

COMPANY PROFILE

Lowe's Companies, Inc.

TABLE OF CONTENTS

Company Overview 3
Key Facts 3
SWOT Analysis 4

COMPANY OVERVIEW

Lowe's Companies, Inc. (Lowe's) is one of the leading home improvement retailers. The company offers products and services under home decorating, maintenance, repair and remodeling of buildings. It serves the products and services to homeowners, renters, and professional customers, including those engaged in construction trade, and maintenance, repair and operations. Further, the company also offers various services such as installed sales, extended protection plans and repair services and credit facility services. Lowe's merchandises products online through e-commerce websites such as Lowes.com and LowesForPros.com. The company has business presence in the US, Canada and Mexico. It is headquartered in Mooresville, North Carolina, the US.

The company reported revenues of (US Dollars) US\$68,619 million for the fiscal year ended February 2018 (FY2018), an increase of 5.5% over FY2017. In FY2018, the company's operating margin was 8.9%, compared to an operating margin of 9% in FY2017. In FY2018, the company recorded a net margin of 5%, compared to a net margin of 4.8% in FY2017.

KEY FACTS

Head Office	Lowe's Companies, Inc. 1000 Lowe's Boulevard Mooresville North Carolina Mooresville North Carolina USA
Phone	1 704 7581000
Fax	
Web Address	www.lowes.com
Revenue / turnover (USD Mn)	68,619.0
Financial Year End	February
Employees	200,000
New York Stock Exchange Ticker	LOW

SWOT ANALYSIS

Lowe's Companies Inc. (Lowe's) is one of the leading home improvement retailers in the US, offering products and services for home decorating, maintenance, repair and remodeling of buildings. Strong logistics and distribution system, focus on offering seamless multi-channel experience, and financial performance are the company's major strengths, whereas decline inventory turnover ratio, and product recalls remain causes of concern. Expanding retail market in the US, increase in consumer spending in the US, growing online retail market in the US, and strategic acquisitions offer growth opportunities to the company. However, increasing labor wages in the US, stringent regulations, and intense competition could affect its business operations.

<p>Strength</p> <p>Strong logistics and distribution system Focus on offering seamless multi-channel experience Financial performance</p>	<p>Weakness</p> <p>Decline in inventory turnover ratio Products recalls</p>
<p>Opportunity</p> <p>Strategic acquisitions Expanding retail market in the US Increase in consumer spending in the US Growing online retail market in the US</p>	<p>Threat</p> <p>Intense competition Increasing labor wages in the US Stringent regulations</p>

Strength

Strong logistics and distribution system

Lowe's has established a strong logistics and distribution system to drive efficiencies. At the end of FY2018, Lowe's owned and operated 15 automated regional distribution centers in the US with each serving approximately 118 stores on an average basis. It also owns and operates eight distribution centers to serve Canadian market, while it leases and operates a distribution facility to serve Orchard stores. In addition, the company has a service agreement in place with a third party logistics provider to manage a distribution facility to serve its stores in Mexico. The company also operates flatbed distribution centers for the handling of lumber, boards, panel products, pipe, siding, ladders and building materials. Complementing these regional and flatbed centers are transload facilities, coastal holding facilities, and appliance distribution centers. In an economic situation which is categorized by lower sales volumes, strong and efficient distribution network will facilitate effective inventory management. In addition, large distribution network will aid in expansion of retail stores without increasing the capacity. The company's efficient supply chain enables it to effectively obtain, segment, track, and in FY2018, Lowe's distributed nearly 80% of the total dollar amount of stock merchandise to its stores. Therefore, the company's strong logistics and distribution system acts as a competitive advantage and differentiates it from competitors.

Focus on offering seamless multi-channel experience

Lowe's reaches its customers through different channels such as in-store, online, on-site, and contact centers. The company consistently focuses on providing faultless multi-channel experience to its customers so that they can engage with the company from anywhere and anytime. For this purpose, it implemented several systems and made a number of additions and enhancements over a period of time. Lowe's caters to various customer segments through its stores and has an efficient merchandising strategy to increase its customer base. As of February 2, 2018, Lowe's operated 2,152 home improvement and hardware stores, representing around 215 million sq. ft. of retail selling space. These operations were comprised of 1,839 stores located across 50 states in the US, including 99 Orchard stores, and, 303 stores in Canada, and 10 stores in Mexico. The company's home improvement stores average approximately 112,000 sq. ft. of retail selling space, and around 32,000 sq. ft. of outdoor garden center selling space. In addition to, its Orchard stores average around 36,000 sq. ft. of retail selling space. In the in-store channel, the company continues to develop and implement tools to make its sales associates more efficient and to integrate its order management and fulfillment processes. In addition, the company's home improvement stores have Wi-Fi capabilities that provide internet access to the customers, thereby making information quickly available to simplify the shopping experience. The company also carries out online sales through Lowe.com, LoweForPros.com and mobile applications. In the online channel, the company offers round the clock enhanced shopping experience to its online customers through Lowe.com, LoweForPros.com and mobile applications. Furthermore, to reduce the complexity of purchase decisions and home improvement projects, the company provides online product information, customer ratings and reviews, online buying guides and how-to videos and information. Lowe's also offers a variety of fulfillment options to its online customers, including buying online and picking up in-store as well as parcel shipment to their homes. In the on-site channel, the company has on-site specialists for retail and professional customers. These specialists help the customers in selecting products and services for their projects. Furthermore, Lowe's offers Project Specialist Exteriors and Project Specialist Interiors programs, through which the company provides consultative services on exterior and interior projects, respectively, to customers. Lowe's operates three contact centers in Wilkesboro, North Carolina; Albuquerque, New Mexico; and Indianapolis, Indiana. These contact centers help enable an omni-channel experience by providing ability to initiate sales, coordinate deliveries, manage after-sale installations, assist repair services for appliances and outdoor power equipment, and answer general customer queries via phone, e-mail, letters, or social media. Therefore, the company's focus on providing a seamless multi-channel experience enables it to serve its customers in a better way as well as to reach a larger customer base.

