



Kevin Deutsch

Company: **Lowe's**

Recommendation: **BUY**

Recent Price: \$31.50

Ticker: **LOW**

Target Price: \$38.50

HIGHLIGHTS

- Large-cap growth stock with market cap of \$48B
- Lowe's management has strategically differentiated the firm from its competitors
- Plans to aggressively expand number of stores—within the US and internationally
- Key demographics reaching ages most desirable for LOW customers
- Under modest assumptions, a discounted cash flow model suggests a fair value of \$38-\$40/share, indicative of moderate undervaluation
- Risks include continued slump in housing market and a slowdown in consumer spending

KEY STATISTICS

	Lowe's	Industry
Profitability		
Gross Margin	34.5%	34.0%
EBITDA Margin	13.5%	12.9%
Operating Margin	10.7%	10.5%
Net Margin	6.6%	6.4%
Return on Assets	11.8%	11.8%
Return on Equity	20.7%	21.5%
Return on Investments	15.5%	15.9%
Value		
P/E Ratio - 1yr	15.9	14.9
Growth		
Sales - 5yr Growth	16.7%	13.2%
EPS - Year vs. same Year 1yr ago	14.9%	8.7%
EPS - 5yr Growth	25.3%	20.1%
Capital Spending - 5yr Growth	12.3%	6.9%
Dividend Yield - 5yr Growth Avg	35.8%	31.9%

SOURCE: REUTERS



SOURCE: BIGCHARTS.COM

COMPANY OVERVIEW

Lowe's Companies, Inc. is a home improvement retailer. The Company offers a line of products and services for home decorating, maintenance, repair, remodeling and property maintenance. As of February 2, 2007, Lowe's Companies, Inc. operated 1,385 stores in 49 states, with 157 million square feet of retail selling space. The Company serves homeowners, renters and commercial business customers. Lowe's Companies, Inc. offers an array of home improvement products in the categories of appliances, lumber, flooring, millwork, paint, building materials, fashion plumbing, lighting, tools, lawn and landscape products, hardware, seasonal living, cabinets and countertops, outdoor power equipment, rough plumbing, rough electrical, nursery, home environment, walls/windows and home organization.

Lowe's is one of the foremost players in the home improvement industry

INDUSTRY ANALYSIS; COMPETITIVE POSITIONING

The home improvement retail industry is a market in which two key players have separated themselves from others in the industry. The current slowdown in the housing market has had an adverse effect on most companies, however there has still been moderate growth. There is moderate competition in the industry, but with the size of LOW and The Home Depot (HD), it is unlikely that another competitor will be able to gain a foothold in the market to take much market share away from the two top players. Lowe's has been able to differentiate itself by becoming known for its excellent customer service and its target market. They have gained market share for the "do it yourself" consumer, and have become known for appealing more to those customers than (HD). Lowe's management put forth an effort to draw in do it yourself type people, as well as women. They have expanded the width of their aisles, brightened their store lighting to create a more welcoming atmosphere, and put a strong emphasis on hiring competent personnel in order to make shopping for home improvement supplies a less intimidating experience for those not as familiar with the industry. HD, on the other hand, has gone in a different direction, designing a warehouse type of atmosphere, geared toward professional contractors and bulk purchasing.

LOW has geared its market towards the individual consumer, helping to gain market share in the industry

FINANCIAL TRENDS

Lowe's has posted average annual sales growth rates of 16% for the past three years, which is above the sub industry average of 14%. Lowe's net income has steadily increased for the past five years, including a 12% increase in FY06. Lowe's has also increased their return on invested capital steadily over the past 5 years. Current ROIC is 23%, up from 6.5% in FY03. Compared to the industry average ROIC of 20%, and considered in conjunction with their effective positioning in the industry, Lowe's appears to be developing a sustainable ROIC, which is critical to sustained value creation. Lowe's also has an A+ bond rating from S&P. Lowe's is currently repurchasing stock, causing LT Debt/Equity to increase significantly, which accounts for some of the recent rise in ROE. Lowe's is expected to continue repurchasing shares in the short term, but not continue that trend for the long term. Due to the effect of share repurchase on ROE, ROIC is a better measure of Lowe's returns. Lowe's has decreased their COGS (% of sales) as a result of selling products with higher margins. SG&A expense as a percent of sales has increased, however. This is occurring because of the increased investment in stores necessary to upgrade them with improved technology. Lowe's also owns 86% of all its stores, giving them a valuable real estate asset. Lowe's has also increased their dividend substantially in recent years. They have had a dividend growth rate of 43% over the past 4 years. While that pace is unlikely to continue, it shows that Lowe's is committed to growing dividends in the future.

Lowe's has shown financial stability and improving trends

PROFITABILITY AND CASH FLOWS

In FY06, Lowe's reported positive figures for gross margin (34.5% FY06; 0.9% growth), operating margin (10.7% FY06; 2.4% growth), and net margin (6.6% FY06; 3.5% growth). Although the increases were not large, it is impressive to see the increase given the slump in U.S. housing, and Lowe's ability to withstand the drop in one of its key business drivers. Free cash flow has been positive for the past four years, and it appears that that trend will continue.

