



# Equity Research



Current Market Price:	\$59.33
Target Price:	\$53.15
52 Wk Range	\$45.90 - \$59.88
Market Cap	\$45,793.68MM
Book Value per Share	\$13.66



November 4, 2004

## Lowe's Corp: Bobbing for Conservative Growth...

**Lowe's Corp. (LOW, \$59.33)**

**Target Price: \$53.15**

**Rating: Underweight**

***Impressive Growth at an Unimpressive Price***

We are initiating coverage on Lowe's with an Underweight rating. We feel strongly about the company's prospects for continued growth from a fundamental perspective, however, we are concerned that the firm is overvalued and is currently trading near a consistent resistance level of \$60/share. Key factors are:

- Same store comps to grow based on special order sales growth and branching out into premium markets
- Geographic expansion aimed at prime metro areas
- Continued margin expansion to slow since margins are already at an all-time high
- Home Improvement Industry trends promise continued growth as housing stock ages and "nesting" takes hold as a cultural phenomenon

**Company Description:** Lowe's Companies, Inc. is a home improvement retailer in the United States. Lowe's offers products and services for home improvement, home decor, home maintenance, home repair, and remodeling and maintenance of commercial buildings. Lowe's customers include retail do-it-yourself (DIY) customers and commercial business customers, including repair and remodeling contractors, electricians, landscapers, painters, plumbers, and commercial and residential building maintenance professionals. Lowe's operates more than 1,000 stores in 45 states. Lowe's also has a strategic alliance with HGTV network. Lowe's was incorporated in 1952 and is based in Mooresville, North Carolina. (Source: Capital IQ)

### Contributing Analysts:

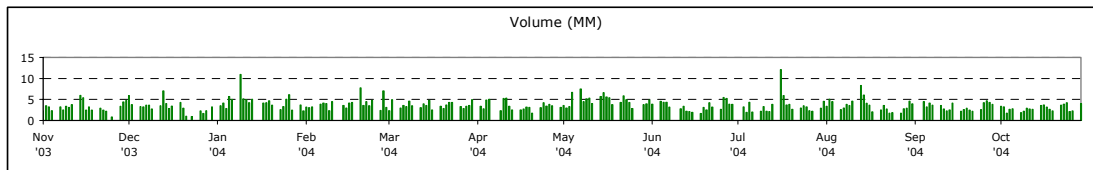
Abdullah Karatash  
 abdullah.karatash@yale.edu  
 (917) 703 - 1555

Len Rittberg  
 len.rittberg@yale.edu  
 (203) 645 - 1743

Please refer to important disclosure information on pages 23.



# Equity Research

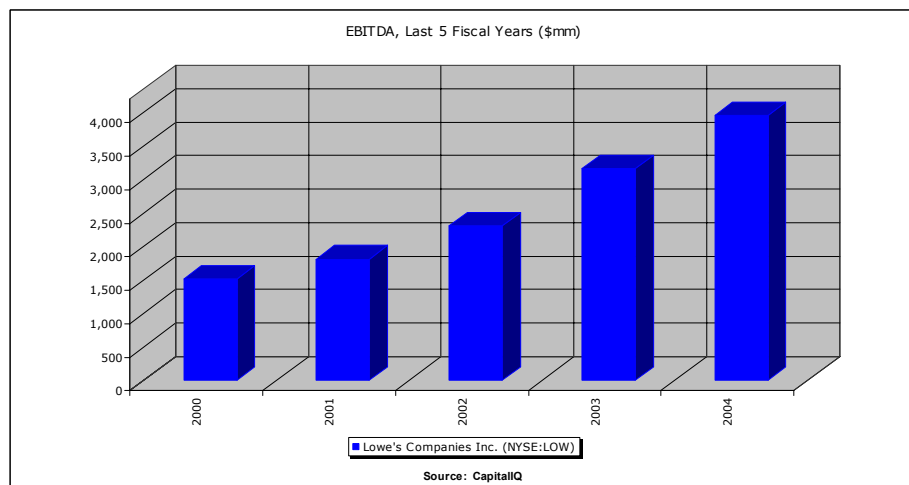
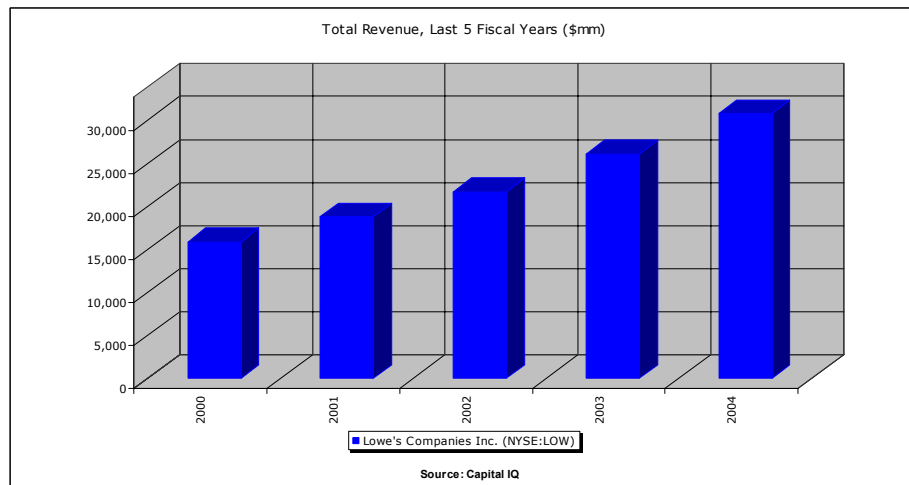


