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Webinar Presentation

The Home Depot & Lowe’s Companies

July 21, 2016

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AGENDA

- **Industry Overview**
- **The Home Depot**
  - ✓ Company Profile
  - ✓ Strategic Initiatives
  - ✓ Financial Results
  - ✓ GCS Observations & Conclusions
- **Lowe's Companies**
  - ✓ Company Profile
  - ✓ Strategic Initiatives
  - ✓ Financial Results
  - GCS Observations & Conclusions
- **Comparative Analysis**
- **Q&A**

Home Improvement Retail

- Industry revenue is estimated to have totaled $735 billion in 2015, with Home Depot and Lowes accounting for ~20% of that amount.
- These retailers primarily serve homeowners and renters, but in recent years there has been an increasing focus on attracting professional customers as well.
- Key Economic Indicators for 2015
  - Real Disposable Income increased 3.4%
  - Unemployment Rate averaged 5.3%
  - Home Prices appreciated 5.5%
  - Housing Turnover increased 7.4%

Founded: 1978

Headquarters: Atlanta, Georgia

# of Stores Operated: 2,275

# of Employees: 385,000

THE HOME DEPOT, INC.
Strategic Initiatives

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Initiatives to improve omni-channel capabilities and customer satisfaction:

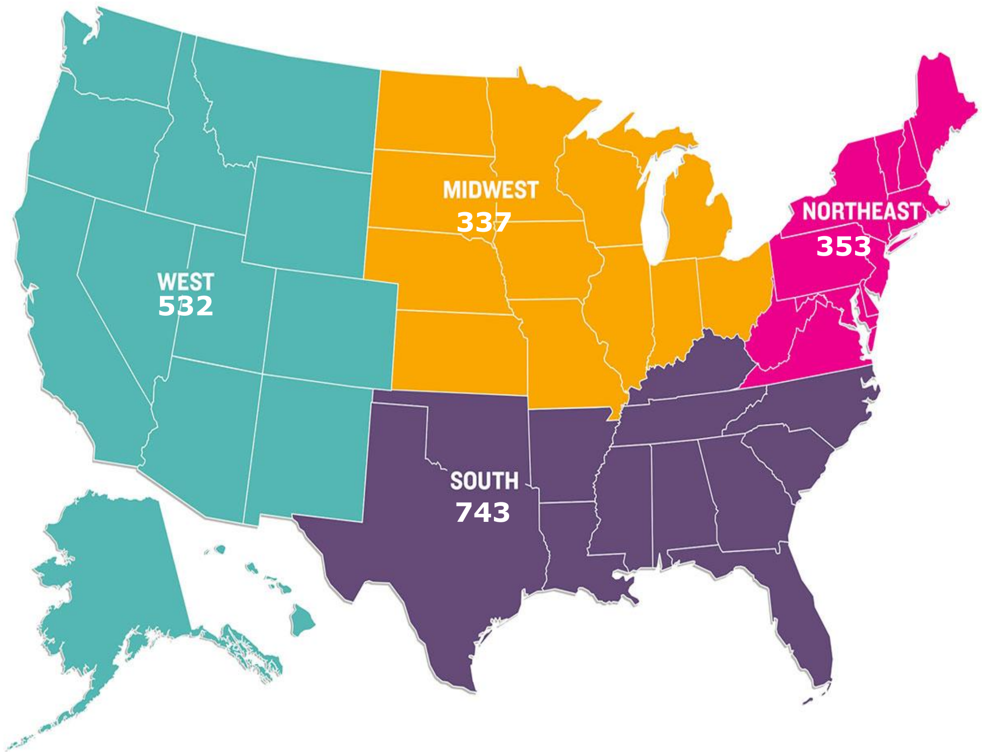
- Website improvements
- FIRST phones
- Project Sync
- BODFS, BOPIS, BOSS, BORIS

Home Depot is also focused on bolstering its appeal to professional customers through dedicated staff, credit and loyalty programs, special pricing, services and tools, and exclusive offers.

In August 2015, Home Depot acquired Interline Brands for $1.67B, or 11.4x LTM Adj EBITDA of $146.3mm; $1.5B of senior notes was used to partially fund the transaction.

- Interline was a national distributor of broad-line maintenance, repair and operations products
- End-markets % Revenue: Institutional facilities (50%); Multi-family (30%); Residential (20%)
- 67 distribution centers, 21 professional contractor showrooms, and five cross-dock facilities located in the U.S., Canada, and Puerto Rico.
- Acquired brands: AmSan®, JanPak® , CleanSource®, Sexauer®, Trayco®, Wilmar®, Maintenance USA®, Barnett®, Copperfield®, U.S. Lock®, Hardware Express®, LeranSM and AF Lighting®

