

Comparative Financial Analysis of Lowe's and Home Depot for Investment Decisions

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Abstract: With nearly eighty years of presence in the U.S. home-improvement market, Lowe's has enhanced asset efficiency and profitability through the advancement of digital tools, the expansion of professional-contractor services, and the refinement of supply-chain logistics. Compared to Home Depot, Lowe's operates on a smaller scale yet achieves higher gross profit relative to assets, faster earnings-per-share growth, and a notably lower price-to-earnings-growth ratio, reflecting either an undervalued investment opportunity or market skepticism regarding the sustainability of its growth, which contributes to the observed discount in its price-to-earnings multiple. Brand equity remains strong, profit margins are stable, and the product assortment is increasingly concentrated in higher-margin categories such as smart-home devices and seasonal offerings. Challenges include softening consumer demand driven by rising interest rates, intensifying online competition led by e-commerce giants, and ongoing volatility in raw-material costs encompassing lumber, metals, and chemicals. In response, management is deepening engagement with professional customers, accelerating omnichannel investments that integrate physical stores with rapid delivery and buy-online-pick-up-in-store services, and diversifying the supplier base to reduce geographic and logistical concentration. Despite operating in a mature industry, the combination of operational leverage, strategic initiatives, and disciplined capital allocation suggests that Lowe's retains substantial growth potential and sustained competitive resilience in the years ahead.

Keywords: Lowe's; Home Depot; financial comparison; investment valuation; home-improvement retail

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1. Introduction

In the United States, the home furnishing industry, as a key sector closely linked to residents' daily lives, has sustained steady long-term growth. In recent years, changes in the real estate market cycle, the upgrading of consumer aesthetics, and the increasing popularity of DIY home improvement culture have driven greater diversification in both product categories and service models. The industry has expanded from traditional furniture and renovation materials into emerging areas such as smart-home technologies and personalized customization services. Simultaneously, the rapid growth of e-commerce and mobile shopping has accelerated the digital transformation of home retail, leading to deeper integration between online and offline channels. Lowe's Companies, Inc. is selected as the focal point of this analysis because it represents a competitive yet distinctive player within the U.S. home improvement retail industry. While Home Depot holds the largest market share, Lowe's consistently maintains a strong second position. The home furnishing industry is currently experiencing an expansion phase [1]. This dynamic makes Lowe's an ideal subject for comparative and competitive analysis,

providing valuable insights into the strategies and performance of major industry participants. This paper focuses on Lowe's within the American home furnishing sector, analyzing financial indicators such as profit margin, operating income, price-to-earnings (PE) ratio, earnings per share (EPS), and gross profit to assets (GPA) ratio in comparison with Home Depot, and subsequently forecasting future profit margins and identifying key risk factors along with corresponding countermeasures.

2. Research Objectives and Research Questions

2.1. Company Establishment and Development History

Founded in 1946 and headquartered in Mooresville, North Carolina, Lowe's Companies, Inc. has become a globally recognized home improvement retail leader. Initially a small-town hardware store established by Lucius Smith Lowe, the company specialized in hardware tools, building materials, and other essential goods. During the 1950s, amid rapid post-war residential construction growth in the United States, Lowe's seized market opportunities, gradually expanding its operations and enhancing efficiency through self-service shopping models and warehouse-style stores. By the 1980s, Lowe's accelerated its expansion across the United States and successfully went public, securing additional capital for growth. Entering the 21st century, Lowe's continued to expand its store network and accelerate investment in new technologies, including online shopping platforms and mobile applications, to enhance customer experience. Its product offerings encompass stylish fixtures, rough plumbing and electrical supplies, seasonal and outdoor living products, paints, flooring, lumber, and outdoor power equipment. Additionally, Lowe's provides a range of services such as extended protection plans, repair services, and installation support for both indoor and outdoor remodeling projects [2]. The company has also explored international expansion, opening stores in Canada and Mexico. While some international initiatives have been adjusted in response to market dynamics, these efforts reflect Lowe's strategic flexibility in adapting to global market changes.