Date	Type	Synopsis
10/19/2004	Key Development:	Lowes's Companies Inc. Opens Florida Regional Distribution Center
9/28/2004	Key Development:	Lowes's Companies Inc. Reaffirms Earnings Guidance for the Third Quarter and Full Year of 2004
9/27/2004	Key Development:	Lowes's Companies Inc. Announces the Promotion of Mike Mabry to Executive Vice President, Logistics and Distribution
9/22/2004	Key Development:	Lowes's Companies Inc. Promotes Mile Mabry to Executive Vice President
9/13/2004	Key Development:	Lowes's Companies Inc. Declares Cash Dividend Payable on October 29, 2004
9/3/2004	SEC Filing	10-Q form filed.
8/16/2004	Key Development:	Lowes's Companies Inc. Reports Results for the Second Quarter and Six Months Ended July 30, 2004; Provides Outlook for Third Quarter of Fiscal 2005
8/16/2004	SEC Filing	8-K form filed.
6/4/2004	SEC Filing	10-Q form filed.
6/1/2004	Key Development:	Lowes's Companies Inc. Promotes Hull to Executive Vice President
5/28/2004	Key Development:	Lowes's Companies Inc. Declares Cash Dividend payable on July 30, 2004
5/27/2004	Key Development:	Lowes's expansion strategy leads to store in Nicholasville
5/17/2004	SEC Filing	8-K form filed.
5/17/2004	Key Development:	Lowes's Companies Inc. announces Financial results for First Quarter 2004; Forecast Second-Quarter 2004 Earnings
5/17/2004	Key Development:	Analysts Provides Outlook of Lowes's Companies Inc. for the First Quarter 2004
4/28/2004	Key Development:	Lowes's Opens First Store in Brooklyn
4/13/2004	SEC Filing	10-K/A form filed.
4/13/2004	Key Development:	Lowes's to Open New Regional Office in Pensacola
4/8/2004	SEC Filing	10-K form filed.
4/5/2004	Key Development:	Lowes Names Niblock Next CEO
4/5/2004	Key Development:	Lowes's Companies Inc. Names Niblock Chairman in Succession Plan
4/5/2004	SEC Filing	8-K form filed.
4/5/2004	SEC Filing	8-K form filed.
4/2/2004	Key Development:	Lowes's Companies Inc. Declares Cash Dividend, payable on April 30, 2004
3/24/2004	Key Development:	Suit Accuses Lowes's Companies Inc. of Race Bias in Hiring
2/23/2004	SEC Filing	8-K form filed.
2/23/2004	Key Development:	Lowes's Companies Inc. Reports Results for the Fourth Quarter and Year Ended January 30, 2004; Provides Outlook for the First Quarter and Fiscal Year 2004
2/23/2004	Key Development:	Analysts Provides Outlook of Lowes's Companies Inc. for the Fourth Quarter of 2003
2/19/2004	Key Development:	Lowes's Cos. Inc. Opens in Spring Township Store
2/17/2004	Key Development:	Lowes's First to Launch Michael Graves' High Style, Home Fashion Plumbing Collection
2/2/2004	Key Development:	Lowes's Companies Inc. Finalizes Transaction to Sell Contractor Yard Locations
2/2/2004	Key Development:	Lowes's Companies Inc. Announces The Promotion of Greg Bridgeford to Executive Vice President of Business Development
1/30/2004	Strategic Buyer Transaction	Status: Closed Lowes's Companies Inc. signed a definitive agreement to sell its subsidiary The Contractor Yard Inc to The Strober Organization Inc. The financial terms of the deal were not disclosed. Merrill Lynch & Co. Inc. advised Contractor Yard Inc. on the deal. Lowes's currently expects the transaction to be completed during the fourth quarter 2003.
1/30/2004	Key Development:	Lowes's Appoints Temple Sloan to Board of Directors
12/22/2003	Key Development:	Lowes's Companies Inc. Announces The Appointment Of Michael Mabry As Senior Vice President Of Distribution
12/19/2003	Key Development:	Werner Enters Into Long Term Strategic Alliance With Lowes's Companies
12/12/2003	SEC Filing	8-K form filed.
12/10/2003	Key Development:	Lowes's Expands Operational Divisions; Promotes Damron and Wagner
12/9/2003	SEC Filing	10-Q form filed.
12/9/2003	Key Development:	Lowes's Announces O'Malley's Resignation from Board of Directors
12/8/2003	Equity Buybacks	Status: Announced The Board of Directors of Lowes's Companies, Inc. (NYSE:LOW) has approved a share repurchase program of up to \$1000 million effective immediately. This new program is intended to be implemented through purchases made from time to time either in the open market or through private transactions, in accordance with Securities and Exchange Commission requirements. As of October 31, 2003, Lowes's Companies, Inc. had 786.2 million shares outstanding.
12/8/2003	SEC Filing	Lowes's announces \$1 billion stock repurchase program; It has declared a quarterly dividend for 2002
12/1/2003	Key Development:	8-K form filed.
12/1/2003	Key Development:	Lowes's Companies Inc. Will Build A New Regional Distribution Center In Plainfield, CT
11/24/2003	Key Development:	Washington Consumers Claim Lowes's and Home Depot Credit Card Promotions Dupes Consumers into Paying More
11/21/2003	Strategic Buyer Transaction	Status: Announced Lowes's Companies Inc. signed a definitive agreement to sell its subsidiary The Contractor Yard Inc to The Strober Organization Inc. The financial terms of the deal were not disclosed. Merrill Lynch & Co. Inc. advised Contractor Yard Inc. on the deal. Lowes's currently expects the transaction to be completed during the fourth quarter 2003.
11/17/2003	Key Development:	Lowes's Reports Third Quarter Ended Fiscal Year 2004 Results; Provides Outlook For Fourth Quarter And Full Year Fiscal 2004
11/17/2003	Key Development:	Lowes's Releases Expectations For Fourth Quarter And Full Year 2003
11/17/2003	SEC Filing	8-K form filed.

Source: Data from CapitalIQ



# Equity Research

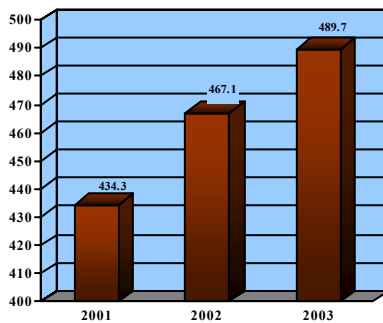




## I. Industry Highlights

### Home Retailer Industry

Remodeling Activity Indicator



Source: National Home Center News.

**... Industry giants Home Depot and Lowe's continue to grow their market share through expansion and same store volume growth.**

Over the past twenty years, the consumer home improvement market has been served increasingly by larger companies which can leverage their size to achieve significant economies of scale in purchasing. The Home Improvement Research Institute and research firm Global Insight report that US sales of home improvement products rose 6.8% to a record \$212 billion in 2003.<sup>1</sup> 2003 sales were particularly strong in the second half as consumers put aside concerns about the Iraq invasion, utilized the proceeds from federal tax cuts, and saw the overall economy indicate signs of a rebound.<sup>2</sup> Home Improvement sales continued to outpace broad market retail sales, as evidenced by indices maintained by Standard and Poor's. Through September 3, 2004, revenues in the S&P Home Improvement Retail Index were up 2.3%, year to date, comparing favorably to the 0.4% increase posted by the S&P 1500 Index.<sup>3</sup>

Amidst strong industry-wide growth, there have been significant changes in the channels through which home improvement products are sold. Large chain retailers continue to take market share from smaller, independent stores, thus increasing revenues through both expansion and same store sales growth. Within three years Home Depot and Lowe's are projected to account for one half of all home improvement products sold in the United States. The market for home repair items can be roughly broken into two primary customer groups: Do-It-Yourself (DIY) customers and commercial contractors. Historically, the primary retailers of home repair suppliers for both customer segments were local lumberyards and hardware stores. As industry giants Home Depot and Lowe's have grown their market share through expansion and same store volume growth, they have done so through the targeting of DIY customers: while they certainly attract some commercial builders, this sector is not currently a marketing priority (although Lowe's is increasingly making a move into this segment). Indeed, a

<sup>1</sup> Standard and Poor's. "Retailing: Specialty." April 8, 2004.

<sup>2</sup> Standard and Poor's. "Retailing: Specialty." April 8, 2004.

<sup>3</sup> Wagle, Yogeesh. "Industry Info: Home Improvement Retail." Standard and Poor's. (no date listed).



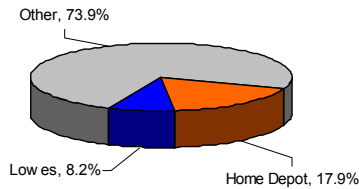
## Equity Research

highly fragmented subset of remaining independent retailers have been able to stay afloat by catering to commercial contractors and/or expanding into a broader range of products.

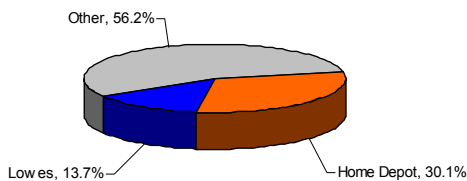
The success of the home center retail format has radically changed the economics of this sector. Increasingly, the industry has become one where consumers choose the store first and the brand second. Suppliers recognize this and understand that it is no longer enough to offer the right product at the right price, or to rely on the pull of advertising. Unlike the smaller, undifferentiated retailers who purchase through wholesalers and similar intermediaries, Home Depot and Lowe's have sought to leverage their market concentration by negotiating directly with manufacturers. As the mass merchandisers have developed deep relationships with key suppliers, they have developed another cost advantage which is squeezing out remaining independent retailers and provides a massive barrier to entry protecting the two dominant players in the industry.

For further details on sector-wide trends and observations, please refer to our September 17, 2004 report on the retail sector.<sup>4</sup> This fixed-income focused report contains a complete economic forecast for both the broad hardline retail environment and the market for home repair supplies.

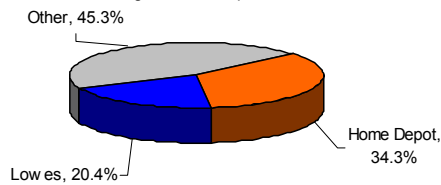
1997 Percentage of Home Improvement Sales



2002 Percentage of Home Improvement Sales



2005P Percentage of Home Improvement Sales



Source: Apex Partners Research

<sup>4</sup> Karatash, Abdullah and Len Rittberg. "Bent Over the (Oil) Barrel." Yale University. Sept. 17, 2004.



## Equity Research

### II. Company Overview

#### Admired Retailer



Based in Mooresville, N.C., the Lowe's network includes more than 1,000 home improvement stores in 45 states. The 58-year old company generated fiscal year 2003 sales of \$30.8 billion. Lowe's Companies, Inc. is a Fortune 50 company and Fortune in 2004 named Lowe's America's Most Admired Specialty Retailer for the second consecutive year.