Lowe's has positive FCF and strong profitability ratios despite the housing slump

VALUATION

Using a DCF model, Lowe's currently has a per share intrinsic value of \$39.38. This value was derived using the following assumptions:

- Slower growth for FY07, increased growth in FY08-FY10, then tapering growth for the following forecast years
- Continued decrease in COGS as % of sales
- Increase in PPE based on store expansion despite historical trend of decreasing PPE
- WACC of 10.09%
- Long term Horizon growth rate of 4%

DCF model suggests per share fair value of \$39.38, P/E multiple valuation suggests a target price of \$38.50

Modest assumptions were made based on trend analysis to interpret the DCF model and arrive at the per share intrinsic value. Based on P/E multiple valuation, Lowe's target price equals \$38.50 based on a P/E multiple of 16.6.

COMPANY OUTLOOK/OBJECTIVES

Lowe's is undertaking an aggressive store opening campaign

The outlook for Lowe's is positive overall. Lowe's is currently in the process of an aggressive store opening campaign. In FY06, they opened a total of 151 new stores, and plan to continue this expansion. The stores they are building are strategically placed in large metropolitan areas, located where they have the best chance to succeed. In addition to new stores within the US, Lowe's plans to expand into international markets. They will be expanding into Canada in the second half of FY07, and also announced plans to expand to Mexico by FY09. Lowe's has also been improving existing stores by upgrading the buildings, making them more attractive and user friendly, as well as technological upgrades, to streamline processes for customers. Lowe's has been increasing its product mix, and looks to continue that trend in order to produce new sources of revenue. Some of the product expansions include special orders for individuals and contractors, expansion of product lines offered (deck building, water filtration, landscape lighting), and an added emphasis on expanding into the professional contractors market.

Lowe's is expanding product mix to generate new forms of revenue

-See Table 2 for percent of sales for each product line.

RISKS

Lowe's faces the risk of the slowdown in the housing market and increased interest rates

One of the obvious challenges Lowe's faces is a potential slowdown in consumer discretionary spending, and more importantly, the soft housing market. Lowe's has suffered minor setbacks due to the slowdown in housing construction, and appears poised to sustain revenues despite lower housing numbers. While it appears the housing market will not fully recover in the near future, it is expected that it will eventually stabilize, and then Lowe's will be positioned to capitalize on an upturn in housing when it occurs. Right now, however, housing starts and permits are in a downtrend, and there are excess inventories as well. Another potential risk Lowe's faces is the increase in mortgage rates, as well as defaults on loans, which is currently compounding the housing problem. Despite these gloomy numbers, a large percentage of Lowe's sales is to the individual do-it-yourself consumer, making it less susceptible to the slowdown than HD. With the baby boomers reaching an age where they have more discretionary income, and begin to see their house as an investment, it is likely that they will continue to spend money on home improvement. Also, home ownership rates are at an all-time high, suggesting Lowe's should be able to continue growing sales in this market. Lowe's management must also be careful not to saturate the market with locations in their aggressive store opening campaign. If too many stores are opened in close proximity with one another, same store sales may decline due to cannibalization.

RECOMMENDATION

I rate Lowe's a BUY based on a target price of \$38.50 FY08, strong store expansion, new product mixes, solid management, and good growth prospects. Based on a DCF model and P/E multiples model, Lowe's stock is currently undervalued. Lowe's has historically produced positive FCF and has had sustainable ROIC, which are positive signals for the stock. Even if future ROIC compresses somewhat, given such a large spread over the WACC, Lowe's can continue to create shareholder value even if competitive forces shave a few percentage points off their high ROIC. Lowe's has also shown the dedication to continue growing dividend. The ability to grow dividends while repurchasing stock is an attractive aspect for the stock. Despite the slowdown of housing, Lowe's will be able to maintain and grow sales with the opening of new stores along with improvement of existing stores. Lowe's has been increasing revenues for the past five years, and have strategically positioned themselves to continue that trend.

TABLE 1: LOWE'S MANAGEMENT

Lowe's Management	
<p><u>Robert Niblock, CEO</u> Named CEO of Lowe's Jan 05 Been part of Lowe's top management since 1993 Before coming to Lowe's serves with Ernst&Young CPA firm</p> <p><u>Larry Stone, President, COO</u> Named President and COO in Dec 06 Has been with Lowe's since 1969 Has served in many key management roles within Lowe's</p> <p><u>Gregory Bridgeford, Executive VP</u> Named Executive VP in 2004 Responsible for new business opportunities and strategic planning Has held key positions within Lowe's since 1982</p>	<p><u>Michael Brown, Executive VP-Store Operations</u> Named Executive VP in Dec 06 Responsible for international sales and specialty sales Has served Lowe's since 1984</p> <p><u>Charles Canter JR, Executive VP-Merchandising</u> Named Executive VP in Dec 06 Responsible for global sourcing and store environment Has served Lowe's since 1974</p> <p><u>Robert Hull, Executive VP, CFO</u> Named CFO and Executive VP in May 04 Has served Lowe's since 1999 Has over 20 years experience in retail and financial management</p>