2.2. Main Competitor

As the two leading players in the North American home building materials retail market, Lowe's and Home Depot share the overarching objective of expanding market share and profitability, yet their strategic approaches differ significantly. Home Depot, founded in 1978, was designed as a one-stop shopping destination for DIY customers, opening its first stores in Atlanta, Georgia, in 1979. The company has historically focused on professional ("Pro") customers, investing in distribution centers and offering customized services and flexible credit products to strengthen its B2B segment. Lowe's, while increasingly serving professional customers, primarily targets DIY consumers and light professional users by enhancing the retail experience, optimizing store layout, and upgrading its product structure. In the U.S. home improvement retail market, Home Depot maintains a leading market share of approximately 17-18%, with Lowe's following at around 11%, making the two firms the dominant industry players [3]. Home Depot operates more than 2,300 stores across North America, providing extensive urban and suburban coverage, whereas Lowe's has roughly 1,746 U.S. locations, with a higher concentration in suburban and rural areas. This distribution aligns with customer profiles: Lowe's core customers are typically suburban or rural homeowners, often older adults who demonstrate high loyalty, with approximately 75% repeat purchase rates and average annual spending near \$809. Home Depot attracts a more diversified customer base, including a higher proportion of professional contractors, which contributes to greater sales volume per store. From a consumer perception standpoint, Home Depot is associated with professional expertise and extensive building material selection, while Lowe's is viewed as more approachable for DIY enthusiasts and household buyers. Despite Home Depot's larger scale, Lowe's exhibits competitive strengths in customer

loyalty, asset efficiency, and growth potential within specific categories, such as large appliances, where its share reached 41.6% in Q1 2025 [4].

2.2.1. Digital Transformation

Both companies have made substantial investments in digital transformation. Home Depot emphasizes integrating online platforms into professional customers' procurement processes to enhance efficiency, whereas Lowe's focuses on consumer convenience by enabling online orders with in-store pickup or home delivery. Lowe's has also incorporated AR/VR tools to assist customers with home design and renovation planning, improving both the shopping experience and operational efficiency.

2.2.2. Supply Chain Strategy

In supply chain management, Home Depot maintains robust control through highly automated distribution and regional centers. Lowe's has introduced intelligent warehousing and regional distribution centers atop its traditional network, striving to balance cost and efficiency. The company collaborates strategically with major suppliers to ensure price competitiveness and product availability, sourcing from over 7,000 suppliers worldwide and supported by 11 regional distribution centers to maintain adequate store inventories. Lowe's employs multi-channel marketing to engage consumers, including television campaigns to strengthen brand recognition, print promotions highlighting pricing and product variety, and digital and direct mail strategies to maintain customer relationships. The company demonstrates strong corporate social responsibility through initiatives supporting organizations such as Habitat for Humanity and the American Red Cross, as well as sustainable sourcing practices, procuring lumber from designated forests rather than endangered ones [5]. In contrast to Home Depot's aggressive international expansion, Lowe's has recently focused on consolidating resources in core North American markets while divesting from non-core regions.

2.3. Current Company Situation

Lowe's has increasingly focused on professional contractors, a customer segment characterized by high purchase volume and frequency, demanding quality products and premium services. The company offers exclusive discounts, fast pickup options, dedicated services, and credit support for this group, effectively enhancing its B2B market share. Store layout and product structure emphasize high-margin categories such as smart-home devices, kitchen and bathroom renovations, gardening, and seasonal goods. The company continues to optimize store locations, closing underperforming stores and concentrating resources on high-potential markets and emerging growth areas. Strategically, Lowe's positions itself as a "home improvement retail expert," with a customer-centric approach emphasizing comprehensive product and service offerings under its "Total Home Strategy," designed to provide complete solutions for diverse household needs [6]. The company is also exploring sustainable development, including green building materials, to meet environmentally conscious consumer demand. In ESG initiatives, Lowe's has established targets to reduce greenhouse gas emissions and enhance energy efficiency across operations, implementing energy-saving technologies in stores and distribution centers. Community development and employee engagement programs further strengthen corporate responsibility. Additionally, Lowe's applies data analytics and artificial intelligence in inventory forecasting, price optimization, and customer relationship management, improving operational efficiency and profitability [7].