#### Management: Reign of the Roberts

One of a group of employees named "Robert," who occupy four of the five highest job titles at Lowe's, Bob Tillman is credited with being the "architect of Lowe's big-store strategy."<sup>5</sup> A lifetime employee who joined the company in 1962, Tillman moved through the company's ranks, advancing from manager at a Lowe's store to various roles in operations and marketing before being named president and CEO in 1996 and chairman of the Board in 1998.

#### Equity Ownership

Insider ownership is negligible; nonetheless, it is interesting that a lot of insider selling activity has taken place since the firm's stock value crossed the \$50 threshold. Institutional ownership is preponderant, signaling the firm's value as a stable retail holding.

**... Institutional ownership is preponderant, signaling the firm's value as a stable retail holding.**

<sup>5</sup> Lowe's website: [www.lowes.com](http://www.lowes.com)



# Equity Research

## Ownership Summary

### Summary (1)

	<u>Shares</u>	<u>% of Total Shares Out</u>	<u>Market Value</u>
<b>Institutional Holders</b>	612,087,487	79.30	\$34,380,954,145
<b>5% Holders</b>	64,800,620	8.40	\$3,639,850,825
<b>Insiders (2)</b>	2,200,295	0.29	\$123,590,570
<b>Public and Other (3)</b>	92,758,598	12.01%	\$5,210,250,450
<b>Total Shares Outstanding</b>	<b>771,847,000</b>	<b>100%</b>	<b>\$43,354,645,990</b>

### Key Institutional Holders

	<u>Shares</u>	<u>% of Total Shares Out</u>	<u>Market Value</u>
Capital Research & Management Co	89,762,700	11.63	\$5,041,970,859
State Street Global Advisors	63,245,813	8.19	\$3,552,517,316
Alliance Capital Management	39,925,758	5.17	\$2,242,629,827
Barclays Global Investors Intl	25,030,306	3.24	\$1,405,952,288
All Others	394,122,910	51.30	\$22,137,883,855
<b>Total</b>	<b>612,087,487</b>	<b>79.30</b>	<b>\$34,380,954,145</b>

### Key Insider Holdings

<u>Insider Name</u>	<u>Common Shares Owned</u>	<u>% of Total Shares Out</u>	<u>Market Value</u>
Robert L. Tillman	483,978	0.06	\$27,185,044
Larry D. Stone	199,244	0.03	\$11,191,535
Gregory M. Bridgeford	172,557	0.02	\$9,692,527
Robert A. Niblock	54,957	0.01	\$3,086,935
Dale C. Pond	94,299	0.01	\$5,296,775
All Others	1,195,260	0.29	\$67,137,754
<b>All Directors and Officers</b>	<b>2,200,295</b>	<b>0.29</b>	<b>\$123,590,570</b>

(1) Estimated ownership composition of the company based on quarterly institutional filings (13F and 13G), 5% Owners (13D Filings) and Insider Ownership from proxy filing.

(2) Insider Holdings includes common shares held at the company's proxy filing date.

(3) Public and Other equals total shares outstanding minus the sum of Institutional Holders, 5% Owners and Insider Holders.

(Source: Capital IQ)





## II. Lowe's Growth Drivers

### Growth Trajectory

#### *Measured Expansion Strategy Provides Controlled Growth*

**Lowe's is still in its relative infancy compared to its chief direct competitor, Home Depot.**

Lowe's is still in its relative infancy compared to its chief (and for practical purposes, only) direct competitor, Home Depot. While Home Depot seems to have focused its growth strategy on second-concept store chains (EXPOS Design Centers and Landscape Supply), Lowe's still has ample room to grow its core store format domestically. It is not surprising then, that Lowe's sales growth has outpaced that of Home Depot in recent years; in fiscal 2003, Lowe's 18% sales growth compared very favorably to Home Depot's 11% growth for the same period. To be sure, some of this differential in growth rates stems from Lowe's entry into markets previously serviced only by Home Depot and local retailers. But this is not the sole factor, as home improvement shoppers have also begun to recognize Lowe's as having a more customer-friendly store format (in large part explained by the difference in store age -- the average Lowe's store is 4.5 years old versus 7 years for HD ) and a stronger emphasis on customer service.

### New Store Growth

#### *Slower growth, but directed at prime metropolitan markets*



While same store growth for Lowe's is strong, the most beguiling aspect of its anticipated trajectory stems from geographic expansion. While Home Depot is mature in its geographic footprint throughout the US, Lowe's still has many attractive markets to enter. Indeed, its anticipated store openings for 2004 has Lowe's entering attractive US markets, including the Bay Area and Southern California and rapid growth areas like Las Vegas. Even following these openings, there remain many very enticing markets for Lowe's to target for future sites.

In the early 1990s, the profile of a typical Lowe's store was very different from that of a Home Depot store. Most notable was the





## Equity Research

**Lowe's increased its average store size by a CAGR of 16% compared to Home Depot's 2% size growth...**

difference in size, with the average Lowe's store measuring less than one-fourth that of the average Home Depot. As Lowe's sought to position itself for further growth in the company life cycle, it realized that to compete with Home Depot's larger stores it would have to find an appropriate store size for its next stage of development. Recognizing a desire to emulate Home Depot's "big-box" format, Lowe's increased its average store size by a CAGR of 16% compared to Home Depot's 2% size growth over the same period. By 2000, the average store size of Lowe's was roughly equivalent to that of Home Depot, with both checking in at around 106,000 square feet, and since then Lowe's has slowed the growth of its average store size to that of Home Depot (both are about 1% annually).

### Same Store Sales Growth

#### *Special Program Sales Drive Growth Forecasts*

The key to Lowe's same store sales growth going forward is branching out into markets with premium sale prospects, such as the Las Vegas area. Lowe's is also increasing special order sales (sales directly to contractors) which will contribute substantially to the firm's bottom line. Home Depot, on the other hand, does not focus as much on sales to contractors. Our model projects steady same store sales growth going forward.



### Cost Position

Margin opportunities have become scarcer to exploit, especially given that the firm has already been operating at all-time high margins (EBIT margins upward of 10%). Lowe's strategies surrounding global sourcing, shifting its sales mix toward higher margin products and services, and the pursuit of higher margin metro market stores should continue to provide areas to improve margins.<sup>6</sup>

<sup>6</sup> Chick, Stephen and Edward Yruma, "Lowe's Companies," JP Morgan, 9/29/04.



## Equity Research

### Cost of Capital

Cost of capital is likely to decrease over time as the company takes on more debt to fund its geographic expansion plans. We use an adjusted beta (an estimate of the future beta) of 1.07.<sup>7</sup>



### III. Lowe's Forecasted Financials

#### Key Income Statement Items:

- We decomposed top-line revenue growth into: (1) geographic expansion (new stores); and (2) same store sales (SSS) growth (increased sales volume at existing stores).
  - New store growth is expected to decrease (per company guidance) from last fiscal year's 15% growth rate to the company's forecast of 12% in 2006; we project that the company will continue to slow growth, but at a more gradual rate and have new square footage growth dropping to 11% in 2012. This corresponds with recent results (there is clearly a slowing trend (1999 -24%, 2000 - 19%, 2001 - 19%), management guidance, and qualitatively with the company's expressed strategy of conservative growth in the future.
  - We are confident in the company's guidance for comp growth over the next 3 years. We feel that with prime metropolitan markets targeted for near-term expansion, the company's immediate growth period should improve per store sales volume as these new stores reach full productivity. While the company's NLP (new low price) strategy has drawn mixed reviews from analysts, we feel that it will serve to improve sales and should be especially beneficial to the company's effort to compete with Home Depot in new markets. We also accept the company's contention that the strategy will be used primarily as an advertising medium and that it will not lead to a price war. Like the analysts at UBS, we

**We are confident in the company's guidance for comp growth over the next 3 years.**

<sup>7</sup> The adjusted beta is derived from historical data but modified by the assumption that a security's beta moves toward the market average over time. The following formula is used to calculate the adjusted beta:  $(0.67) * \text{Raw beta} + (0.33) * 1$ .