SOURCE: LOWE'S 10-K ANNUAL REPORT

TABLE 2: PERCENTAGE OF SALES BY PRODUCT CATEGORY

Product category	2006		2005		2004	
	Total Sales	% of sales	Total Sales	% of sales	Total Sales	% of sales
Appliances	\$4,193	9%	\$3,912	9%	\$3,165	9%
Lumber	\$3,690	8%	\$3,689	9%	\$3,305	9%
Flooring	\$3,214	7%	\$2,883	7%	\$2,357	6%
Millwork	\$3,137	7%	\$2,935	7%	\$2,428	7%
Paint	\$3,073	7%	\$2,774	6%	\$2,317	6%
Building materials	\$3,002	6%	\$2,756	6%	\$2,230	6%
Fashion plumbing	\$2,893	6%	\$2,616	6%	\$2,163	6%
Lighting	\$2,573	5%	\$2,408	6%	\$2,088	6%
Tools	\$2,563	5%	\$2,428	6%	\$2,138	6%
Lawn & landscape products	\$2,356	5%	\$2,090	5%	\$1,827	5%
Hardware	\$2,296	5%	\$2,121	5%	\$1,785	5%
Seasonal living	\$2,154	5%	\$1,935	4%	\$1,694	5%
Cabinets & countertops	\$1,903	4%	\$1,726	4%	\$1,348	4%
Outdoor power equipment	\$1,805	4%	\$1,807	4%	\$1,503	4%
Rough plumbing	\$1,664	4%	\$1,416	3%	\$1,161	3%
Rough electrical	\$1,479	3%	\$1,203	3%	\$977	3%
Nursery	\$1,454	3%	\$1,292	3%	\$1,160	3%
Home environment	\$1,145	2%	\$1,017	2%	\$835	2%
Walls / windows	\$1,101	2%	\$1,054	2%	\$908	2%
Home organization	\$1,001	2%	\$946	2%	\$793	2%
Other	\$231	1%	\$235	1%	\$282	1%
Totals	46,927		43,243		36,464	

Enter Firm Ticker **LOW**

values in millions

Historical Income Statements					
Year	2003	2004	2005	2006	2007
Total Revenue	26,112	30,838	36,464	43,243	46,927
Cost of Goods Sold	18,164	21,305	24,224	28,453	30,729
Gross Profit	7,948	9,533	12,240	14,790	16,198
SG&A expense	4,625	5,578	7,562	9,014	9,738
Research & Development	0	0	0	0	0
Depreciation/Amortization	640	739	859	980	1,162
Interest expense (income), operating	182	180	176	158	154
Non-recurring expenses	0	0	0	0	0
Other operating expenses	129	128	123	142	146
Operating Income	2,372	2,908	3,520	4,496	4,998
Interest income (expense), non-operating	0	0	0	0	0
Gain (loss) on sale of assets	0	0	0	0	0
Other income, net	0	0	0	0	0
Income before tax	2,372	2,908	3,520	4,496	4,998
Income tax	893	1,101	1,353	1,731	1,893
Income after tax	1,479	1,807	2,167	2,765	3,105
Minority interest	0	0	0	0	0
Equity in affiliates	0	0	0	0	0
U.S. GAAP adjustment	0	0	0	0	0
Net income before extraordinary items	1,479	1,807	2,167	2,765	3,105
Extraordinary items, total	12	15	0	0	0%
Net Income	1,491	1,822	2,167	2,765	3,105
Total adjustments to net income	0	0	0	0	0
Basic weighted average shares	1,558	1,570	1,554	1,555	1,535
Basic EPS excluding extraordinary items	0.95	1.15	1.39	1.78	2.02
Basic EPS including extraordinary items	0.96	1.16	1.39	1.78	2.02
Diluted weighted average shares	1,600	1,631	1,617	1,607	1,566
Diluted EPS excluding extraordinary items	0.92	1.11	1.34	1.72	1.98
Diluted EPS including extraordinary items	0.93	1.12	1.34	1.72	1.98
Dividends per share--common stock	0.04	0.06	0.07	0.11	0.18
Gross dividends--common stock	66	87	116	171	276
Retained earnings	1,425	1,735	2,051	2,594	2,829