Financial performance

Lowe's financial performance strengthened in FY2018. Improving financial performance enables the company to provide higher returns to its shareholders thereby attracting further investments. It also helps the company in allocating adequate funds for its operational contingencies. In FY2018, the company's reported revenue of US\$68,619 million as compared to US\$65,017 million in FY2017, at annual revenue growth of 5.5%. The growth in revenue is attributed to rise in comparable sales by 4%. Further, the sales also increased by 2.2%, 0.7% and 0.3% due to the acquisition of RONA during the second quarter of 2016, opening new stores, and acquisition of Maintenance Supply Headquarters respectively. As result, its operating income grew from US\$5,846 million in FY2017 to US\$6,122 in FY2018, at annual growth of 4.7%. The company's net income also increased from US\$3,093 million in FY2017 to US\$3,447 million in

FY2018, at annual growth of 11.4%. Further, in FY2018, the company's reported return on equity of 58.7% as compared to 48.1% in FY2017.

Weakness

Decline in inventory turnover ratio

Lowe's reported weak inventory turnover ratio during the FY2018. The decline in the turnover ratio and higher inventory turnover days signify that the company incurs high inventory carrying costs, which affect its operating performance. In FY2018, Lowe's reported inventory turnover ratio of 3.9 as compared to 4.1 in FY2017. The company's inventory turnover ratio was lower than its nearest competitors such as Sears Holdings Corporation, Target Corporation, The Home Depot, Inc., and Walmart Inc. which reported values of 4.6, 5.9, 5.2, and 8.5 during the FY2018. Lower inventory turnover than competitors indicates that the company takes more days to clear its inventory in comparison with its competitors. With the given turnover ratio, Sears Holdings Corporation, Target Corporation, The Home Depot, Inc., and Walmart Inc. take 79, 62, 70, and 43 days respectively to sale its inventory compared to 94 days by Lowe's.

Products recalls

Product recall may add up additional costs for the company, apart from tarnishing its brand image. Although Lowe's has taken several efforts to curb product recalls, it still faces such issues. For instance, in June 2018, the company voluntarily recalled around 92,000 units Cool White Universal T8/T12 LED tube lamps of GE. In April 2018, the company voluntarily recalled 201,000 units 3000 PSI pressure washer surface cleaners. In the same of 2018, the company voluntarily recalled about 1,079,000 units Square D brand General Duty 30 & 60A, 120/240-volt, 2-phase and 3-phase NEMA 3R Safety Switches of Schneider Electric. In April 2018, the company voluntarily recalled around 350,000 units Electric Space Heaters of Vornado Air. In March 2018, the company voluntarily recalled around 1,400,000 units Single Outlet SinkTop Switches of InSinkErator. Those products recalls could affect adversely on the company's business and operational results.

Opportunity

Strategic acquisitions

Lowe's made several strategic acquisitions to expand distribution network and business presence in home improvement area, as part of its growth strategy. In June 2017, the company acquired Maintenance Supply Headquarters (MSH), a US-based distributor of maintenance, repair and operations (MRO) products serving the multifamily housing industry, for US\$512 million. The acquisition will add 16 new distribution centers to Lowe's network and could enhance its relationship with the prospective customers.

Expanding retail market in the US

Lowe's is one of the leading home improvement retailers, offers products and services under home decorating, maintenance, repair and remodeling of buildings to homeowners, renters, and professional

customers through retail stores across the US. As the company has a strong presence in the US. Therefore, growing retail market in the US could offer it further growth avenues. According to in-house research, the US retail sales valued of US\$3.5 trillion in 2016 and it expected to grow at a CAGR of 3.2% during 2016-21 to reach US\$4.1 trillion by 2021. Food and grocery is expected to lead with a share of 33.8% of total retail sales value in the US, followed by health and beauty with 14.9%, DIY and garden with 11.7%, clothing and footwear with 11.1%, electricals with 8.5%, furniture and floor covering with 3.4%, homewares with 3.4%, and others with 13.2% at end of 2021. In this line, the company also initiated to expand its existing stores expansion and opening new stores programs by investing 40% and 35% respectively of its total capital expenditure of US\$1.1 billion in FY2018. Rising retail market in the US could enable the company to expand its business opportunities.