## Equity Research

**... we contend that Home Depot and Lowe's both recognize that they are rational players in an oligopoly ...**

contend that Home Depot and Lowe's both recognize that they are rational players in an oligopoly industry and that they will behave appropriately to maximize margins by not engaging in fierce competitive pricing. We do expect SSS growth to slow in the more distant future, as the company is left with less attractive markets for its expansion drive. Accordingly, we reduce our Sales per Square Foot growth rate from 5% in 2005 to 4.5% in 2007 – 2009 and 4% in 2010 through 2014, the final year of our pro formas.

- Gross margins, which we calculate as a percentage of sales, have been improving as the company has increased its special order sales and contractor client base. This increased concentration of higher margin sales, coupled with increased economies of scale in negotiating purchasing agreements, adequately compensates for any margin pressures imposed by the NLP campaign in the immediate future. Accordingly, we fill comfortable normalizing gross margins at 31%, just slightly below their current levels.

### Balance Sheet Items:

- The portion of liquid assets to be retained as cash for operations is maintained as a percentage of sales and we have gradually reduced this percentage to bring it back in line with historical levels. Cash flows in excess of this amount are assumed to be invested, consistent with the company's stated intentions and historical precedent. In its most recent annual report, the company states that it "has a cash management program which provides for the investment of cash balances not expected to be used in current operations in financial instruments that have maturities of up to 10 years."
- We increase accounts receivable as a percentage of sales to account for the higher proportion of special order and contractor sales, which unlike in-store sales to DIY customers are not paid for at the time of purchase (from the Annual report: "The majority of accounts receivable arise from sales to commercial business customers").
- We decrease merchandise inventory as a percentage of sales to enumerate the effect of the company's focus on expanding in metropolitan areas, which will allow it to recognize operating synergies associated with having a greater proportion of stores in closer proximity to each other.





## Equity Research



- We forecast new store CapEx for the immediate future based on management guidance. We are comfortable with their projections for slower new store expansion and have extrapolated their prognosis through our pro formas for later years. We base our CapEx requirements on this expected growth in square footage and base our forecast of the company's cost per square foot of new store space on historical inflation scaled upward to account for the company's shift toward opening a greater proportion of new stores in metropolitan areas (where real estate and construction prices will both be higher).
- We have forecasted for the company to increase its use of debt financing as it continues its geographic expansion (for this reason, we also use an APV calculation as our primary method of DCF valuation). We have gradually adjusted the company's cost of debt ( $K_d$ ) upward throughout the analysis to account for the increased return that fixed income investors will require as the company ramps up its leverage. We do not believe that the increased cost will be too large, considering the company's track record and intended use of new capital for expansion into new attractive markets using the same store format that has already proven successful.

### IV. Recommendation: UNDERWEIGHT

**Once the euphoria fizzles out, we see Lowe's share price settling back down into the low 50's and upper 40's.**

Based on our adjusted present value calculations (please see APV valuation table following the firm's projected financials), we value Lowe's share price at \$53.15. The theoretic value of equity cash flows comes out to about \$50.41 while the present value of the tax shield comes out to a modest \$2.73. The total valuation of \$53.15 falls into line with our technical analysis of the firm's share price. There appears to be a resistance level at \$60/share and we doubt that Lowe's will be able to breach it, although it has been flirting close to that level with the post-election equity market rally. Once the euphoria fizzles out, we see Lowe's share price settling back down into the low 50's and upper 40's range.

Our analysis of the firm's comparables from a multiples perspective further supports our view that the share price is currently overvalued. A simple trailing P/E multiple (23.4x compared to an industry average of 27.5x) would value Lowe's share price at \$69. Lowe's forward P/E



## Equity Research



multiple of 18.8x exceeds the industry average of 18.7x, valuing Lowe's at a share price of \$58. A more accurate trailing TEV/EBIT multiple (13.9x compared to an industry mean of 11.3x) values Lowe's share price at \$50. Additionally, a trailing TEV/EBITDA multiple (11.2x compared to the industry mean of 7.8x) values the share price at \$43. On a purely historical basis, Lowe's is not currently trading at exceptionally high multiples, but this is explained by the companies transition from a young growth company to a maturing, stable entity. For full ranges, please refer to tables of historical and trading multiples (pgs 18-20).

With margins already significantly above historical levels, we see little room for improvement on the cost structure front. We are underweight Lowe's at current trading levels and would switch to an overweight position only if the share price dips below \$50/share, which is unlikely in the near term given that there is a lower resistance band at the \$50 level.



# Equity Research

## Income Statement

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Net Sales</b>	<b>21,714</b>	<b>26,112</b>	<b>30,838</b>	<b>36,751</b>	<b>43,501</b>	<b>51,190</b>	<b>59,971</b>	<b>70,189</b>	<b>81,705</b>	<b>95,018</b>	<b>110,395</b>	<b>127,562</b>	<b>147,258</b>
Cost of Sales	15,427	18,164	21,231	25,358	30,016	35,321	41,380	48,431	56,376	65,563	76,173	88,018	101,608
<b>Gross Margin</b>	<b>6,287</b>	<b>7,948</b>	<b>9,607</b>	<b>11,393</b>	<b>13,485</b>	<b>15,869</b>	<b>18,591</b>	<b>21,759</b>	<b>25,328</b>	<b>29,456</b>	<b>34,222</b>	<b>39,544</b>	<b>45,650</b>
Expenses:													
Selling, General, Administrative	3,857	4,676	5,543	6,606	7,819	9,201	10,779	12,616	14,686	17,079	19,843	22,929	26,469
Store Opening Costs	140	129	128	153	181	212	249	291	339	394	458	529	611
Depreciation	513	622	758	903	1,069	1,258	1,474	1,725	2,008	2,336	2,714	3,135	3,620
Interest	174	182	180	215	254	299	350	410	477	555	644	745	860
<b>Total Expenses</b>	<b>4,684</b>	<b>5,609</b>	<b>6,609</b>	<b>7,876</b>	<b>9,323</b>	<b>10,971</b>	<b>12,852</b>	<b>15,043</b>	<b>17,510</b>	<b>20,364</b>	<b>23,659</b>	<b>27,338</b>	<b>31,559</b>
Pre-Tax Earnings	1,603	2,339	2,998	3,517	4,163	4,898	5,738	6,716	7,818	9,092	10,563	12,206	14,091
Income Tax Provision	593	880	1,136	1,333	1,577	1,856	2,174	2,545	2,962	3,445	4,003	4,625	5,339
<b>Earnings from Continuing Operations</b>	<b>1,010</b>	<b>1,459</b>	<b>1,862</b>	<b>2,184</b>	<b>2,585</b>	<b>3,042</b>	<b>3,564</b>	<b>4,171</b>	<b>4,856</b>	<b>5,647</b>	<b>6,561</b>	<b>7,581</b>	<b>8,751</b>
Earnings from Discont Ops (net of tax)	13	12	15	15	15	15	15	15	15	15	15	15	15
<b>Net Earnings</b>	<b>1,023</b>	<b>1,471</b>	<b>1,877</b>	<b>2,199</b>	<b>2,600</b>	<b>3,057</b>	<b>3,579</b>	<b>4,186</b>	<b>4,871</b>	<b>5,662</b>	<b>6,576</b>	<b>7,596</b>	<b>8,766</b>
<b>Basic Earnings Per Share</b>													
Continuing Operations	1.31	1.87	2.37	2.78	3.23	3.80	4.45	5.21	6.07	7.06	8.20	9.48	10.94
Discontinuing Operations	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Basic Earnings Per Share	1.33	1.89	2.39	2.80	3.25	3.82	4.47	5.23	6.09	7.08	8.22	9.50	10.96
<b>Diluted Earnings Per Share</b>													
Continuing Operations	1.28	1.83	2.32	2.72	3.22	3.79	4.44	5.20	6.05	7.04	8.17	9.45	10.90
Discontinuing Operations	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Diluted Earnings Per Share	1.30	1.85	2.34	2.74	3.24	3.81	4.46	5.22	6.07	7.06	8.19	9.47	10.92
Cash Dividends Per Share	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00