Forecasting Percentages						
2003	2004	2005	2006	2007	Average	Manual
	18.1%	18.2%	18.6%	8.5%	15.1%	10.0%
Revenue Growth						
COGS % of Sales	69.6%	69.1%	66.4%	65.8%	65.5%	67.3%
SG&A % of Sales	17.7%	18.1%	20.7%	20.8%	20.8%	19.6%
R&D % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
D&A % of Sales	2.5%	2.4%	2.4%	2.3%	2.5%	2.4%
Inc. Exp. Oper.	0.7%	0.6%	0.5%	0.4%	0.3%	0.5%
Exp. Non-rec	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Exp.	0.5%	0.4%	0.3%	0.3%	0.3%	0.4%
Int. Inc. non-oper	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gain(loss) asset sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other income, net	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax rate	37.6%	37.9%	38.4%	38.5%	37.9%	38.1%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity in affiliates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
U.S. GAAP adjust.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Extraordinary items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjustments to NI	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Share growth		0.8%	-1.0%	0.1%	-1.3%	-0.4%
Diluted share growth		1.9%	-0.9%	-0.6%	-2.6%	-0.5%
Dividend growth		31.8%	33.3%	47.4%	61.4%	43.5%
Retained Earnings Growth	5.5%	5.6%	5.6%	6.0%	6.0%	5.7%

Year by Year Growth	8.00%			9.50%	9.00%	8.00%	7.00%	6.50%	6.00%	5.50%
Forecasted Income Statements-10 Years										
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Revenue	50,681	55,749	61,324	67,150	73,194	79,049	84,582	90,080	95,485	100,737
Cost of Goods Sold	32,436	35,680	39,247	42,976	46,844	50,591	54,133	57,651	61,110	64,472
Gross Profit	18,245	20,070	22,077	24,174	26,350	28,458	30,450	32,429	34,375	36,265
SG&A expense	10,643	11,707	12,878	14,102	15,371	16,600	17,762	18,917	20,052	21,155
Research & Development	0	0	0	0	0	0	0	0	0	0
Depreciation/Amortization	1,211	1,332	1,465	1,604	1,749	1,889	2,021	2,152	2,281	2,407
Interest expense (income), operating	411	283	138	121	144	186	229	284	354	(60)
Non-recurring expenses	0	0	0	0	0	0	0	0	0	0
Other operating expenses	152	167	184	201	220	237	254	270	286	302
Operating Income	5,828	6,580	7,412	8,146	8,867	9,545	10,184	10,806	11,401	12,462
Interest income (expense), non-operating	0	0	0	0	0	0	0	0	0	0
Gain (loss) on sale of assets	0	0	0	0	0	0	0	0	0	0
Other income, net	0	0	0	0	0	0	0	0	0	0
Income before tax	5,828	6,580	7,412	8,146	8,867	9,545	10,184	10,806	11,401	12,462
Income tax	2,218	2,504	2,821	3,101	3,375	3,633	3,876	4,113	4,339	4,743
Income after tax	3,610	4,075	4,591	5,045	5,492	5,912	6,308	6,693	7,061	7,718
Minority interest	0	0	0	0	0	0	0	0	0	0
Equity in affiliates	0	0	0	0	0	0	0	0	0	0
U.S. GAAP adjustment	0	0	0	0	0	0	0	0	0	0
Net income before extraordinary items	3,610	4,075	4,591	5,045	5,492	5,912	6,308	6,693	7,061	7,718
Extraordinary items, total	0	0	0	0	0	0	0	0	0	0
Net Income	3,610	4,075	4,591	5,045	5,492	5,912	6,308	6,693	7,061	7,718
Total adjustments to net income	0	0	0	0	0	0	0	0	0	0
Basic weighted average shares	1,529	1,524	1,518	1,513	1,507	1,501	1,496	1,490	1,485	1,479
Basic EPS excluding extraordinary items	2.36	2.67	3.02	3.34	3.64	3.94	4.22	4.49	4.76	5.22
Basic EPS including extraordinary items	2.36	2.67	3.02	3.34	3.64	3.94	4.22	4.49	4.76	5.22
Diluted weighted average shares	1,558	1,550	1,542	1,534	1,526	1,518	1,510	1,502	1,494	1,486
Diluted EPS excluding extraordinary items	2.32	2.63	2.98	3.29	3.60	3.90	4.18	4.46	4.73	5.19
Diluted EPS including extraordinary items	2.32	2.63	2.98	3.29	3.60	3.90	4.18	4.46	4.73	5.19
Dividends per share--common stock	0.22	0.26	0.31	0.38	0.46	0.55	0.66	0.80	0.96	1.16
Gross dividends--common stock	331	397	477	572	687	824	989	1,187	1,424	1,709
Retained earnings	3,279	3,678	4,114	4,473	4,805	5,088	5,319	5,506	5,637	6,010