THE HOME DEPOT, INC.
Locations

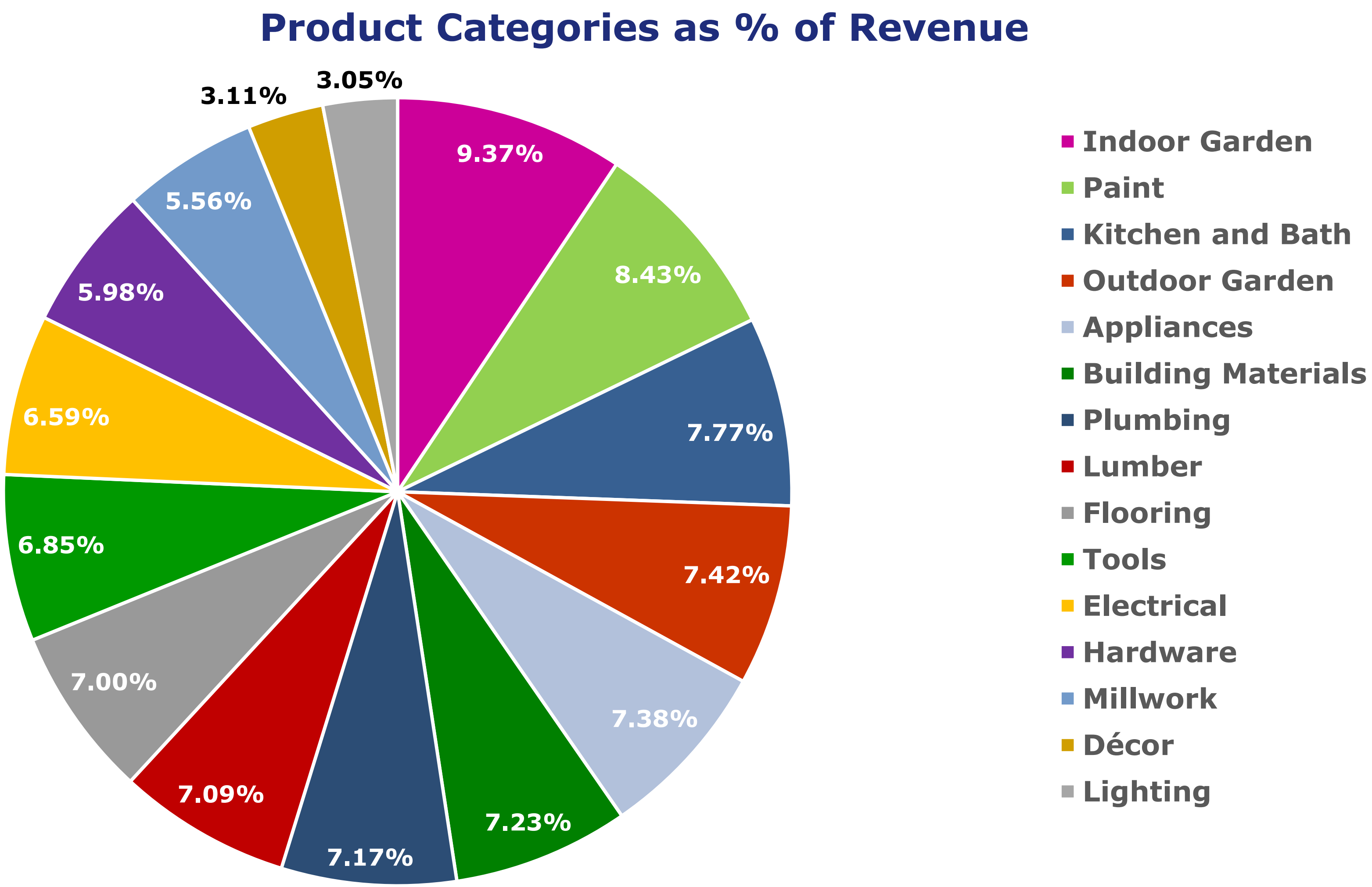


United States: 1,965 / Canada: 182 / Mexico: 110

Puerto Rico: 9 / Virgin islands: 2 / Guam: 1

Distribution Network
34 bulk distribution centers
22 stocking distribution centers
10 specialty distribution centers
20 rapid deployment centers
3 direct fulfillment centers
67 distribution centers*
21 contractor showrooms*
Five cross-dock facilities*
* Acquired from Interline Brands

THE HOME DEPOT, INC.
Products



THE HOME DEPOT, INC.
Income Statement

($ in millions)	3 Months Ended 5/1/16	5/3/15	YOY Var.
Revenue	**$22,762**	**$20,891**	**9.0%**
Gross Margin	**34.2%**	**34.4%**	**-14 bps**
SG&A %	18.8%	19.9%	-112 bps
Operating Income	$3,077	$2,597	18.5%
Adj. EBITDA	**$3,635**	**$3,120**	**16.5%**
Margin	*16.0%*	*14.9%*	103 bps
Net Income	**$1,803**	**$1,579**	**14.2%**
Margin	*7.9%*	*7.6%*	36 bps

THE HOME DEPOT, INC.
Components of Sales Growth

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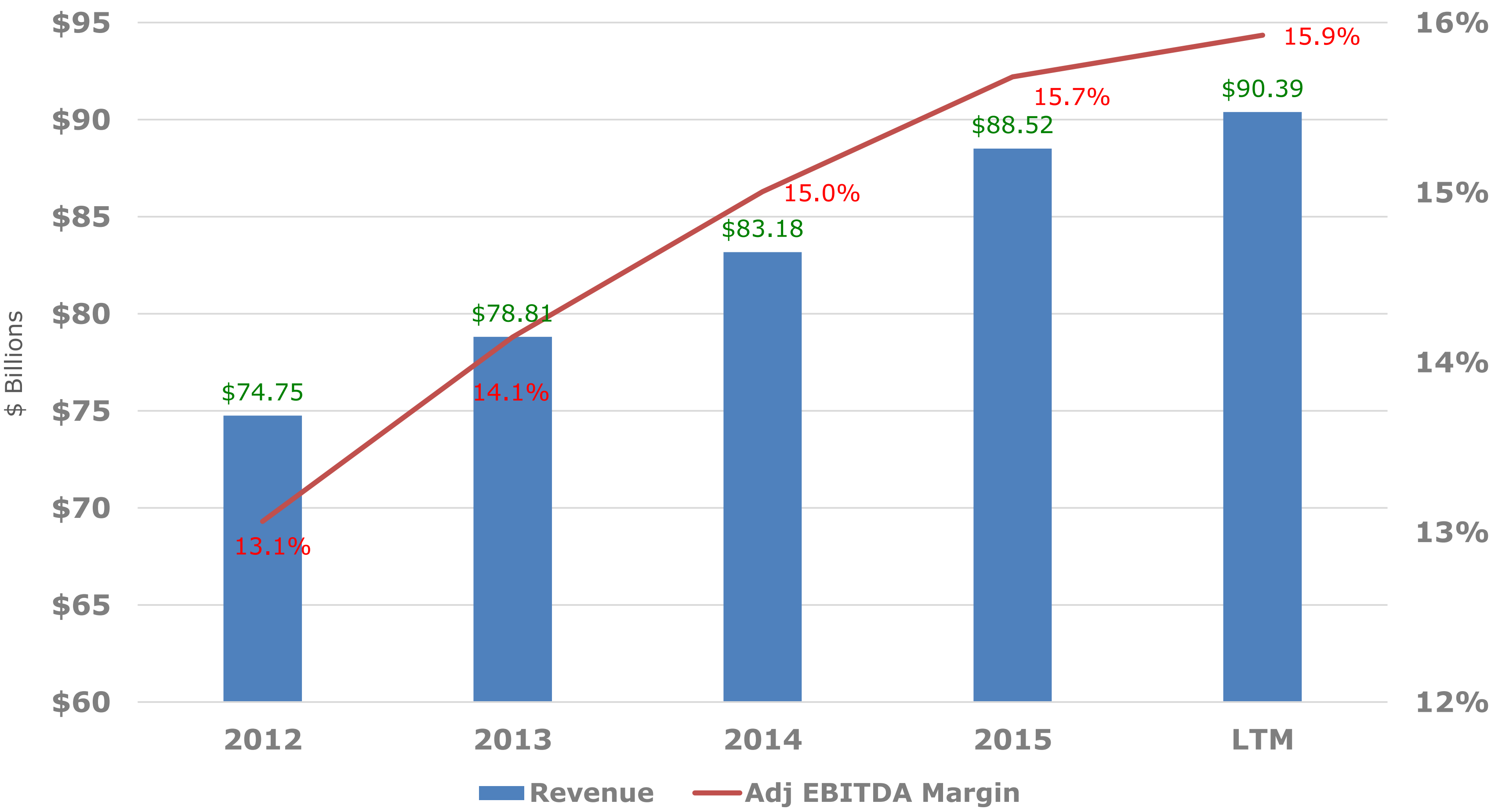
($ in millions)	3 Months Ended 5/1/16	3 Months Ended 5/3/15
Customer Transactions	4.0%	4.4%
Average Ticket	2.5%	1.7%
Comparable Sales %	**6.5%**	**6.1%**
Online Sales Growth	21.5%	29.4%
% of Sales	5.7%	5.1%
Forex Impact on Sales %	**-0.9%**	**0.0%**
Store Count	**2,275**	**2,270**
Business Acquisitions	**~2.0%**	**0.0%**
Total Sales Growth	**9.0%**	**6.1%**