## Growth Assumptions

Sales Growth		20.3%	18.1%	19.2%	18.4%	17.7%	17.2%	17.0%	16.4%	16.3%	16.2%	15.6%	15.4%
Average Square Footage (000 sq. ft.)	90,025	102,350	116,735	132,494	149,718	168,433	188,645	211,283	235,580	262,672	292,879	325,096	360,856
Square Footage Growth	17.0%	15.0%	14.0%	13.5%	13.0%	12.5%	12.0%	12.0%	11.5%	11.5%	11.5%	11.0%	11.0%
Sales Per Square Foot	0.241	0.255	0.264	0.277	0.291	0.304	0.318	0.332	0.347	0.362	0.377	0.392	0.408
Sales Per Sq Ft (Comp) Growth Rate		5.8%	3.5%	5.0%	4.8%	4.6%	4.6%	4.5%	4.4%	4.3%	4.2%	4.1%	4.0%

Data Source: Lowe's 10Ks, Annual Reports



# Equity Research

## Balance Sheet

Assets	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Current Assets:</b>										
Cash and Cash Equivalents	799	853	1,446	1,707	1,988	2,304	2,670	3,081	3,538	4,062
Short-Term Investments	54	273	178	1,103	2,534	4,305	6,505	9,344	12,753	16,862
Accounts Receivable	166	172	131	163	199	242	293	354	424	507
Merchandise Inventory	3,611	3,968	4,584	5,412	6,302	7,304	8,465	9,767	11,215	12,878
Deferred Income Taxes	93	58	59	70	82	95	111	129	149	172
Other Assets	197	244	289	343	401	467	545	631	729	841
<b>Total Current Assets</b>	<b>4,920</b>	<b>5,568</b>	<b>6,687</b>	<b>8,798</b>	<b>11,507</b>	<b>14,717</b>	<b>18,589</b>	<b>23,306</b>	<b>28,807</b>	<b>35,321</b>
<b>Long-term Assets:</b>										
Gross Property, Plant & Equipment	10,632	12,817	15,191	17,746	19,450	22,403	23,963	26,592	28,430	32,483
Accumulated Depreciation	1,979	2,465	3,246	5,490	6,367	7,659	8,425	9,267	10,194	11,213
Property, less Accumulated Depreciation	8,653	10,352	11,945	12,256	13,083	14,744	15,539	17,325	18,236	21,270
Long-Term Investments	22	29	169	201	235	273	318	369	426	492
Other Assets	141	160	241	286	335	390	454	527	608	701
<b>Total Assets</b>	<b>13,736</b>	<b>16,109</b>	<b>19,042</b>	<b>21,540</b>	<b>25,159</b>	<b>30,125</b>	<b>34,901</b>	<b>41,527</b>	<b>48,077</b>	<b>57,784</b>
Liabilities & Shareholder's Equity	2,002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Current Liabilities:</b>										
Short-Term Borrowings	100	50	-	-	-	-	-	-	-	-
Current Maturities of Long-Term Debt	59	29	77	91	107	125	145	168	194	224
Accounts Payable	1,715	1,943	2,366	2,807	3,286	3,827	4,458	5,169	5,965	6,884
Employee Retirement Plans	126	88	74	88	103	120	139	162	187	215
Accrued Salaries & Wages	221	306	335	397	465	542	631	732	845	975
Other Current Liabilities	796	1,162	1,516	1,781	2,063	2,379	2,744	3,150	3,599	4,111
<b>Total Current Liabilities</b>	<b>3,017</b>	<b>3,578</b>	<b>4,368</b>	<b>5,165</b>	<b>6,024</b>	<b>6,993</b>	<b>8,117</b>	<b>9,381</b>	<b>10,789</b>	<b>12,410</b>
<b>Long-term Liabilities:</b>										
Long-Term Debt, Excluding Current Maturities	3,734	3,736	3,678	5,177	6,379	8,148	9,835	12,333	14,659	18,345
Deferred Income Taxes	305	478	657	780	912	1,063	1,238	1,435	1,657	1,912
Other Long-Term Liabilities	6	15	30	22	31	38	41	49	57	64
<b>Total Liabilities</b>	<b>7,062</b>	<b>7,807</b>	<b>8,733</b>	<b>10,341</b>	<b>12,100</b>	<b>14,088</b>	<b>16,395</b>	<b>19,002</b>	<b>21,916</b>	<b>25,276</b>
<b>Shareholders' Equity</b>										
Common Stock Issued & Outstanding	388	391	394	394	394	394	394	394	394	394
Capital in Excess of Par Value	1,803	2,023	2,237	2,237	2,237	2,237	2,237	2,237	2,237	2,237
Retained Earnings	4,482	5,887	7,677	7,765	9,180	11,252	13,038	15,697	18,283	22,422
Accumulated Other Comprehensive Income	1	1	1	1	1	1	1	1	1	1
<b>Total Shareholders' Equity</b>	<b>6,674</b>	<b>8,302</b>	<b>10,309</b>	<b>11,198</b>	<b>13,058</b>	<b>16,038</b>	<b>18,506</b>	<b>22,525</b>	<b>26,161</b>	<b>32,508</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>13,736</b>	<b>16,109</b>	<b>19,042</b>	<b>21,540</b>	<b>25,159</b>	<b>30,125</b>	<b>34,901</b>	<b>41,527</b>	<b>48,077</b>	<b>57,784</b>

Data Source: Lowe's 10Ks, Annual Reports





# Equity Research

## Statement of Cash Flows

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Cash Flows from Operating Activities</b>									
Net Earnings	1,023	1,471	1,877	2,199	2,600	3,057	3,579	4,186	4,871
Earnings from Discontinued Operations, Net of Tax	(13)	(12)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
Earnings from Continuing Operations	1,010	1,459	1,862	2,184	2,585	3,042	3,564	4,171	4,856
Adjustments to Reconcile Net Earnings From Continuing Operations to Net Cash Provided by Operating Activities									
Depreciation & Amortization	530	641	781	899	1,053	1,226	1,428	1,656	1,911
Deferred Income Taxes	42	208	178	123	133	150	175	198	221
Loss on Disposition/Writedown of Fixed & Other Assets	39	18	31						
Stock-Based Compensation Expense	-	-	41	-	-	-	-	-	-
Tax Effect of Stock Options Exercised	35	29	31	32	31	32	32	32	33
Changes in Operating Assets & Liabilities									
Accounts Receivable - Net	(5)	(9)	2	(32)	(36)	(43)	(51)	(60)	(70)
Merchandise Inventory	(326)	(357)	(648)	(828)	(890)	(1,002)	(1,161)	(1,302)	(1,448)
Other Operating Assets	(37)	(41)	(45)	(45)	(49)	(55)	(64)	(72)	(81)
Accounts Payable	1	228	423	441	478	541	631	711	796
Employee Retirement Plans	114	40	(14)	14	15	17	20	22	25
Other Operating Liabilities	193	461	399	265	283	316	364	406	449
<b>Net Cash Provided by Operating Activities from Continuing Operations</b>	<b>1,596</b>	<b>2,677</b>	<b>3,041</b>	<b>3,054</b>	<b>3,602</b>	<b>4,225</b>	<b>4,937</b>	<b>5,762</b>	<b>6,691</b>
<b>Cash Flows from Investing Activities:</b>									
Decrease (Increase) in Investment Assets:									
Short-Term Investments	(30)	(203)	139	(725)	(1,031)	(1,370)	(1,604)	(2,239)	(2,909)
Net Impact of Sale/Maturity (Purchases) of Long-Term Investments	2	(24)	(188)	(32)	(34)	(39)	(45)	(51)	(57)
Increase in Other Long-Term Assets	(14)	(33)	(95)	(45)	(49)	(55)	(64)	(72)	(81)
Fixed Assets Acquired	(2,196)	(2,359)	(2,444)	(2,555)	(2,705)	(2,767)	(2,869)	(2,961)	(3,035)
Proceeds from the Sale of Fixed and Other Long-Term Assets	42	44	45	50	54	60	66	72	80
<b>Net Cash Used in Investing Activities from Continuing Operations</b>	<b>(2,196)</b>	<b>(2,575)</b>	<b>(2,543)</b>	<b>(3,307)</b>	<b>(3,764)</b>	<b>(4,171)</b>	<b>(4,517)</b>	<b>(5,251)</b>	<b>(6,002)</b>
<b>Cash Flows from Financing Activities:</b>									
Net Decrease in Short-Term Borrowings	(150)	(50)	(50)	-	-	-	-	-	-
Net Change in Long-Term Debt	1,024	(63)	(29)	697	758	861	1,005	1,137	1,277
Proceeds from Employee Stock Purchase Plan	38	50	52	54	56	58	61	63	66
Proceeds from Stock Options Exercised	77	65	97	0	0	0	0	0	0
Cash Dividend Payments	(60)	(66)	(87)	(60)	(60)	(60)	(60)	(60)	(60)
<b>Net Cash (Used in) Provided by Financing Activities from Continuing Operations</b>	<b>929</b>	<b>(64)</b>	<b>(17)</b>	<b>691</b>	<b>755</b>	<b>859</b>	<b>1,006</b>	<b>1,141</b>	<b>1,283</b>
<b>Net Cash Provided by Discontinued Operations</b>	<b>14</b>	<b>16</b>	<b>112</b>	<b>112</b>	<b>112</b>	<b>112</b>	<b>112</b>	<b>112</b>	<b>112</b>
Net Increase in Cash & Cash Equivalents	329	38	481	438	592	914	1,427	1,652	1,971
Cash and Cash Equivalents, Beginning of Year	456	799	853	1,446	1,707	1,988	2,304	2,670	3,081
<b>Cash and Cash Equivalents, End of Year</b>	<b>799</b>	<b>853</b>	<b>1,446</b>	<b>1,707</b>	<b>1,988</b>	<b>2,304</b>	<b>2,670</b>	<b>3,081</b>	<b>3,538</b>