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values in millions

Historical Balance Sheets					
Year	2003	2004	2005	2006	2007
Assets					
Cash & equivalents	364	423	530	913	853
Short term investments	432	453	283	711	273
Receivables, total	0	18	9	146	172
Inventory, total	7,144	6,635	5,850	4,584	3,968
Prepaid expenses	0	0	0	0	0
Other current assets, total	374	259	194	168	302
Total Current Assets	8,314	7,788	6,866	6,522	5,568
Property, plant, and equipment (net)	18,971	16,354	13,911	11,819	10,352
Goodwill	0	0	0	0	0
Intangibles	0	0	0	0	0
Long term investments	165	294	146	169	29
Notes receivable--long term	0	0	0	0	0
Other long term assets, total	317	203	178	241	160
Other assets, total	0	0	0	0	0
Total Assets	27,767	24,639	21,101	18,751	16,109
Liabilities and Shareholder's Equity					
Accounts payable	3,524	2,832	2,695	2,212	1,943
Payables accrued	0	0	0	0	0
Accrued expenses	372	424	386	335	306
Notes payable/short term debt	23	0	0	0	50
Current portion of LT debt/Captial leases	88	32	630	77	29
Other current liabilities	2,532	2,544	1,937	1,576	1,250
Total Current Liabilities	6,539	5,832	5,648	4,200	3,578
Long term debt, total	4,325	3,499	3,060	3,678	3,736
Deferred income tax	735	735	736	594	478
Minority interest	0	0	0	0	0
Other liabilites, total	443	277	159	63	15
Total Liabilities	12,042	10,343	9,603	8,535	7,807
Preferred stock (redeemable)	0	0	0	0	0
Preferred stock (unredeemable)	0	0	0	0	0
Common stock	762	784	774	394	391
Additional paid-in-capital	102	1,320	1,127	2,247	2,023
Retained Earnings (accumulated deficit)	14,860	12,191	9,597	7,574	5,887
Treasury stock--stock	0	0	0	0	0
Unrealized Gain (Loss)	0	0	0	0	0
Other equity, total	1	1	0	1	1
Total Shareholder's Equity	15,725	14,296	11,498	10,216	8,302
Total Liabilites and Shareholder's Equity	27,767	24,639	21,101	18,751	16,109
Diluted weighted average shares	1,600	1,631	1,617	1,607	1,566
Total preferred shares outstanding	0	0	0	0	0

Forecasting Percentages							
2003	2004	2005	2006	2007	Average	Manual	
Cash % of Sales	1.4%	1.4%	1.5%	2.1%	1.8%	1.6%	1.9%
ST Inv % of Sales	1.7%	1.5%	0.8%	1.6%	0.6%	1.2%	
Receivables % of Sales	0.0%	0.1%	0.0%	0.3%	0.4%	0.2%	0.5%
Inventory % of Sales	27.4%	21.5%	16.0%	10.6%	8.5%	16.8%	11.0%
Pre. Exp. % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other CA % of Sales	1.4%	0.8%	0.5%	0.4%	0.6%	0.8%	0.7%
Net PPE % of Sales	72.7%	53.0%	38.1%	27.3%	22.1%	42.6%	23.0%
Goodwill % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Intangibles % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
LT Invest. % of Sales	0.6%	1.0%	0.4%	0.4%	0.1%	0.5%	
Notes Rec. % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other LT assets % of Sales	1.2%	0.7%	0.5%	0.6%	0.3%	0.7%	0.3%
Other assets % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Acc. Payable % of Sales	13.5%	9.2%	7.4%	5.1%	4.1%	7.9%	3.9%
Pay/accrued % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Acc. Exp. % of Sales	1.4%	1.4%	1.1%	0.8%	0.7%	1.1%	0.8%
Notes payable % of Sales	0.1%	0.0%	0.0%	0.0%	0.1%	0.0%	
Curr. Debt % of Sales	0.3%	0.1%	1.7%	0.2%	0.1%	0.5%	
Other curr. Liab. % of Sales	9.7%	8.2%	5.3%	3.6%	2.7%	5.9%	2.4%
LT debt % of Sales							LT Debt is manually adjusted to AFN in the pro formas
Def. Inc. tax % of sales	2.8%	2.4%	2.0%	1.4%	1.0%	1.9%	0.9%
Min. Int. % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other Liab. % of Sales	1.7%	0.9%	0.4%	0.1%	0.0%	0.6%	0.3%