THE HOME DEPOT, INC.
Revenue and Margins



THE HOME DEPOT, INC.
Cash Flow Statement

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$ in Millions, 3 Month Periods	5/1/16	5/3/15	YOY Change
Cash Income	**$2,361**	**$2,102**	**12.3%**
Working Capital	($1,275)	($1,302)	-2.1%
Cash Flow From Operations	**$3,636**	**$3,404**	**6.8%**
Capital Expenditures	($325)	($322)	0.9%
Free Cash Flow	**$3,311**	**$3,082**	**7.4%**
Debt Issuance (Repayment)	($373)	($300)	
Share Repurchases	($1,157)	($1,125)	2.8%
Dividends	($862)	($769)	12.1%
Acquisitions	-	-	
Change in Cash	$977	$1,086	
Beginning Cash	$2,216	$1,723	
Ending Cash	**$3,257**	**$2,827**	

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THE HOME DEPOT, INC.
Annual Free Cash Flow

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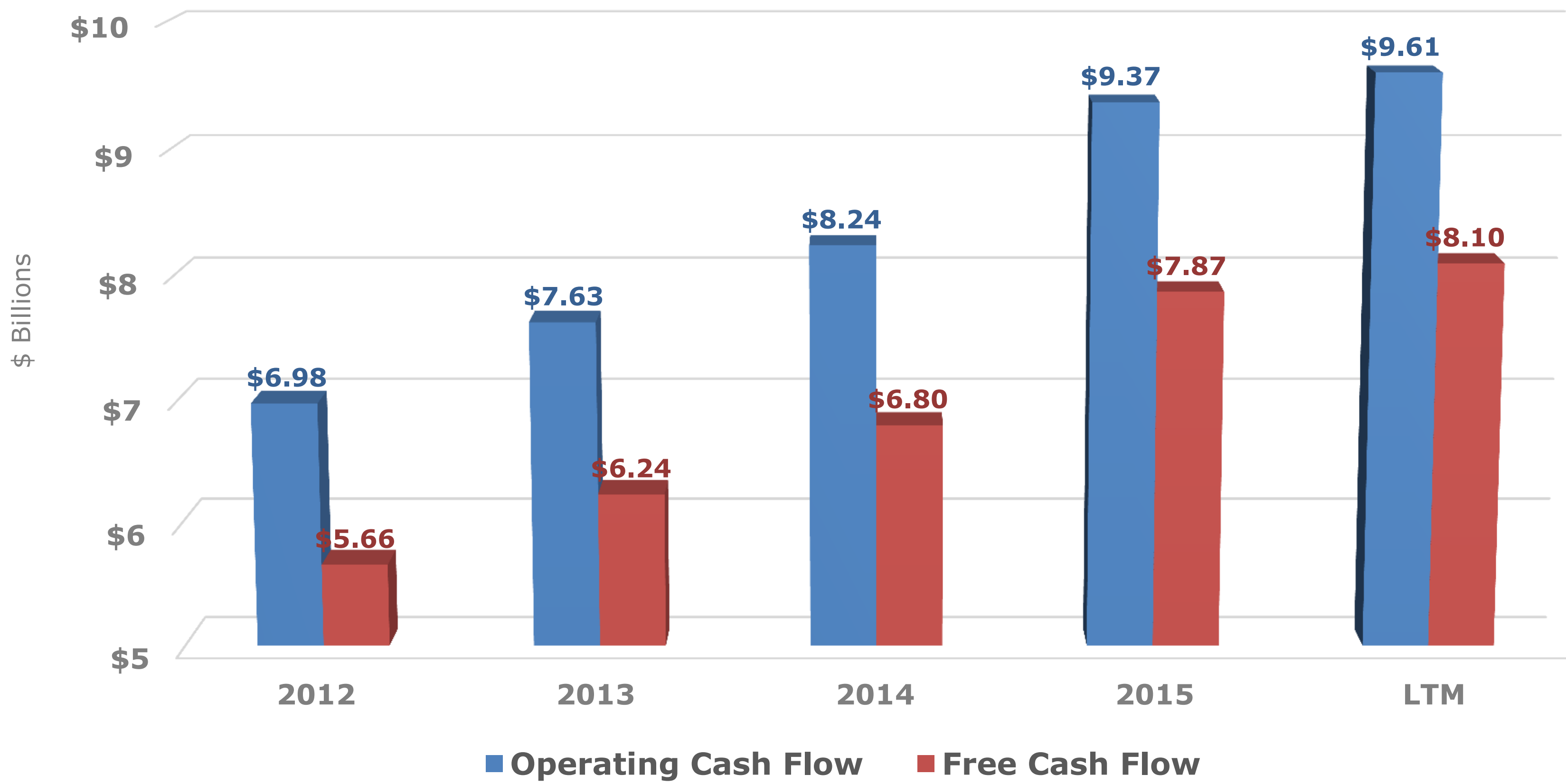
Historical Cash Flow