Data Source: Lowe's 10Ks, Annual Reports





# Equity Research

## Adjusted Present Value Calculations

### Cost of Equity Calculation:

Equity Risk Premium = 7% per Ibbotson Associates S&P  
 Risk-free rate = 4.07% (UST4.25 08/15/14 at close 11/04/04)  
 Beta = 1.07% (Lowe's Adjusted Beta per Bloomberg)  
 Equity Discount Rate R(e) = [Beta \* RP] + R(f)  
**R(e) = 11.6%**

### Terminal Value Calculation:

Terminal Value = Final Cash Flow / (rate equity - growth)  
 TV = CF Yr 2014/ (R(e) - g)  
 TV = \$5916/ (11.6% - 2%)  
**TV = \$ 61,883**

### Cost of Debt:

Cost of Debt K(d) = 4.65% (yield on LOW8.25 06/01/10 on 11/04/04  
 + spread between 5-yr UST and 10-yr UST)  
**K(d) = 4.65%**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	TV
All Equity Cash Flows	1,023	1,574	1,841	2,264	2,628	3,049	3,382	4,032	4,660	5,174	5,916	61,883
Discount Factor (r = 11.6%)	1.00	0.90	0.80	0.72	0.65	0.58	0.52	0.46	0.42	0.37	0.33	0.33
Discounted Value	1,023	1,411	1,480	1,631	1,696	1,765	1,755	1,875	1,942	1,933	1,981	20,725

Total Discounted Value =	\$ 39,214.92
Share Outstanding =	777.847
<b>Theoretic Value Equity Cash Flows =</b>	<b>\$ 50.41</b>

### Tax Shield:

#### Cash Flow from Tax Shield

Tax Rate	37.9%	37.9%	37.9%	37.9%	37.9%	37.9%	37.9%	37.9%	37.9%	37.9%	37.9%
D	3,678	5,177	6,379	8,148	9,835	12,333	14,659	18,345	21,640	25,997	29,943
Kd *	4.65%	4.65%	4.69%	4.73%	4.77%	4.81%	4.84%	4.88%	4.91%	4.95%	5.00%
CF(tax shield)	65	91	113	146	178	225	269	339	403	487	567
Discount Factor (r = 3.95%)	1.00	0.96	0.91	0.87	0.83	0.80	0.76	0.73	0.70	0.66	0.63
Discounted Value	65	87	104	127	148	179	205	247	280	324	360

Total Discounted Value =	\$ 2,125.42
Share Outstanding =	777.847
<b>Theoretic Value Equity Cash Flows =</b>	<b>\$ 2.73</b>

<b>Total Theoretical Value =</b>	<b>\$ 53.15</b>
----------------------------------	-----------------

\* We increase Kd in future periods to enumerate the impact that increasing the firm's leverage will have on the firm's perceived credit quality and hence on its cost of debt financing.



# Equity Research

## Lowe's Corp Historical Ratios

For the 12 Months Ending	1/28/2000	2/2/2001	2/1/2002	1/31/2003	1/30/2004	LTM 7/30/2004
<b>Profitability</b>						
Return on Assets %	9.1%	8.6%	8.9%	10.6%	11.3%	11.3%
Return on Capital %	12.4%	11.6%	11.7%	13.9%	15.2%	15.7%
Return on Equity %	16.2%	15.9%	16.6%	19.5%	20.0%	20.2%
<b>Margin Analysis</b>						
Gross Margin %	27.5%	28.2%	29.0%	30.4%	31.2%	32.5%
EBITDA Margin %	9.5%	9.6%	10.6%	12.1%	12.8%	12.6%
EBIT Margin %	7.4%	7.5%	8.2%	9.7%	10.3%	10.1%
Earnings from Cont Ops Margin %	4.2%	4.3%	4.7%	5.6%	6.0%	5.9%
Net Income Margin %	4.2%	4.3%	4.7%	5.6%	6.1%	6.0%
Net Inc. Avail. for Common Margin %	4.2%	4.3%	4.7%	5.6%	6.0%	5.9%
<b>Asset Turnover</b>						
Total Asset Turnover	2.0x	1.8x	1.7x	1.7x	1.8x	1.8x
Fixed Asset Turnover	3.4x	3.1x	2.8x	2.7x	2.8x	2.8x
Accounts Receivable Turnover	109.0x	121.6x	132.8x	154.5x	203.6x	286.1x
Inventory Turnover	4.4x	4.4x	4.5x	4.8x	5.0x	4.6x
<b>Short Term Liquidity</b>						
Current Ratio	1.5x	1.4x	1.6x	1.6x	1.5x	1.4x
Quick Ratio	0.3x	0.2x	0.3x	0.4x	0.4x	0.2x
Cash from Ops. to Curr. Liab.	0.5x	0.4x	0.5x	0.8x	0.7x	0.7x
Avg. Days Sales Out.	3.3	3.0	2.7	2.3	1.8	1.3
Avg. Days Inventory Out.	81.2	81.4	80.5	75.1	72.5	78.1
Avg. Days Payable Out.	42.0	42.3	39.2	35.6	35.5	38.9
Avg. Cash Conversion Cycle	42.5	42.0	44.0	41.9	38.8	40.4
<b>Long Term Solvency</b>						
Total Debt/Equity	40.0%	54.4%	58.3%	46.0%	36.4%	35.1%
Total Debt/Capital	28.6%	35.2%	36.8%	31.5%	26.7%	26.0%
LT Debt/Equity	36.8%	49.1%	55.9%	45.0%	35.7%	34.7%
LT Debt/Capital	26.3%	31.8%	35.3%	30.8%	26.2%	25.7%
Total Liabilities/Total Assets	47.9%	51.6%	51.4%	48.5%	45.9%	46.5%
EBIT / Interest Exp.	9.5x	9.6x	9.0x	12.4x	16.3x	17.6x
EBITDA / Interest Exp.	12.3x	12.4x	11.7x	15.6x	20.3x	21.9x
(EBITDA-CAPEX) / Interest Exp.	0.3x	NM	0.6x	4.0x	7.8x	7.5x
Total Debt/EBITDA	1.2x	1.7x	1.7x	1.2x	0.9x	0.9x
Net Debt/EBITDA	0.9x	1.4x	1.3x	0.9x	0.5x	0.6x
Altman Z Score	5.5	4.9	5.5	5.2	5.8	5.7
<b>Growth Over Prior Year</b>						
Total Revenues	19.3%	18.1%	15.6%	20.3%	18.1%	21.4%
Gross Profit	22.6%	20.8%	18.8%	26.4%	20.9%	27.1%
EBITDA	30.5%	20.0%	27.3%	37.1%	25.2%	20.2%
EBIT	35.0%	19.6%	26.7%	41.9%	26.1%	20.4%
Earnings from Cont. Ops.	34.5%	20.4%	24.7%	44.5%	27.6%	21.0%
Net Income	34.5%	20.4%	26.3%	43.8%	27.6%	20.5%
Diluted EPS before Extra	31.3%	19.3%	21.9%	43.0%	26.8%	20.5%
Net PP&E	26.7%	35.9%	23.0%	19.6%	15.4%	17.4%
Common Equity	29.7%	17.0%	21.5%	24.4%	24.2%	12.5%
Total Assets	27.2%	26.0%	20.9%	17.3%	18.2%	9.2%
Cash from Ops.	60.5%	(5.6%)	42.5%	67.3%	17.1%	17.6%
Capital Expenditures	36.6%	58.4%	(5.8%)	7.4%	3.6%	14.0%
Dividend per Share	5.0%	14.3%	11.1%	6.3%	29.4%	(3.7%)
<b>Over Two Years</b>						
Total Revenues	19.7%	18.7%	16.8%	17.9%	19.2%	18.2%
Gross Profit	21.8%	21.7%	19.8%	22.6%	23.6%	23.7%
EBITDA	27.7%	25.1%	23.6%	32.1%	31.0%	23.7%
EBIT	32.3%	27.1%	23.1%	34.1%	33.7%	24.8%
Earnings from Cont. Ops.	32.5%	27.2%	22.5%	34.2%	35.8%	25.8%
Net Income	32.5%	27.2%	23.3%	34.8%	35.5%	25.5%
Diluted EPS before Extra	30.1%	25.2%	20.6%	32.0%	34.6%	25.3%
Net PP&E	31.3%	31.2%	29.3%	21.3%	17.5%	17.8%
Common Equity	34.4%	23.2%	19.2%	22.9%	24.3%	17.8%



