%)	(2.1%)	(5.7%)	(2.3%)	2.1%	0.1%	1.9%	0.5%	0.1%	(0.9%)								
Same-store sales	(8.4%)	(5.3%)	(5.9%)	(9.9%)	(7.2%)	(6.6%)	(9.5%)	(7.5%)	(1.6%)	(6.6%)	2.4%	1.6%	0.2%	1.1%	1.4%	(3.3%)	(0.3%)	0.0%	(0.5%)	(1.0%)	2.2%				
Store count, net	1,554	1,577	1,616	1,649	1,649	1,670	1,688	1,697	1,710	1,710	1,721	1,724	1,734	1,749	1,749	1,751	1,753	1,760	1,767	1,767	1,792				
Total sq ft (MM)	176.4	178.6	183.0	186.6	186.6	188.8	190.8	191.9	193.2	193.2	194.3	194.6	195.6	197.1	197.1	197.3	197.6	198.3	199.7	199.7	202.2				
YOY s.f. growth	11.2%	10.5%	10.2%	7.2%	7.2%	7.0%	6.8%	4.9%	3.5%	3.5%	2.9%	2.0%	1.9%	2.0%	2.0%	1.5%	1.5%	1.4%	1.3%	1.3%	1.3%				
Sales \$ Per Avg Square Foot	\$68.52	\$81.74	\$64.87	\$54.03	\$267.42	\$63.04	\$72.94	\$59.45	\$52.81	\$248.65	\$63.94	\$73.85	\$59.39	\$53.37	\$250.15	\$61.79	\$73.65	\$59.35	\$56.28	\$250.40	\$253.34				
% Growth Year over Year	-11.1%	-7.6%	-8.1%	-11.5%	-8.3%	-8.0%	-10.8%	-8.4%	-2.3%	-7.0%	1.4%	1.3%	-0.1%	1.1%	0.6%	-3.4%	-0.3%	-0.1%	5.4%	0.1%	1.2%				
Gross Margin \$ Per Avg Sq Foot	\$23.77	\$28.07	\$22.04	\$18.23	\$91.49	\$22.35	\$25.41	\$20.33	\$18.46	\$86.69	\$22.49	\$25.74	\$20.81	\$18.98	\$87.89	\$21.90	\$25.40	\$20.56	\$19.86	\$87.49	\$88.53				
% Growth Year over Year	-11.9%	-7.9%	-8.9%	-14.4%	-9.4%	-6.0%	-9.5%	-7.8%	1.3%	-5.2%	0.6%	1.3%	2.4%	2.8%	1.4%	-2.6%	-1.3%	-1.2%	4.7%	-0.4%	1.2%				
SG&A \$ Per Avg Square Foot	\$15.55	\$16.98	\$15.08	\$14.12	\$61.41	\$15.68	\$16.13	\$14.71	\$14.35	\$61.00	\$15.96	\$16.40	\$14.77	\$14.22	\$61.26	\$15.82	\$15.95	\$14.70	\$15.08	\$61.39	\$62.07				
% Growth Year over Year	-8.6%	-4.2%	-1.3%	-3.5%	-3.3%	0.9%	-5.0%	-2.4%	1.6%	-0.7%	1.8%	1.7%	0.4%	-0.9%	0.4%	-0.9%	-2.8%	-0.5%	6.0%	0.2%	1.1%				
EBIT \$ Per Square Foot	\$5.98	\$8.82	\$4.66	\$1.78	\$20.99	\$4.46	\$7.06	\$3.46	\$1.96	\$16.95	\$4.48	\$7.30	\$4.00	\$2.76	\$18.50	\$4.20	\$7.61	\$3.99	\$2.93	\$18.66	\$19.32				
% Growth Year over Year	-23.8%	-16.2%	-29.3%	-56.7%	-26%	-25.3%	-20.0%	-25.8%	10.3%	-19%	0.3%	3.4%	15.7%	40.6%	9%	-6.3%	4.2%	-0.3%	6.0%	1%	4%				
Free Cash Flow																									
EBIT (1 - tax rate)	654	981	529	206	2,370	525	836	405	241	2,007	540	884	486	339	2,249	516	936	492	363	2,306	2,418				
+ Depreciation & amortization	404	412	416	435	1,667	434	436	433	430	1,733	424	424	424	412	1,684	397	399	400	400	1,596	1,556				
- Capital expenditures	805	815	919	687	3,226	572	523	319	385	1,799	283	329	400	317	1,329	313	467	600	600	1,980	1,693				
- Change in non-cash working cap	(551)	464	464	(373)	4	(1,682)	(109)	219	1,454	(366)	(1,874)	1,160	(166)	807	(73)	(1,512)	373	274	485	(379)	(11)				
Free cash flow	804	114	(438)	327	807	2,069	858	300	(1,168)	2,059	2,555	(181)	676	(373)	2,677	2,112	495	18	(323)	2,302	2,292				
EBITDA																									
EBITDA	1,452	1,978	1,259	764	5,453	1,272	1,776	1,095	808	4,951	1,292	1,843	1,205	954											