THE HOME DEPOT, INC.
Capital Structure

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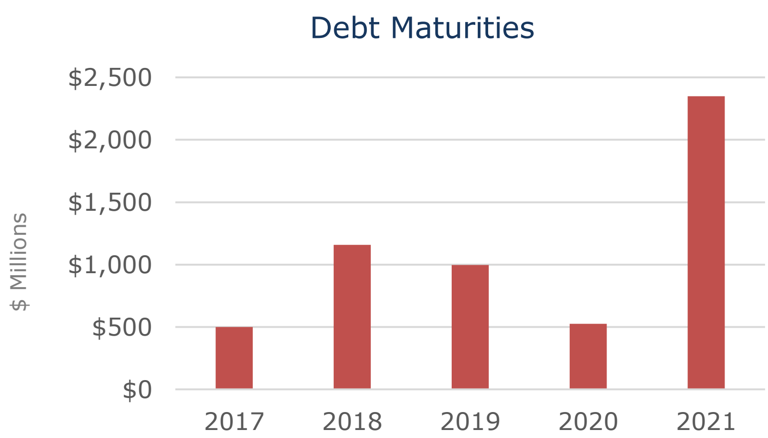
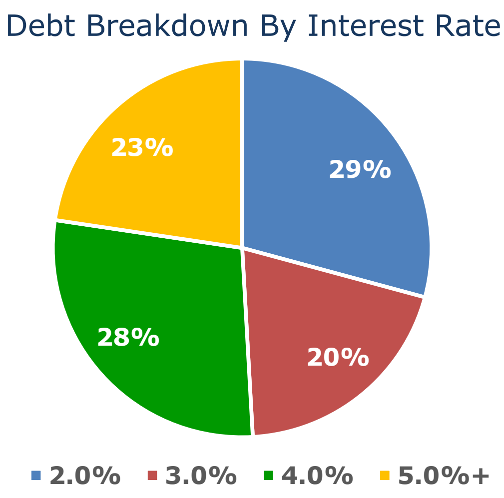
$ in millions	5/1/16	5/3/15	YOY Change
Cash & Cash Equivalents	**$3,257**	**$2,827**	15.2%
Revolver Availability	**$2,000**	**$2,000**	0.0%
Total Available Liquidity	**$5,257**	**$4,827**	8.9%
LTM Free Cash Flow	**$8,099**	**$7,601**	6.6%
LTM Adj. EBITDA	**$14,396**	**$12,809**	12.4%
Total Par Debt	**$20,948**	**$16,790**	24.8%
EBITDAR/(Interest + Rent)	**8.25x**	**7.85x**	
Rent Adj. Debt/EBITDAR	**1.83x**	**1.76x**	

THE HOME DEPOT, INC.
Debt Details

Debt Type	Amount	Weighted Average Interest
Revolver	$0	0.34%
Senior Notes	$20,191	4.25%
Capital Leases	$763	
Other	$1	
Total	**$20,955**	





THE HOME DEPOT, INC.
GCS Observations & Conclusions

- **Low risk, "B-" credit rating with a Stable outlook**
  - **Rating was upgraded from a C at the end of FY12**
- **Rationale Considers:**
  - **The company's upward trending revenue and EBITDA**
  - **Favorable economic conditions**
  - **Company's sizeable liquidity and ability to consistently generate free cash flow.**
  - **Scale and market position**
  - **High probability that leverage will not decrease materially in near-term**
  - **Rent-adjusted credit metrics reside in low-risk territory**
    - **Leverage is 1.83x**
    - **Coverage is 8.25x**

Founded: 1952

Headquarters: Mooresville, North Carolina

# of Stores Operated: 1,860

# of Employees: ~270,000

LOWE'S COMPANIES, INC.
Strategic Initiatives

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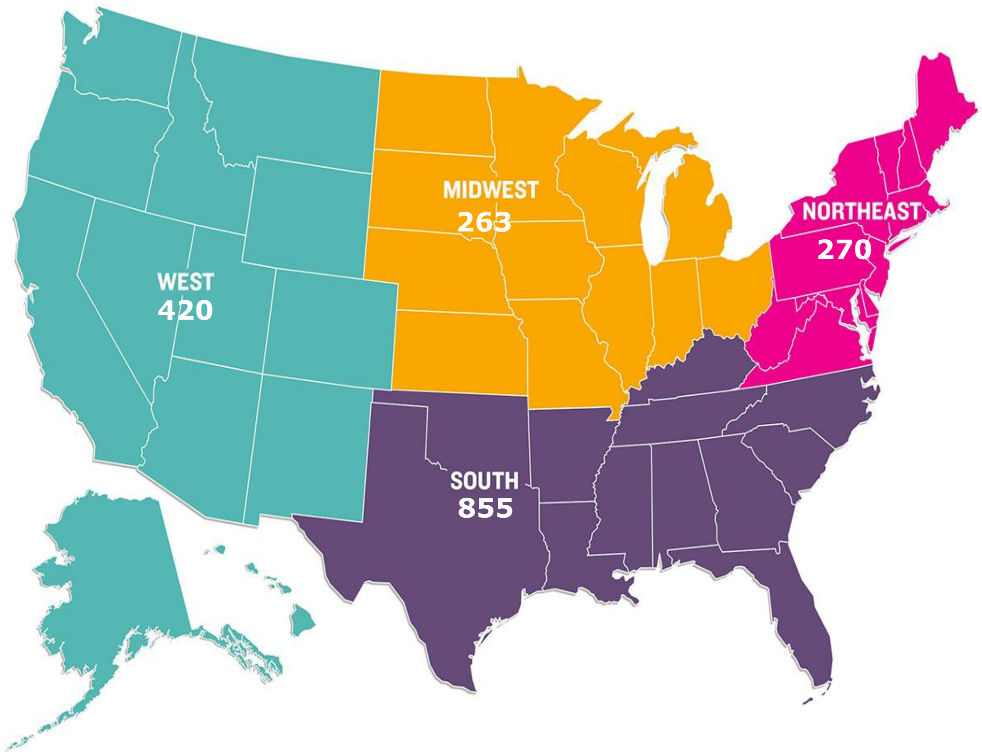
In recent years, Lowe's has been focused on international expansion.