# Equity Research

## Lowe's Corp Historical Multiples

For the 12 Months Ending	8/1/2003	10/31/2003	1/30/2004	4/30/2004	7/30/2004	7/30/2004
<b>Operating Results</b>						
Total Revenue	28,517.0	30,027.0	30,838.0	32,401.0	33,904.0	33,904.0
EBITDA	3,587.0	3,806.0	3,959.0	4,054.0	4,273.0	4,273.0
EBIT	2,877.0	3,062.0	3,178.0	3,243.0	3,432.0	3,432.0
Diluted EPS before Extra	2.1	2.2	2.3	2.4	2.5	2.5
Book Value/Share	11.9	12.6	13.1	13.4	13.7	13.7
Tangible Book Value/Share	11.9	12.6	13.1	13.4	13.7	13.7
<b>Valuation</b>						
Beg. of Avg. Stock Price Period	07/31/2003	10/31/2003	02/02/2004	04/30/2004	08/02/2004	-
End of Avg. Stock Price Period	10/30/2003	01/30/2004	04/29/2004	07/30/2004	10/21/2004	11/02/2004
Avg. Stock Price	53.6	55.9	54.6	52.1	52.1	58.3
x Avg. Shares Out.	780.5	781.5	782.8	785.0	785.8	771.8
= Avg. Market Capitalization	41,810.1	43,680.2	42,769.8	40,881.2	40,913.1	44,991.0
- Cash & Short Term Investments	1,687.0	1,322.0	1,624.0	1,991.0	1,031.0	1,031.0
+ Total Debt	3,757.0	3,758.0	3,755.0	3,746.0	3,698.0	3,698.0
+ Pref. Stock	-	-	-	-	-	-
+ Minority Interest	-	-	-	-	-	-
= Total Enterprise Value (TEV)	43,880.1	46,116.2	44,900.8	42,636.2	43,580.1	47,658.0
<b>Historical Multiples</b>						
TEV/Total Revenue	1.5x	1.5x	1.5x	1.3x	1.3x	1.4x
TEV/EBITDA	12.2x	12.1x	11.3x	10.5x	10.2x	11.2x
TEV/EBIT	15.3x	15.1x	14.1x	13.1x	12.7x	13.9x
P/Dil. EPS before Extra	25.6x	25.1x	23.6x	22.2x	20.9x	23.4x
P/BV	4.5x	4.5x	4.2x	3.9x	3.8x	4.3x
Price/Tang BV	4.5x	4.5x	4.2x	3.9x	3.8x	4.3x

Source: Data from CapitalIQ



# Equity Research

## Lowe's Corp Historical Ratios

For the 12 Months Ending	1/28/2000	2/2/2001	2/1/2002	1/31/2003	1/30/2004	LTM 7/30/2004
<b><u>Pension Information</u></b>						
Def. Contribution Plan Cost	95.0	96.2	85.7	134.0	117.0	87.0
Total Pension Expense	95.0	96.2	85.7	134.0	117.0	87.0
<b><u>Total Warrants and Options Outstanding</u></b>						
Out. at Beginning of Year	9.5	11.5	11.1	15.6	19.2	20.8
Issued During the Year	4.0	2.3	7.4	10.9	5.6	4.9
Exercised During the Year	1.4	1.5	1.3	5.6	2.9	3.8
Cancelled During the Year	0.6	1.2	1.7	1.6	1.1	1.1
Out. at the End of Year	11.5	11.1	15.6	19.2	20.8	20.8
W/Avg. Exercise Price of Options Out.	13.4	16.2	-	-	-	-
<b><u>Fixed Payment Schedule</u></b>						
LT Debt Due +1	86.1	44.6	26.3	40.3	8.2	77.0
LT Debt Due +2	35.9	26.1	43.3	8.8	55.6	601.3
LT Debt Due +3	16.6	42.7	12.0	55.7	608.9	7.9
LT Debt Due +4	43.9	11.3	59.2	609.0	7.7	60.3
LT Debt Due +5	0.9	58.5	612.7	7.7	60.9	5.9
LT Debt Due, Next Five Yrs	183.4	183.2	753.5	721.5	741.3	752.5
LT Debt Due, Due after 5 Yrs	NA	NA	NA	NA	NA	3,002.5
Cap. Lease Payment Due +1	13.0	15.3	16.0	18.9	21.0	23.0
Cap. Lease Payment Due +2	28.7	30.4	31.1	33.4	35.3	35.7
Cap. Lease Payment Due +3	28.7	30.2	31.1	33.3	34.2	35.7
Cap. Lease Payment Due +4	28.7	30.2	31.1	32.3	34.2	35.7
Cap. Lease Payment Due +5	28.6	30.1	31.0	32.2	34.2	34.5
Cap. Lease Payment Due, Next 5 Yrs	127.6	136.3	140.3	150.2	158.8	164.5
Operating Lease Commitment +1	105.9	153.1	161.7	187.7	212.0	225.0
Operating Lease Commitment +2	109.2	150.5	165.8	192.4	207.0	221.0
Operating Lease Commitment +3	106.0	145.0	160.1	187.0	205.0	217.0
Operating Lease Commitment +4	102.3	142.4	154.5	181.3	202.0	217.0
Operating Lease Commitment +5	101.7	142.0	150.2	177.2	201.0	215.0
Operating Lease Commitment, Next 5 Yrs	525.0	733.1	792.3	925.6	1,027.0	1,095.0
Operating Lease Commitment, Due after 5 Yrs	1,314.7	1,808.8	1,640.6	2,065.7	2,136.0	2,125.0

Source: Data from CapitalIQ



# Equity Research

## Comparables: Basic Financial Data

Company Name	Stock Price 11/03/2004	Shares Outst.	Market Cap	Net Debt	TEV	Tang BV/ Share	Last 12 Months					Next 12 Mos. Estimated	
							LTM as of	Revenue	EBITDA	EBIT	EPS	Revenue	EPS
Home Depot Inc., The (NYSE:HD)	\$ 41.21	2,195.4	\$ 90,474.4	\$ (2,038.0)	\$ 88,436.4	\$ 9.6	07/31/04	\$ 69,233.0	\$ 8,742.0	\$ 7,535.0	\$ 2.1	\$ 75,884.0	\$ 2.38
Staples Inc. (NASD:SPLS)	\$ 30.00	497.6	\$ 14,927.2	\$ (535.1)	\$ 14,392.1	\$ 4.6	07/31/04	\$ 13,803.6	\$ 1,283.2	\$ 1,006.1	\$ 1.2	\$ 14,933.7	\$ 1.47
Office Depot Inc. (NYSE:ODP)	\$ 16.45	312.4	\$ 5,139.2	\$ (388.6)	\$ 4,750.6	\$ 6.6	09/30/04	\$ 13,346.7	\$ 810.8	\$ 542.5	\$ 1.1	\$ 14,413.5	\$ 1.22
Circuit City Stores Inc. (NYSE:CC)	\$ 16.40	195.4	\$ 3,204.7	\$ (924.5)	\$ 2,280.2	\$ 9.5	08/31/04	\$ 10,089.5	\$ 322.1	\$ 149.6	\$ 0.2	\$ 10,891.7	\$ 0.53
Jo-Ann Stores Inc. (NYSE:JAS)	\$ 24.40	22.6	\$ 551.6	\$ 144.0	\$ 695.6	\$ 15.2	07/31/04	\$ 1,776.0	\$ 148.7	\$ 109.3	\$ 2.1	\$ 1,808.2	\$ 2.12
<b>Lowe's Companies Inc.</b>	<b>\$ 58.29</b>	<b>771.8</b>	<b>\$ 44,991.0</b>	<b>\$ 2,667.0</b>	<b>\$ 47,658.0</b>	<b>\$ 13.7</b>	<b>07/31/04</b>	<b>\$ 33,904.0</b>	<b>\$ 4,273.0</b>	<b>\$ 3,432.0</b>	<b>\$ 2.5</b>	<b>\$ 39,153.8</b>	<b>\$ 3.10</b>