Forecasted Balance Sheets-- 10 Years										
Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets										
Cash & equivalents	963	1,059	1,165	3,000	5,500	8,500	11,750	15,250	19,000	1,914
Short term investments	621	683	751	823	897	968	1,036	1,104	1,170	1,234
Receivables, total	253	279	307	336	366	395	423	450	477	504
Inventory, total	5,575	6,132	6,746	7,387	8,051	8,695	9,304	9,909	10,503	11,081
Prepaid expenses	0	0	0	0	0	0	0	0	0	0
Other current assets, total	355	390	429	470	512	553	592	631	668	705
Total Current Assets	7,767	8,544	9,398	12,015	15,326	19,112	23,105	27,343	31,819	15,438
Property, plant, and equipment (net)	11,657	12,822	14,105	15,445	16,835	18,181	19,454	20,718	21,962	23,169
Goodwill	0	0	0	0	0	0	0	0	0	0
Intangibles	0	0	0	0	0	0	0	0	0	0
Long term investments	247	272	299	327	357	385	412	439	466	491
Notes receivable--long term	0	0	0	0	0	0	0	0	0	0
Other long term assets, total	152	167	184	201	220	237	254	270	286	302
Other assets, total	0	0	0	0	0	0	0	0	0	0
Total Assets	19,823	21,805	23,986	27,988	32,737	37,916	43,225	48,771	54,533	39,401
Liabilities and Shareholder's Equity										
Accounts payable	1,977	2,174	2,392	2,619	2,855	3,083	3,299	3,513	3,724	3,929
Payables accrued	0	0	0	0	0	0	0	0	0	0
Accrued expenses	405	446	491	537	586	632	677	721	764	806
Notes payable/short term debt	20	22	24	26	28	31	33	35	37	39
Current portion of LT debt/Capital leases	244	269	295	323	353	381	407	434	460	485
Other current liabilities	1,216	1,338	1,472	1,612	1,757	1,897	2,030	2,162	2,292	2,418
Total Current Liabilities	3,862	4,248	4,673	5,117	5,578	6,024	6,446	6,865	7,277	7,677
Long term debt, total	4,818	3,317	1,600	1,401	1,666	2,168	2,666	3,314	4,138	(740)
Deferred income tax	456	502	552	604	659	711	761	811	859	907
Minority interest	0	0	0	0	0	0	0	0	0	0
Other liabilities, total	152	167	184	201	220	237	254	270	286	302
Total Liabilities	9,288	8,235	7,010	7,324	8,122	9,141	10,127	11,260	12,561	8,146
Preferred stock (redeemable)	0									
Preferred stock (unredeemable)	0									
Common stock	69	(281)	(671)	(1,107)	(1,583)	(2,102)	(2,657)	(3,269)	(3,924)	(4,590)
Additional paid-in-capital	2,023	2,023	2,023	2,023	2,023	2,023	2,023	2,023	2,023	2,023
Retained Earnings (accumulated deficit)	9,166	12,844	16,957	21,430	26,236	31,324	36,642	42,148	47,785	53,795
Treasury stock--stock	0	0	0	0	0	0	0	0	0	0
ESOP Debt Guarantee	0	0	0	0	0	0	0	0	0	0
Other equity, total	1	1	1	1	1	1	1	1	1	1
Total Shareholder's Equity	11,258	14,586	18,311	22,347	26,677	31,246	36,009	40,903	45,885	51,229
Total Liabilities and Shareholder's Equity	20,547	22,821	25,320	29,671	34,799	40,387	46,136	52,162	58,446	59,375
Diluted weighted average shares	1,558	1,550	1,542	1,534	1,526	1,518	1,510	1,502	1,494	1,486
Total preferred shares outstanding	0	0	0	0	0	0	0	0	0	0
AFN (interactive with 3 items below)	-724	-1,016	-1,335	-1,682	-2,061	-2,470	-2,911	-3,391	-3,913	-19,974
Adjustment to LT Debt (use solver)	1,082	-1,501	-1,717	-200	265	502	498	648	824	-4,878
Issue Common Stock to fund AFN	-322	-350	-390	-437	-476	-519	-555	-612	-655	-666
Set Balance Sheet Cash Lower to fund AFN				3,000	5,500	8,500	11,750	15,250	19,000	

Enter Firm Ticker **LOW**

values in millions

Year	Historical Ratios and Valuation Model					Forecasted Ratios and Valuation Model--10 Years									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Liquidity															
Current	1.27	1.34	1.22	1.55	1.56	2.01	2.01	2.01	2.35	2.75	3.17	3.58	3.98	4.37	2.01
Quick	0.18	0.20	0.18	0.46	0.45	0.57	0.57	0.57	0.90	1.30	1.73	2.14	2.54	2.93	0.57
Net Working Capital to Total Assets	0.06	0.08	0.06	0.12	0.12	0.20	0.20	0.20	0.25	0.30	0.35	0.39	0.42	0.45	0.20
Asset Management															
Days Sales Outstanding	0.00	0.21	0.09	1.23	1.34	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83	1.83
Inventory Turnover	3.66	4.65	6.23	9.43	11.83	9.09	9.09	9.09	9.09	9.09	9.09	9.09	9.09	9.09	9.09
Fixed Assets Turnover	1.38	1.89	2.62	3.66	4.53	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Total Assets Turnover	0.94	1.25	1.73	2.31	2.91	2.56	2.56	2.56	2.40	2.24	2.08	1.96	1.85	1.75	2.56
Debt Management															
Long-Term Debt to Equity	27.5%	24.5%	26.6%	36.0%	45.0%	42.8%	22.7%	8.7%	6.3%	6.2%	6.9%	7.4%	8.1%	9.0%	-1.4%
Total Debt to Total Assets	15.6%	14.2%	14.5%	19.6%	23.2%	24.3%	15.2%	6.7%	5.0%	5.1%	5.7%	6.2%	6.8%	7.6%	-1.9%
Times Interest Earned	13.03	16.16	20.00	28.46	32.45	14.18	23.21	53.82	67.39	61.76	51.19	44.48	38.03	32.17	207.23
Profitability															
Gross Profit Margin	30.4%	30.9%	33.6%	34.2%	34.5%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Operating Profit Margin	9.1%	9.4%	9.7%	10.4%	10.7%	11.5%	11.8%	12.1%	12.1%	12.1%	12.1%	12.1%	12.0%	11.9%	12.4%
Net After-Tax Profit Margin	5.7%	5.9%	5.9%	6.4%	6.6%	7.1%	7.3%	7.5%	7.5%	7.5%	7.5%	7.5%	7.4%	7.4%	7.7%
Total Assets Turnover	0.94	1.25	1.73	2.31	2.91	2.56	2.56	2.56	2.40	2.24	2.08	1.96	1.85	1.75	2.56
Return on Assets	5.4%	7.4%	10.3%	14.7%	19.3%	18.2%	18.7%	19.1%	18.0%	16.8%	15.6%	14.6%	13.7%	12.9%	19.6%
Equity Multiplier	1.77	1.72	1.84	1.84	1.94	1.76	1.49	1.31	1.25	1.23	1.21	1.20	1.19	1.19	0.77
Return on Equity	9.5%	12.7%	18.8%	27.1%	37.4%	32.1%	27.9%	25.1%	22.6%	20.6%	18.9%	17.5%	16.4%	15.4%	15.1%
EPS (using diluted shares and excluding extraordinary items)	0.92	1.11	1.34	1.72	1.98	2.32	2.63	2.98	3.29	3.60	3.90	4.18	4.46	4.73	5.19
DPS (dividends per share)	0.04	0.05	0.07	0.11	0.18	0.21	0.26	0.31	0.37	0.45	0.54	0.66	0.79	0.95	1.15