- Lowe's expands to Canada in 2007 and then to Mexico in 2010
- In 2012, company made 1st attempt to acquire RONA for $1.8 billion
- In May 2015, Lowe's Canada acquired 12 former Target store locations and one distribution center for C$151mm
- In Jan 2016, Lowe's exits unprofitable JV in Australian home improvement retail chain

On May 20, 2016, Lowes acquired RONA Inc for $2.3B (C$3.2B), or 8.7x RONA's LTM Adj EBITDA of $265.1mm; the transaction was funded by senior notes.

- RONA is one of Canada's largest retailers and distributors of hardware, building materials and home renovation products
- Network included 236 corporate-owned stores, 260 dealer-owned stores and 9 distribution centers
- Estimated synergies of C$1.0B includes: offering new product categories; leveraging Lowe's omni-channel and private-label capabilities; leveraging shared supplier relationships and enhanced scale, and eliminating Rona's public company costs
- As a part of the acquisition, Lowes has agreed to relocate its Canadian headquarters to Boucherville, Quebec; maintain Rona's 7 banners; and keep a vast majority of Rona's store and corporate employees

LOWE'S COMPANIES, INC.
Locations

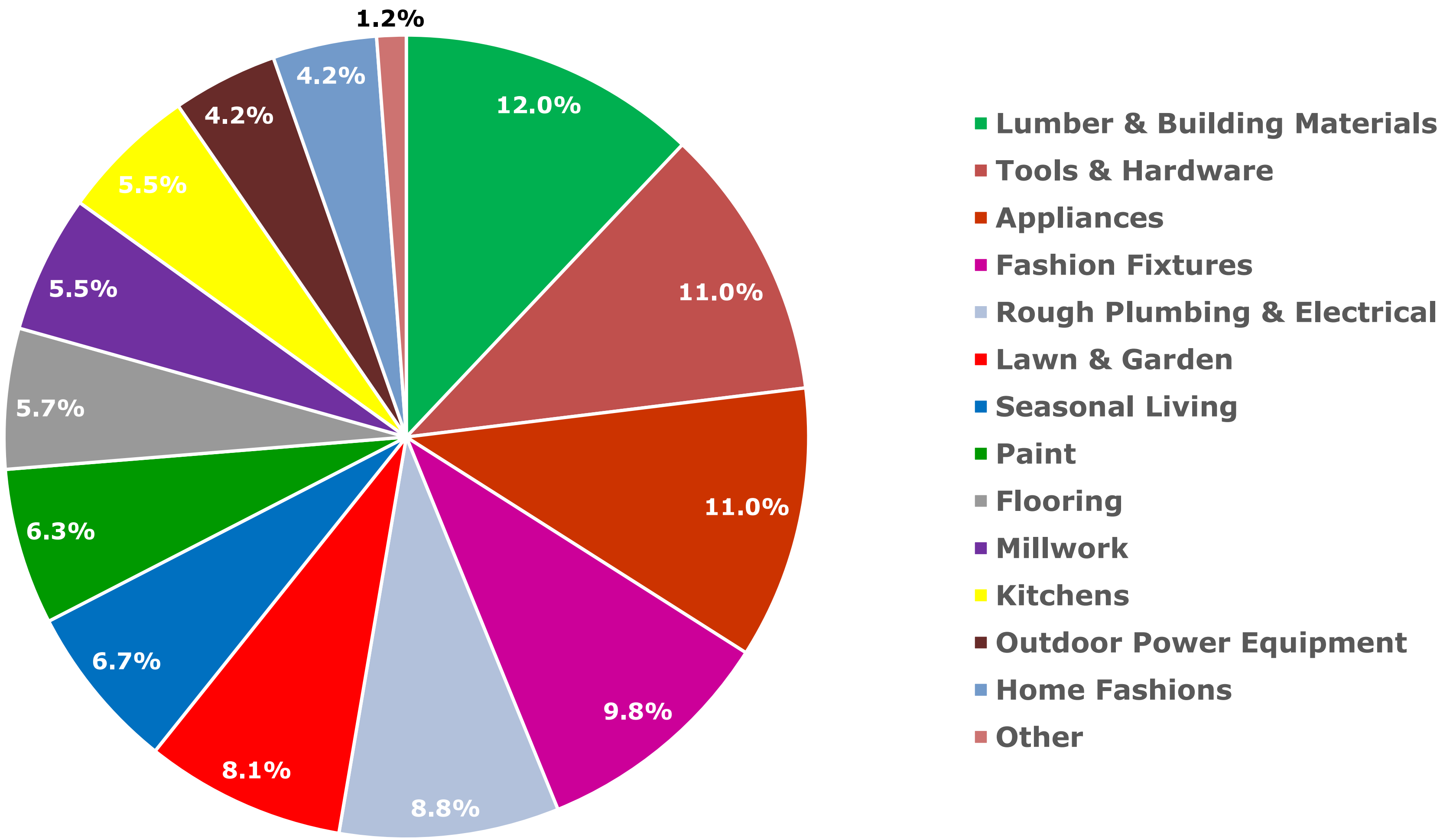


Distribution Network
15 Regional Distribution Centers
15 Flatbed Distribution Centers
5 Coastal Holding Facilities
5 Appliance Distribution Centers
3 Specialized Distribution Centers
3 Transload Distribution Centers
9 Distribution Centers*
* Acquired from Interline Brands