Lowe's Companies, Inc.: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	Income Statement - Quarterly	1Q11A	2Q11A	3Q11E	4Q11E
Revenues	48,816	49,675	50,909	Revenues	12,185A	14,543A	11,748	11,198
COGS	31,665	32,318	33,119	COGS	7,866A	9,527A	7,679	7,246
Gross Profit	17,151	17,357	17,790	Gross Profit	4,319A	5,016A	4,069	3,952
SG&A	13,541	13,655	13,909	SG&A	3,491A	3,514A	3,279	3,370
Operating Income	3,610	3,702	3,882	Operating Income	828A	1,502A	790	582
EBITDA	5,294	5,298	5,438	EBITDA	1,225A	1,901A	1,190	982
Interest, Net	332	382	448	Interest, Net	88A	90A	98	106
Pretax Income	3,278	3,320	3,434	Pretax Income	740A	1,412A	692	476
Taxes	1,236	1,252	1,295	Taxes	279A	532A	261	179
Tax Rate	37.7%	37.7%	37.7%	Tax Rate	37.7%A	37.7%A	37.7%	37.7%
Net income - operating	2,042	2,068	2,139	Net income - operating	461A	880A	431	297
Diluted Shares Outstanding	1,403	1,275	1,178	Diluted Shares Outstanding	1,328A	1,278A	1,258	1,236
Operating EPS	1.46	1.61	1.80	Operating EPS	0.34A	0.68A	0.34	0.24
Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	Ratio Analysis and Valuation	FY10A	FY11E	FY12E	
Cash and Equivalents	1,123	-	-	Sales growth	3.4%	1.8%	2.5%	
Inventories	8,321	8,367	8,439	Same store sales	1.4%	(1.0%)	2.2%	
Current Assets	9,967	9,422	9,699	EBITDA Growth	6.9%	0.1%	2.6%	
PP&E	22,089	22,473	22,610	EBIT Growth	12.2%	2.6%	4.8%	
Total Assets	33,699	33,380	33,794	EPS growth - operating	16.7%	10.0%	12.0%	
Short-term Debt	36	50	50	Gross Margin	35.1%	34.9%	34.9%	
Current Liabilities	7,119	7,486	7,568	EBIT Margin	7.4%	7.5%	7.6%	
Long-term Debt	6,537	7,537	8,737	EBITDA Margin	10.8%	10.7%	10.7%	
Total Liabilities	15,587	17,040	18,322	Inventory growth	0.9%	0.6%	0.9%	
Shareholders' Equity	18,112	16,340	15,472	AP/inventory	52.3%	55.0%	55.9%	
Net Income (including charges)	2,010	2,068	2,139	Debt/EBITDA	1.2	1.4	1.6	
D&A	1,684	1,596	1,556	Debt/Capital (book)	27.9%	31.7%	36.2%	
Other adjustments				Return on invested capital (ROIC)	8.7%	8.6%	8.8%	
Changes in Working Capital	73	379	11	Enterprise value / revenues	0.6	0.7	0.7	
Cash flow from Operations	3,852	4,154	3,817	Enterprise value / EBITDA	5.8	6.7	1.0	
Capex	(1,329)	(1,980)	(1,693)	Free Cash Flow Yield	18.8%	24.4%	23.8%	
Free Cash Flow	5,181	6,134	5,510	P/E	13.5	12.2	10.9	
Free Cash Flow/Share	3.69	4.81	4.68					
Dividends	(571)	(623)	(622)					
Dividend Yield	-	-	-					

Source: Company reports and J.P. Morgan estimates.
Note: \$ in millions (except per-share data).Fiscal year ends Jan