3. Financial Analysis

3.1. PE Ratio and EPS Growth Rate

As summarized in Table 1, Home Depot's TTM PE and NTM PE are approximately 24, reflecting its status as a mature company. Lowe's TTM PE and NTM PE are around 18, indicating that it is also relatively mature. When comparing PEG ratios, Home Depot's stands at 17.29, while Lowe's is 3.18. Lowe's EPS growth rate exceeds Home Depot's, at 6% versus 1.39%, respectively. Both companies' TTM and NTM PEs are near the 20 level, consistent with their maturity stage. However, Lowe's lower PE (~18) compared to Home Depot (~24) suggests that, from a P/E perspective, Lowe's is relatively undervalued. While a low PE may indicate market caution regarding growth sustainability, coupled with a higher EPS growth rate, it represents a potential undervaluation. Lowe's projected EPS growth of 6% significantly exceeds Home Depot's 1.39%, highlighting greater earnings growth potential. PEG ratios balance valuation and growth considerations, and with Home Depot at 17.29 versus Lowe's 3.18, Lowe's current valuation appears more cost-effective, provided expected EPS growth materializes; any downward revision of growth expectations could reduce this advantage.

Table 1. PE ratio and EPS growth rate.

	HD	LOWE'S
Price	363.07	225.57
TTM PE	23.98	19.05
NTM PE	23.65	17.97
EPS Growth rate	1.39%	6%
Revenue growth Rate	1.74%	2.17%
PEG ratio	17.29	3.18

Although Home Depot benefits from a solid market position and larger scale, Lowe's higher expected earnings growth and lower PEG ratio indicate stronger growth and valuation potential. Consequently, Lowe's appears relatively more attractive for growth-oriented investors, while Home Depot may appeal more to those seeking stability and defensive positioning.

3.2. Gross Profit and Net Profit

As shown in Table 2, Lowe's achieves a higher GP/A ratio of 64.68% compared to Home Depot's 55.46%, while net profit margins are slightly lower at 8.31% versus Home Depot's 9.28%. Although Lowe's converts assets into gross profit more efficiently, its marginally lower net margin suggests relatively higher operating or interest expenses offsetting part of this advantage. Net profit reflects overall company profitability [8]. Across recent periods, both companies' profits have remained relatively stable, as illustrated in Figure 1 and Figure 2, despite periodic fluctuations.

Table 2. Gross profit and net profit.

	HD	LOWE'S
GP/A	55.46%	64.68%
Gross margin	33.42%	33.32%
net margin	9.28%	8.31%

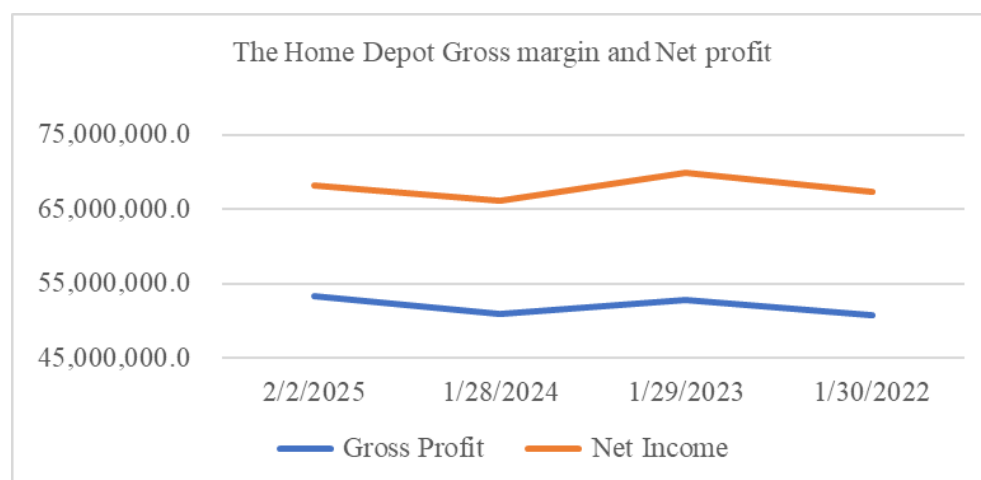


Figure 1. The Home Depot Gross margin and Net profit.