United States: 1,808 / Canada: 539* / Mexico: 10

LOWE'S COMPANIES, INC.
Product Categories

Product Categories as % of Revenue



LOWE'S COMPANIES, INC.
Income Statement

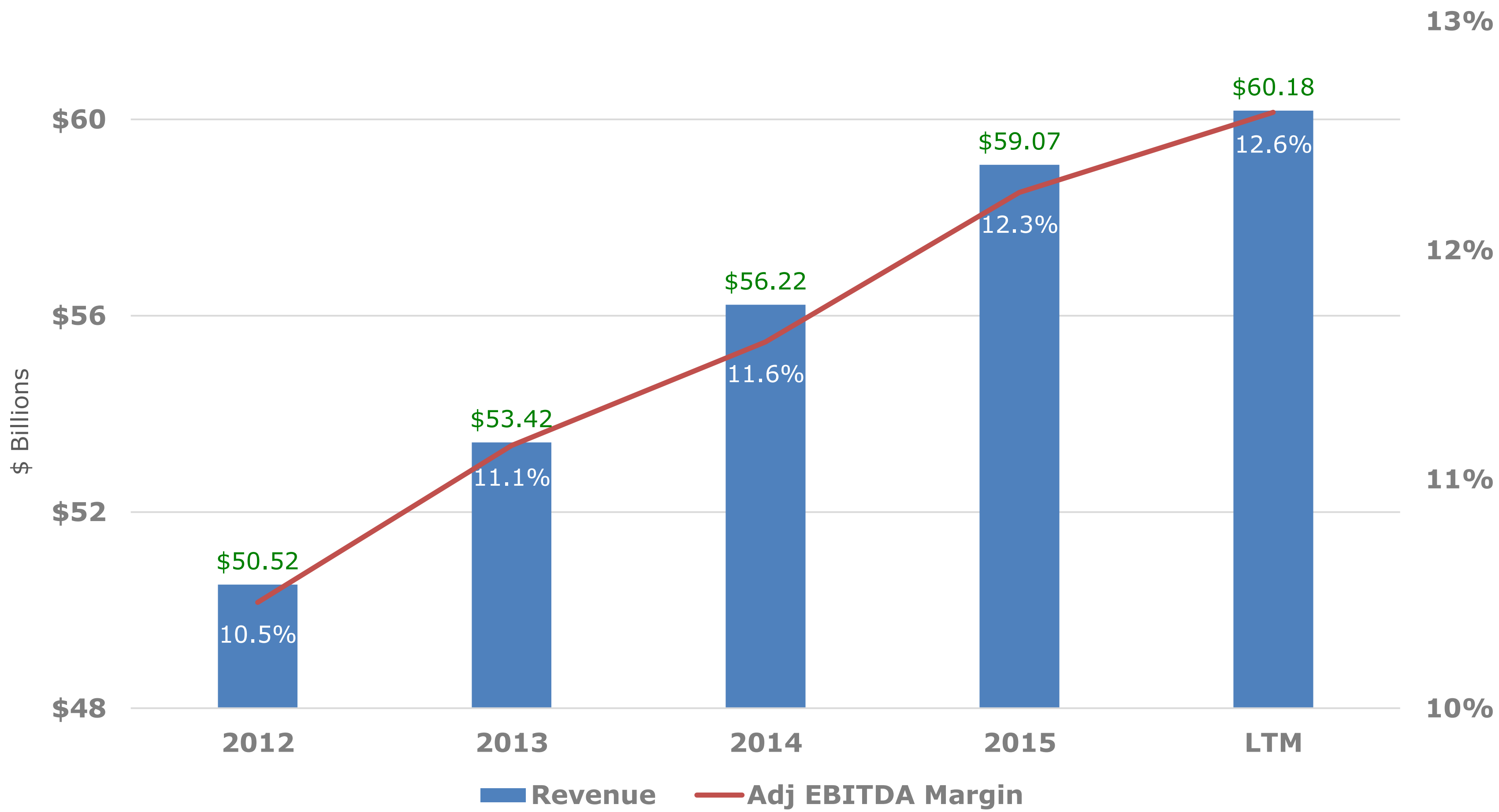
($ in millions)	3 Months Ended 4/29/16	3 Months Ended 5/1/15	YOY Var.
Revenue	**$15,234**	**$14,129**	**7.8%**
Gross Margin	35.0%	35.5%	-44 bps
SG&A %	22.3%	24.2%	-189 bps
Operating Income	**$1,586**	**$1,232**	**28.7%**
EBITDA	**$2,005**	**$1,659**	**20.9%**
Margin	13.2%	11.7%	142 bps
Net Income	**$884**	**$673**	**31.4%**
Margin	5.8%	4.8%	104 bps

LOWE'S COMPANIES, INC.
Components of Sales Growth

($ in millions)	3 Months Ended 4/29/16	3 Months Ended 5/1/15
Customer Transactions	5.1%	2.4%
Average Ticket	2.2%	3.0%
Comparable Sales %	**7.3%**	**5.2%**
Online Sales Growth*	31.4%	40.3%
% of Sales*	~2.5%	~2.0%
Forex Impact on Sales %	n/m	n/m
Store Count	**1,860**	**1,843**
Total Sales Growth	**7.8%**	**5.4%**