(\$ in millions, except per share data)

Data & Estimates Reported by CapitalIQ

## Comparables: Operating Metrics

Company Name	LTM Margin (%)				One-Yr Growth (%)				Debt/ Capital	Long Term Growth Est.
	Gross	EBITDA	EBIT	Net Income	Revenue	EBITDA	EBIT	Net Income		
Home Depot Inc., The (NYSE:HD)	32.6	12.6	10.9	6.8	13.9	23.5	23.4	23.7	6.8	13.6
Staples Inc. (NASD:SPLS)	28.7	9.3	7.3	4.5	11.8	34.8	50.0	54.4	16.5	16.5
Office Depot Inc. (NYSE:ODP)	31.4	6.1	4.1	2.5	11.7	10.1	5.8	12.9	21.6	11.5
Circuit City Stores Inc. (NYSE:CC)	23.5	3.2	1.5	0.7	4.0	51.2	334.8	-	1.4	13.9
Jo-Ann Stores Inc. (NYSE:JAS)	47.2	8.4	6.2	2.6	5.1	NM	NM	28.3	30.6	13.4
<b>High</b>	<b>47.2</b>	<b>12.6</b>	<b>10.9</b>	<b>6.8</b>	<b>13.9</b>	<b>51.2</b>	<b>334.8</b>	<b>54.4</b>	<b>30.6</b>	<b>16.5</b>
<b>Low</b>	<b>23.5</b>	<b>3.2</b>	<b>1.5</b>	<b>0.7</b>	<b>4.0</b>	<b>10.1</b>	<b>5.8</b>	<b>-</b>	<b>1.4</b>	<b>11.5</b>
<b>Mean</b>	<b>32.7</b>	<b>7.9</b>	<b>6.0</b>	<b>3.4</b>	<b>9.3</b>	<b>29.9</b>	<b>103.5</b>	<b>23.9</b>	<b>15.4</b>	<b>13.8</b>
<b>Median</b>	<b>31.4</b>	<b>8.4</b>	<b>6.2</b>	<b>2.6</b>	<b>11.7</b>	<b>29.1</b>	<b>36.7</b>	<b>23.7</b>	<b>16.5</b>	<b>13.6</b>
<b>Lowe's Companies Inc. (NYSE:LOW)</b>	<b>32.5</b>	<b>12.6</b>	<b>10.1</b>	<b>6.0</b>	<b>21.4</b>	<b>20.2</b>	<b>20.4</b>	<b>20.5</b>	<b>26.0</b>	<b>17.6</b>

(% of 100)

Data & Estimates Reported by CapitalIQ



## Equity Research

### Comparables: Trading Multiples

Company Name	Market Cap	Enterprise Value	Last 12 Months					Next 12 Months Estimated	
			TEV/Rev	TEV/EBITDA	TEV/EBIT	P/E	P/Tang BV	TEV/Rev	P/E
Home Depot Inc., The (NYSE:HD)	\$ 90,474.4	\$ 88,436.4	1.3x	10.1x	11.7x	19.6x	4.3x	1.2x	17.3x
Staples Inc. (NASD:SPLS)	\$ 14,927.2	\$ 14,392.1	1.0x	11.2x	14.3x	24.2x	6.5x	1.0x	20.4x
Office Depot Inc. (NYSE:ODP)	\$ 5,139.2	\$ 4,750.6	0.4x	5.9x	8.8x	15.6x	2.5x	0.3x	13.5x
Circuit City Stores Inc. (NYSE:CC)	\$ 3,204.7	\$ 2,280.2	0.2x	7.1x	15.2x	66.2x	1.7x	0.2x	31.0x
Jo-Ann Stores Inc. (NYSE:JAS)	\$ 551.6	\$ 695.6	0.4x	4.7x	6.4x	11.8x	1.6x	0.4x	11.5x
<b>Mean</b>	<b>22,859.4</b>	<b>22,111.0</b>	<b>0.7x</b>	<b>7.8x</b>	<b>11.3x</b>	<b>27.5x</b>	<b>3.3x</b>	<b>0.6x</b>	<b>18.7x</b>
<b>Median</b>	<b>5,139.2</b>	<b>4,750.6</b>	<b>0.4x</b>	<b>7.1x</b>	<b>11.7x</b>	<b>19.6x</b>	<b>2.5x</b>	<b>0.4x</b>	<b>17.3x</b>
<b>High</b>	<b>90,474.4</b>	<b>88,436.4</b>	<b>1.3x</b>	<b>11.2x</b>	<b>15.2x</b>	<b>66.2x</b>	<b>6.5x</b>	<b>1.2x</b>	<b>31.0x</b>
<b>Low</b>	<b>551.6</b>	<b>695.6</b>	<b>0.2x</b>	<b>4.7x</b>	<b>6.4x</b>	<b>11.8x</b>	<b>1.6x</b>	<b>0.2x</b>	<b>11.5x</b>
<b>Lowe's Companies Inc. (NYSE:LOW)</b>	<b>\$ 44,991.0</b>	<b>\$ 47,658.0</b>	<b>1.4x</b>	<b>11.2x</b>	<b>13.9x</b>	<b>23.4x</b>	<b>4.3x</b>	<b>1.2x</b>	<b>18.8x</b>

(\$ in millions, except per share data)

Data & Estimates Reported by CapitalIQ

### Lowe's Theoretical Price: Trading Multiples

	Last 12 Months					Next 12 Months Estimated	
	TEV/Rev	TEV/EBITDA	TEV/EBIT	P/E	P/Tang BV	TEV/Rev	P/E
<b>Mean</b>	<b>29</b>	<b>43</b>	<b>50</b>	<b>69</b>	<b>45</b>	<b>31</b>	<b>58</b>
<b>Median</b>	<b>17</b>	<b>39</b>	<b>52</b>	<b>49</b>	<b>34</b>	<b>20</b>	<b>54</b>
<b>High</b>	<b>56</b>	<b>62</b>	<b>68</b>	<b>165</b>	<b>89</b>	<b>59</b>	<b>96</b>
<b>Low</b>	<b>10</b>	<b>26</b>	<b>28</b>	<b>30</b>	<b>22</b>	<b>11</b>	<b>36</b>



## Equity Research

### Important Disclaimer

**Please read this document before reading this report.**

This report has been written by MBA students at Yale's School of Management in partial fulfillment of their course requirements. *The report is a student and not a professional report.* It is intended solely to serve as an example of student work at Yale's School of Management. It is not intended as investment advice. It is based on publicly available information and may not be complete analyses of all relevant data. If you use this report for any purpose, you do so at your own risk.

**YALE UNIVERSITY, YALE SCHOOL OF MANAGEMENT, AND YALE UNIVERSITY'S OFFICERS, FELLOWS, FACULTY, STAFF, AND STUDENTS MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, ABOUT THE ACCURACY OR SUITABILITY FOR ANY USE OF THESE REPORTS, AND EXPRESSLY DISCLAIM RESPONSIBILITY FOR ANY LOSS OR DAMAGE, DIRECT OR INDIRECT, CAUSED BY USE OF OR RELIANCE ON THESE REPORTS.**