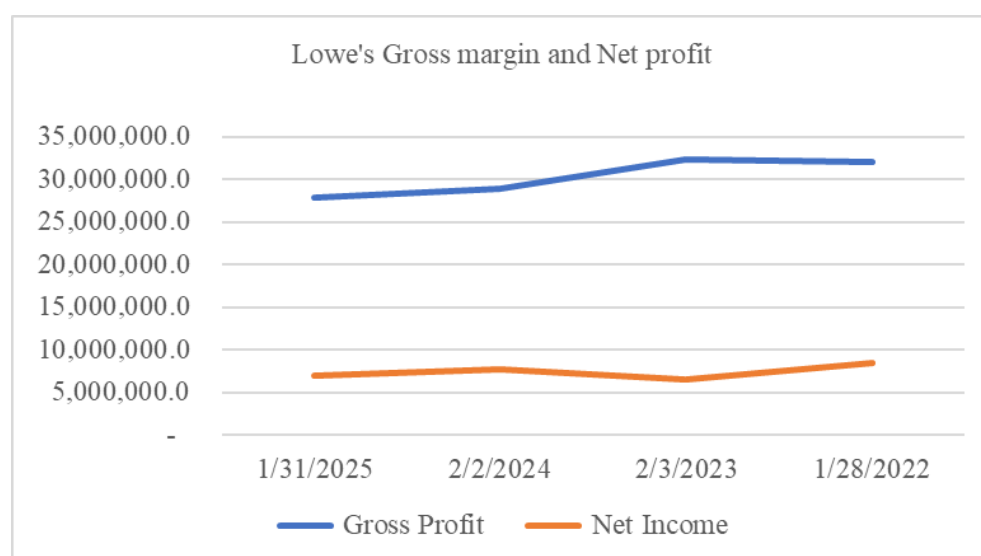


Figure 2. Lowe's Gross margin and Net profit.

3.3. Prediction of Earnings

As shown in Table 3, Home Depot's PE ratio remains stable around 23, reflecting a mature and stable development stage. Assuming a conservative future EPS growth of 1.6% and a future PE of 22.5, projected EPS values are derived for the next five years. Lowe's, with a lower current PE of 17, has been undervalued in recent years. Considering elevated interest rates that may temper consumer demand, a conservative EPS growth rate of 3% (below the recent 6%) and a future PE of 18.5 are applied. These parameters allow estimation of five-year EPS, corresponding price appreciation, and annualized growth rates.

Table 3. Prediction of Earnings.

Company	HD	Lowe's
Future PE	22.5	18.5
Future EPS Growth rate	1.6%	3%
Year1 EPS	15.35	12.55
Year2 EPS	15.60	12.93
Year3 EPS	15.85	13.31
Year4 EPS	16.10	13.71

Year5 EPS	16.36	14.13
Year 5 return	368.02	261.32
5 year return	1.36%	15.85%

Based on these projections, Lowe's exhibits stronger growth potential than Home Depot over the next five years. Despite Home Depot's higher future PE (22.5 vs. 18.5), Lowe's higher expected EPS growth of 3% versus 1.6% indicates faster earnings expansion. Projected EPS for Lowe's rises from \$12.55 in Year 1 to \$14.13 in Year 5, while Home Depot increases from \$15.35 to \$16.36. This translates into a significantly higher five-year total return for Lowe's at 15.85% compared to Home Depot's 1.36%, making Lowe's more attractive for growth-oriented investors, whereas Home Depot may appeal to those prioritizing stability and defensive positioning [9].