*Figures for most recent fiscal year period

LOWE'S COMPANIES, INC.
Revenue and EBITDA Margin Trends



LOWE'S COMPANIES, INC.
Cash Flow Statement

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$ in Millions, 3 Month Periods	4/29/16	5/1/15	YoY Change %
Cash Income	**$1,358**	**$1,079**	**25.9%**
Working Capital	$1,862	$1,399	33.1%
Cash Flow From Operations	**$3,220**	**$2,478**	**29.9%**
Capital Expenditures	$208	$232	-10.3%
Free Cash Flow	**$3,012**	**$2,246**	**34.1%**
Debt Issuance (Repayment)	$2,739	($10.0)	
Share Repurchases	($1,253)	($1,109)	13.0%
Dividends	($255)	($222)	14.9%
Change in Cash	$4,156	$968	
Beginning Cash	$405	$466	
Ending Cash	**$4,561**	**$1,434**	

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LOWE'S COMPANIES, INC.
Annual Free Cash Flow

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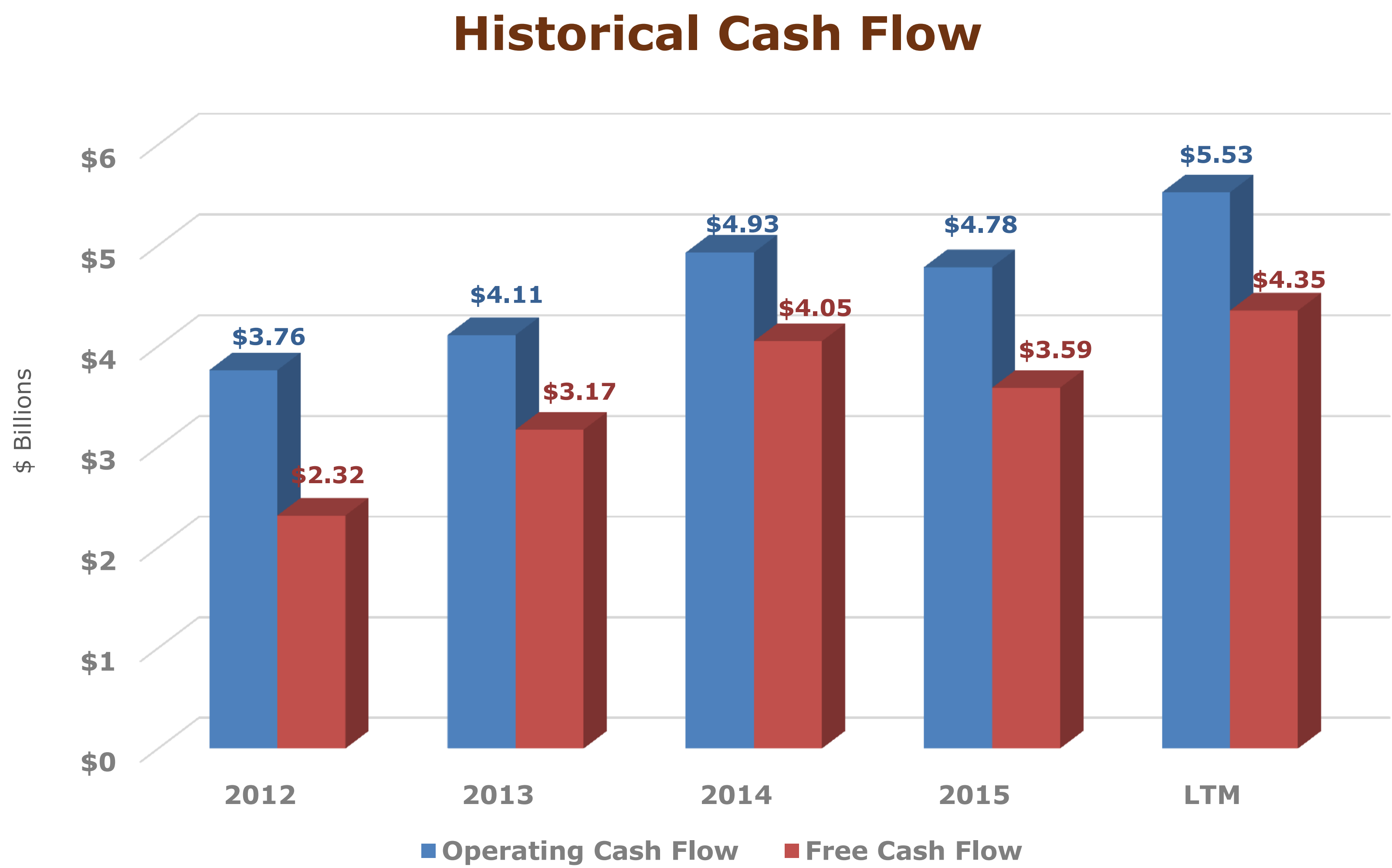

LOWE'S COMPANIES, INC.
Capital Structure

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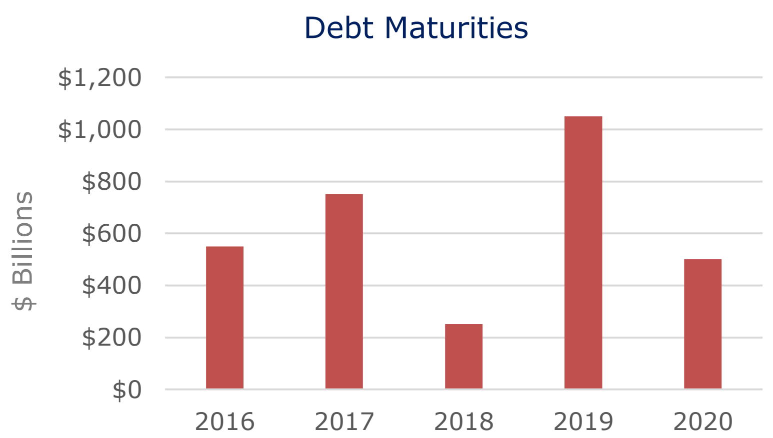
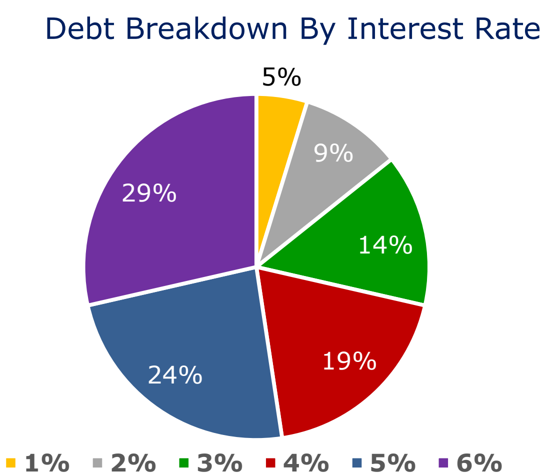
$ in millions	4/29/16	5/1/15	YOY Change
Cash & Cash Equivalents	**$4,561**	**$1,434**	>200%
Revolver Availability	**$1,750**	**$1,750**	0.0%
Total Available Liquidity	**$6,311**	**$3,184**	98.2%
LTM Free Cash Flow	**$4,353**	**$4,495**	-3.2%
LTM EBITDA	**$7,584**	**$6,665**	13.8%
Total Debt	**$15,405**	**$11,350**	35.7%
EBITDAR/(Interest + Rent)	**7.7x**	**7.3x**	
Rent Adj. Debt/EBITDAR	**2.4x**	**2.1x**	