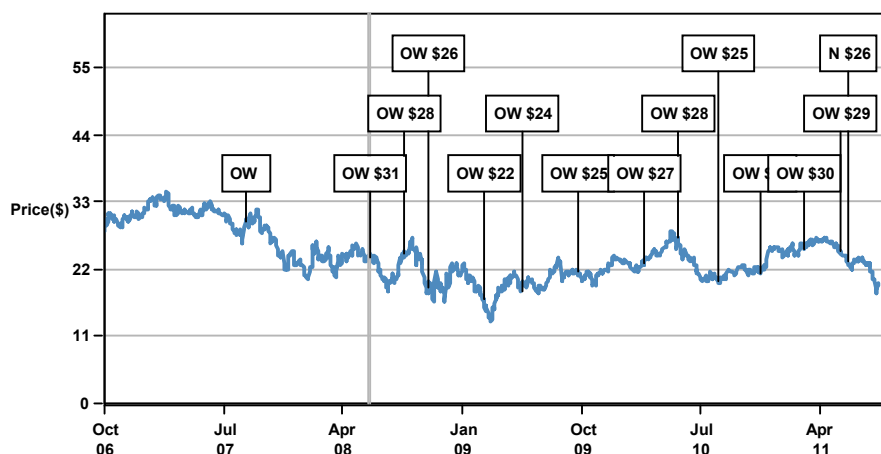
Other Companies Recommended in This Report (all prices in this report as of market close on 15 August 2011)
 The Home Depot (HD/\$31.46/Overweight)

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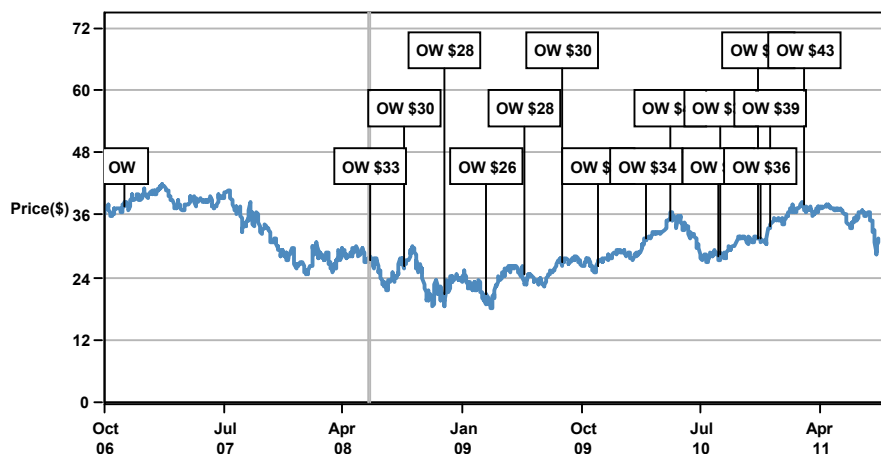
Lowe's Companies, Inc. (LOW) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
22-Aug-07	OW	29.82	--
02-Jun-08	OW	24.00	31.00
18-Aug-08	OW	24.54	28.00
14-Oct-08	OW	19.17	26.00
20-Feb-09	OW	16.98	22.00
18-May-09	OW	18.45	24.00
23-Sep-09	OW	21.53	25.00
22-Feb-10	OW	23.07	27.00
11-May-10	OW	27.10	28.00
09-Aug-10	OW	19.92	25.00
15-Nov-10	OW	21.46	26.00
23-Feb-11	OW	25.11	30.00
17-May-11	OW	25.05	29.00
06-Jun-11	N	23.40	26.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Aug 22, 2007 - Jun 02, 2008.

The Home Depot (HD) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
15-Nov-06	OW	37.62	--
02-Jun-08	OW	27.36	33.00
20-Aug-08	OW	25.97	30.00
19-Nov-08	OW	20.71	28.00
25-Feb-09	OW	20.67	26.00
20-May-09	OW	24.63	28.00
19-Aug-09	OW	26.75	30.00
06-Nov-09	OW	26.08	31.00
24-Feb-10	OW	31.36	34.00
21-Apr-10	OW	35.18	40.00
09-Aug-10	OW	28.24	35.00
17-Aug-10	OW	28.31	34.00
10-Nov-10	OW	31.47	35.00
16-Nov-10	OW	31.71	36.00
09-Dec-10	OW	34.03	39.00
23-Feb-11	OW	38.09	43.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Nov 15, 2006 - Jun 02, 2008.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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