	Valuation Metrics Trend Analysis (NOPAT, EVA, MVA, FCF, and Capital (in millions))					Forecasted Valuation Metrics--10 Years									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NOPAT (net operating profit after tax)	1,479	1,807	2,167	2,765	3,105	3,610	4,075	4,591	5,000	5,500	6,200	6,308	7,600	8,300	7,718
ROIC (return on invested capital)	6.5%	9.0%	12.6%	18.5%	23.7%	22.5%	21.4%	20.0%	20.0%	20.0%	21.8%	19.1%	21.7%	26.8%	24.2%
EVA (economic value added)	-801	-229	429	1,259	1,783	1,988	2,157	2,269	2,477	2,724	3,323	2,977	4,067	5,171	4,495
FCF (free cash flow)	N/A	4,216	5,122	5,069	4,924	640	1,141	591	3,000	3,000	5,200	1,808	5,600	12,300	6,785
Weighted Average Cost of Capital (WACC)					10.09%	10.09%	10.09%	10.09%	10.09%	10.09%	10.09%	10.09%	10.09%	10.09%	10.09%
Net Operating Working Capital (NOWC)	3,612	3,820	3,308	3,096	2,744	4,409	4,850	5,335	7,566	10,477	13,875	17,502	21,375	25,493	8,764
Operating Long Term Assets	18,971	16,354	13,911	11,819	10,352	11,657	12,822	14,105	15,445	16,835	18,181	19,454	20,718	21,962	23,169
Total Operating Capital	22,583	20,174	17,219	14,915	13,096	16,066	19,000	23,000	25,000	27,500	28,500	33,000	35,000	31,000	31,934

Valuation (in millions where appropriate)- through year 2011

Long-term Horizon Value Growth Rate (user-supplied)				2006											
				4.00%											
PV of Forecasted FCF, discounted at 11.10%				\$64,333	\$70,186	\$76,130	\$83,223	\$88,624	\$94,570	\$98,915	\$107,092	\$112,302	\$111,338	\$121,954	
Value of Non-Operating Assets				1,126	1,584	1,742	1,916	3,823	6,397	9,468	12,786	16,354	20,170	3,148	
Total Intrinsic Value of the Firm				65,459	71,770	77,872	85,140	92,447	100,966	108,384	119,879	128,656	131,508	125,102	
Intrinsic Market Value of the Firm				61,673	66,933	74,533	83,516	91,020	99,272	106,185	117,179	125,307	127,332	125,803	
Per Share Intrinsic Value of the Firm				\$39.38	\$42.97	\$48.10	\$54.18	\$59.35	\$65.08	\$69.97	\$77.62	\$83.44	\$85.24	\$84.66	
MVA (market value added)				61,281.64	66,863.86	74,814.17	84,186.33	92,127.21	100,855.05	108,286.73	119,836.04	128,575.98	131,256.41	130,392.59	