3.4. Three Risk Factors

Despite Lowe's strong position in the North American home improvement market with high asset utilization and stable profitability, it faces three key risks. First, continuous interest rate increases in the United States tighten the economic environment, reducing consumer disposable income. Rising rates on housing and renovation loans may suppress demand for home improvement, directly impacting Lowe's sales and profit growth. Second, intensifying online competition from e-commerce giants and emerging home furnishing brands, leveraging flexible supply chains and aggressive pricing, challenges Lowe's traditional retail model. While Lowe's has increased digital investment, its online operations still require enhancement to compete effectively, especially among younger consumers. Third, Lowe's dependence on international supply chains for raw materials, including wood, metals, and chemicals, exposes it to cost volatility. Fluctuations in raw material prices, driven by trade, geopolitical, or transportation factors, can compress gross margins and reduce overall profitability [10].

3.5. Response Strategy

3.5.1. Strategy for Interest Rate Risk

Sustained interest rate hikes in the United States not only constrain Lowe's financial performance but also create broader macroeconomic and market ripple effects. Rising borrowing costs reduce the affordability of housing and renovation loans, prompting households-particularly middle- and lower-income families in suburban and rural areas, who constitute a significant portion of Lowe's core customer base-to delay or forego home improvement projects, thereby directly affecting sales volume and revenue growth. Slower consumer spending may also impact upstream industries such as furniture manufacturing, construction materials, and logistics, potentially reducing demand throughout the supply chain and limiting store expansion initiatives.

To mitigate these risks, Lowe's can adopt a multifaceted strategy. At the product level, the company can introduce cost-effective and energy-efficient product lines tailored to budget-conscious consumers, and promote smaller-scale DIY projects or modular renovation solutions that require lower upfront investment. Financially, Lowe's can enhance consumer accessibility through installment plans, low-interest financing, and 'buy now, pay later' options, which can alleviate immediate cost pressures while managing incremental interest exposure for the company. Operationally, Lowe's may adjust inventory and pricing strategies to maintain profitability in a higher interest rate environment. At the policy level, government interventions such as tax incentives for home improvement, low-interest loans, or targeted fiscal stimulus for housing and construction could complement corporate initiatives, stabilizing both consumer demand and the broader home improvement sector. By coordinating corporate and policy measures, Lowe's can maintain resilience and continue to capture growth opportunities despite a challenging interest rate environment.

3.5.2. Strategy for Online Competition

Intensified online competition presents Lowe's with both risks and opportunities. The growing preference among younger consumers for digital platforms threatens in-store revenue and may weaken traditional customer loyalty. However, the expanding online market provides an avenue for Lowe's to extend its reach, improve operational efficiency, and engage with a more tech-savvy customer base.

Lowe's digital strategy should include several key components. First, enhancing online platforms with intelligent recommendation systems, AR/VR tools for virtual home improvement planning, and personalized marketing campaigns can improve consumer engagement, increase conversion rates, and support informed purchasing decisions. Second, strengthening logistics and supply chain capabilities-including investments in regional distribution centers and optimization of same-day/next-day delivery services-can reduce the service gap with e-commerce-native competitors. Third, expanding omnichannel initiatives, such as buy-online-pickup-in-store (BOPIS) and seamless after-sales support, leverages Lowe's physical store network to enhance customer convenience and loyalty. Fourth, differentiation strategies focusing on professional expertise, home improvement consultation, and installation services offer value propositions that are difficult for online-only retailers to replicate. Finally, integrating advanced data analytics to track consumer behavior, optimize inventory allocation, and forecast demand ensures that both online and offline channels operate efficiently in a coordinated manner. Collectively, these measures enable Lowe's to compete effectively in a hybrid retail environment and secure long-term growth through digital-physical synergy.

3.5.3. Strategy for Raw Material Costs

Lowe's reliance on international supply chains for critical raw materials-including wood, metals, and certain chemical inputs-exposes the company to cost volatility driven by trade tensions, geopolitical developments, and transportation fluctuations. Such price variability can compress gross margins, create net profit volatility, and reduce predictability for operational and investment planning.