Increase in consumer spending in the US

Lowe's is the leading home improvement retailers, offers products and services under home decorating, maintenance, repair and remodeling of buildings in the US. Growing personal income, disposable personal income and personal consumption expenditure indicate improved consumer spending in the US, which could increase the purchase of its products and its performance. As the company has a strong presence in the US, increase in consumer spending in the US would benefit the company to increase its performance. According to a recent report by The U.S. Bureau of Economic Analysis (BEA), in December 2017, the personal income (PI) in the US increased by 0.4% or US\$58.7 billion, disposable personal income (DPI) increased by 0.3% or US\$48.0 billion and the personal consumption expenditure increased by 0.4% reaching US\$54.2 billion. The real DPI increased by 0.2% in December 2017 and real personal consumption expenditures (PCE) increased by 0.3%.

Growing online retail market in the US

Lowe's offers a wide range of products and services online through e-commerce sites Lowes.com, LowesForPros.com and mobile applications. In FY2018, the company's online sales increased by 34% as compared to FY2017. E-commerce is the fastest growing retail market in the US. Therefore, growing e-retail market in the US could enable it further business opportunities. According to an in-house research report, the US e-commerce market generated revenue of US\$297.8 billion in 2017, and is expected to grow at a CAGR of 8.5% during 2017-22 to reach US\$447.4 billion by 2022. Growing mobile internet adoption and increasing number of consumers are engaged in online shopping via smartphones are majorly driven the market in the US. Such strong growth in e-commerce business segment would provide certain amount of resilience to the overall revenue of the company. By leveraging its online offering, the company can tap the customer group which is increasingly using the web in search of better deals.

Threat

Intense competition

Lowe's operates in a highly competitive market for home improvement products and services and has many large and small, direct and indirect competitors. Retailers in this space compete based on several factors, including convenience, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. During periods of slow economic growth, the

competition becomes fiercer with every player vying for the shrinking discretionary budgets of the consumers. Lowe's faces competition from online and multi-channel retailers who have a similar product or service offering. The company's major competitors include Beacon Roofing Supply Inc., Bed Bath & Beyond Inc., Fastenal Co, Pier 1 Imports, Inc., Restoration Hardware Holdings Inc, Sears Holdings Corporation, Target Corporation, Thai Metal Drum Manufacturing Public Company Limited, The Home Depot, Inc., Tractor Supply Company, Tuesday Morning Corporation, Walmart Inc, and Williams-Sonoma, Inc. Some of these competitors have larger financial resources and greater scale of operations. If Lowe's is unable to respond quickly to the competitive pressures and buying behavior changes in the markets, its financial performance could be severely affected.

Increasing labor wages in the US

Increasing manpower costs may have a negative effect on the company's operating costs and adverse effect on their profits. The tight labor markets, government mandated increases in minimum wages and a higher proportion of full-time employees are resulting in an increase in labor costs. The federal minimum wage rate in the US reached US\$7.25 per hour in January 2018. From January 2018, 18 states and 20 cities, including New York City, Washington, D.C., and California announced to increase their minimum wage to US\$12 and above. Arizona and California increased their minimum wage by US\$0.5 per hour to US\$9.80 and US\$11 respectively; and Alaska increased their minimum wage by US\$0.04 to US\$9.84. Colorado, Florida, Hawaii, Maine and Michigan states increased their minimum wages to US\$10.2, US\$8.25, US\$10.10, US\$10 and US\$9.25 respectively. Moreover, New Jersey, Ohio, Washington and Rhode Island increased their minimum wages to US\$8.6, US\$8.3, US\$11.5 and US\$10.1 respectively. As Lowe's operates in the US, such rise in minimum wages may increase its operating costs, which in turn affect its profit margins.

Stringent regulations

Lowe's policies, procedures and practices and technology are subject to federal, state, local and foreign laws, rules and regulations. These rules and regulations may change in time to time subject to the change in policies decisions are made by responsible authorities. The company's daily business operations are adversely impacted to follow the applicable rules and regulations. Even if the company is failed to implement the applicable rules and regulations, which could tarnish the company's brand image and also incurs high cost burden related to legal and settlement costs, civil and criminal liability, and increased cost of regulatory compliance, disruption of its business and loss of customers. Further, any change in political and economic factors could lead to change in federal, state and foreign tax laws and it could affect its tax assets or liabilities and also affects its business operations adversely.

Copyright of Lowe's Companies, Inc. SWOT Analysis is the property of MarketLine, a Progressive Digital Media business and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.