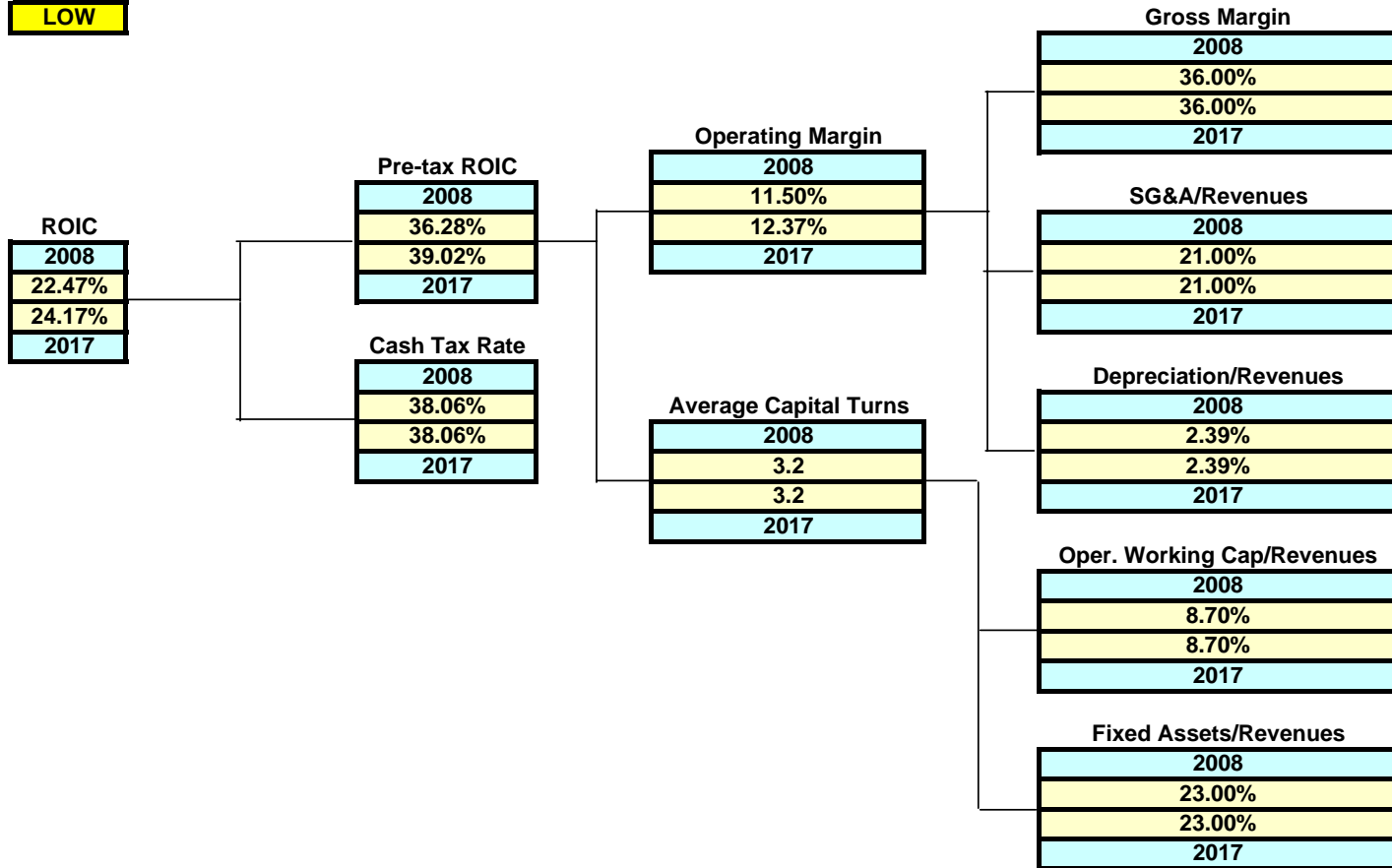
Weighted Average Cost of Capital Calculations

Item	Value	Percent	Cost	Weighted Cost
ST Debt (from most recent balance sheet)	50	0.09%	7.00%	0.01%
LT Debt (from most recent balance sheet)	3,736	7.03%	8.50%	0.60%
MV Equity (look up mkt. cap of firms stock and enter in cell B53)	49,320	92.87%	10.47%	9.72%
Weighted Average Cost of Capital				10.09%

Capital Asset Pricing Model	
Risk Free Rate	4.80%
Beta	0.81
Market Risk Prem.	7.00%
Cost of Equity	10.5%

Forecasted ROIC: Decomposition and Drivers

Firm Ticker: **LOW**



Firm Ticker: **LOW**

Piotroski's Financial Fitness Evaluator

	Value	Score	Rationale
Net Income	3,105	1	Score 1 point for positive NI.
Free Cash Flow	4,924	1	Score 1 point for positive FCF.
ROA (% change NI/%change TA)	19.27%	1	Score 1 point if % increase in NI > % increase in total assets.
Earnings Quality (EBIT/NI)	1.61	1	Score 1 point if EBIT > NI.
Total Assets to Total Liabilities	23.19%	0	Score 1 point if % increase in TA > % increase in TL.
Working Capital (Current Ratio)	1.56	1	Award 1 point if Current Ratio at least as large as last year.
% Change Shares Outstanding (Diluted)	-2.55%	1	Award 1 point if total diluted shares increased by less than 2%.
Gross Margin	34.52%	1	Award 1 point if gross margin increased over last year.
Asset Turnover (% change sales/% change assets)	2.91	1	Award 1 point if sales increased faster than total assets.
Total Liabilities to EBITDA	1.24	1	Award 1 point if ratio less than 5.0.
Total Liabilities to Operating Cash Flow (EBIT)	1.56	1	Award 1 point if ratio less than 4.0.
Total Score (11=maximum)		10	