To address these challenges, Lowe's can implement a comprehensive supply chain resilience strategy. Supplier diversification and the development of local sourcing networks reduce dependence on any single international market, mitigating the risk of supply disruptions. Inventory management optimization-including safety stock policies, dynamic procurement planning, and real-time monitoring of logistics-can buffer the impact of raw material price fluctuations. Strategic tools such as long-term supply contracts, futures procurement, or hedging arrangements can further stabilize costs. In addition, increasing digitalization across the supply chain enables end-to-end visibility, predictive maintenance, and proactive risk management, thereby improving operational agility and responsiveness. On a strategic level, Lowe's can explore vertical integration opportunities for key materials or invest in alternative sustainable materials to reduce exposure to highly volatile commodities. Combined, these measures not only protect profitability but also strengthen Lowe's long-term competitiveness, ensuring resilience in an increasingly uncertain global supply environment.

4. Conclusion

Lowe's demonstrates notable operational and financial strengths relative to Home Depot, highlighted by superior asset efficiency (GP/A approximately 65%), a higher near-term EPS growth rate of around 6%, and a substantially lower PEG ratio of about 3.18. Based on the simplified assumptions applied in the five-year projection, these indicators translate into an estimated price-appreciation return of roughly 15.9% for Lowe's, compared with 1.4% for Home Depot. These findings suggest that, from a growth and valuation perspective, Lowe's exhibits stronger potential for future shareholder value creation, despite its smaller scale relative to the market leader.

The analysis also identifies three dominant risk factors that could affect Lowe's future performance. First, rising interest rates in the United States may constrain consumer discretionary spending, particularly on home improvement projects, and dampen overall demand in the furniture and building materials market. Second, the intensification of online competition-driven by both established e-commerce giants and emerging digital-first home furnishing brands-poses challenges for Lowe's traditional retail model, potentially pressuring sales and margins if the company does not accelerate its digital transformation. Third, volatile raw-material costs, driven by fluctuations in international trade conditions, geopolitics, and transportation expenses, introduce uncertainty in procurement costs, which could compress gross margins and reduce net profitability. To address these risks, Lowe's can adopt a combination of corporate strategies and supportive policy measures, including enhanced cost-efficiency initiatives, diversification of supply sources, digitalization of inventory and logistics management, omnichannel retail expansion, and collaboration with financial institutions to provide flexible consumer financing options.

Several limitations should be acknowledged when interpreting these results. The PEG ratios reported in Section 3.1 depend on growth-rate inputs that may not align precisely with the forward-looking EPS growth assumptions used in Section 3.3, and the underlying calculation parameters are not fully disclosed. Additionally, the five-year return estimates rely on a price-appreciation-only framework, omitting contributions from dividends, share repurchases, and potential valuation re-rating, which limits their comprehensiveness. The absence of sensitivity analyses addressing variations in EPS growth, future PE multiples, and macroeconomic factors further constrains the robustness of the projections.

Future research could enhance the reliability and depth of these findings by reconciling the growth inputs employed in PEG calculations with those used in multi-year projections, integrating dividend-discount or discounted cash flow models to generate total-return estimates under various interest-rate and macroeconomic scenarios, and assessing the operational and financial impact of emerging technologies. For instance, AI-driven inventory management, predictive analytics, and smart supply chain solutions have the potential to further improve efficiency, reduce costs, and strengthen profitability across major home improvement retailers. In addition, comparative studies incorporating international market expansion strategies, consumer behavior dynamics, and ESG initiatives could provide a more holistic understanding of competitive positioning and long-term value creation within the home improvement sector.

Overall, while Lowe's exhibits clear growth and valuation advantages over Home Depot in the near term, sustained strategic execution, digital innovation, supply chain resilience, and risk management will be critical to realizing this potential and maintaining competitive leadership in an evolving industry landscape.

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