LOWE'S COMPANIES, INC.
Debt Details

Debt	Amount	Weighted Average Interest
Revolver	$0	0.60%
Senior Notes	$14,863	4.32%
Capital Leases	$535	-
Other	$7	6.30%
Total	**$15,405**	





LOWE'S COMPANIES, INC.
GCS Observations & Conclusions

- **Moderate risk, "C" credit rating with Stable outlook**
  - Company has maintained rating since 2011
- **Rationale considers:**
  - Upward trending revenue that has benefitted from favorable macroeconomic conditions
  - Consistent EBITDA growth and free cash flow generation
  - Efforts to expand into Canada, which will increase near-term risk
  - Slight increases in leverage
  - Adequate existing liquidity
  - Rent-adjusted credit metrics indicate moderate level of risk
    - Leverage is 2.38x
    - Coverage is 7.70x

COMPARATIVE ANALYSIS
Comparable Sales Growth

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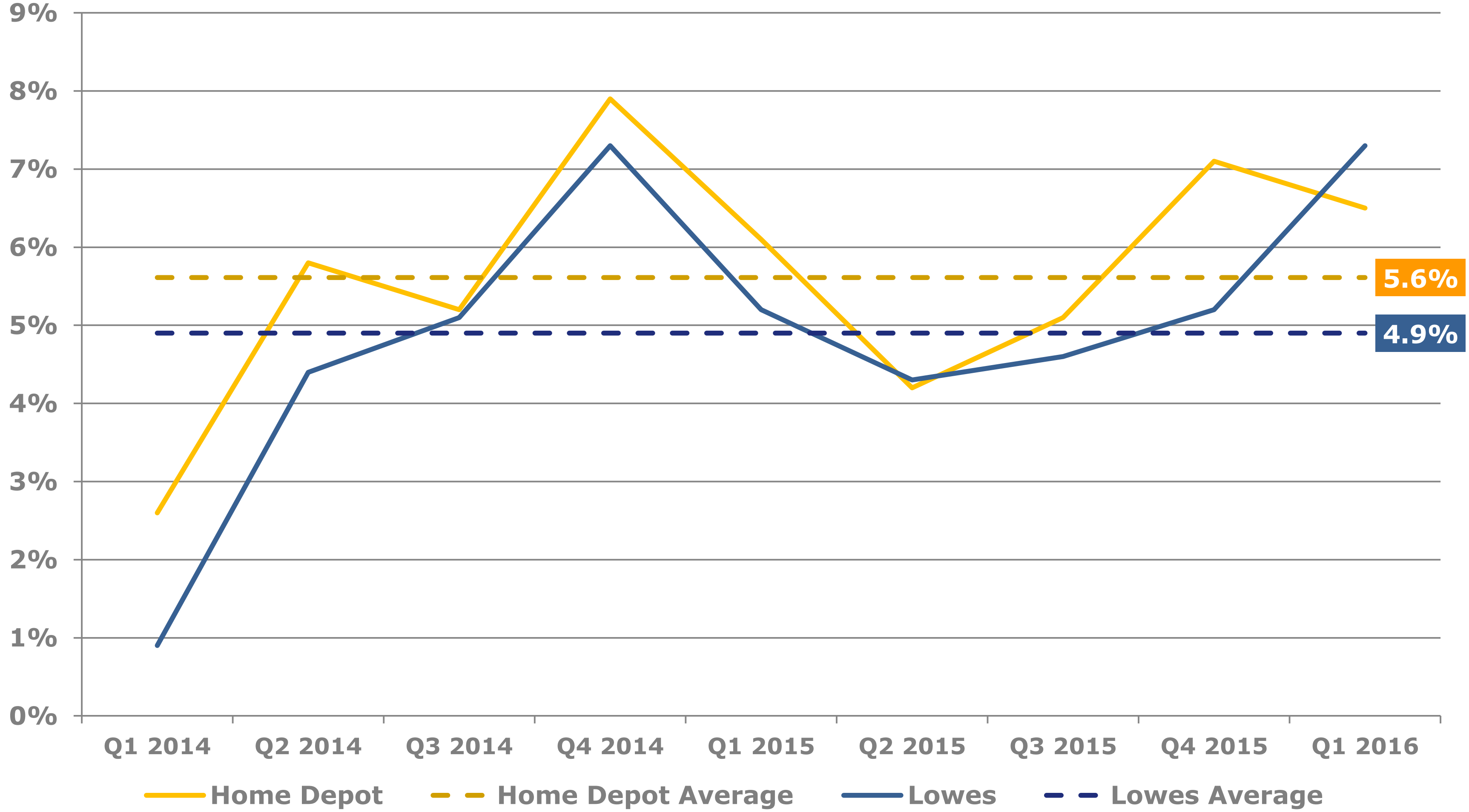

COMPARATIVE ANALYSIS
Adjusted EBITDA Margins

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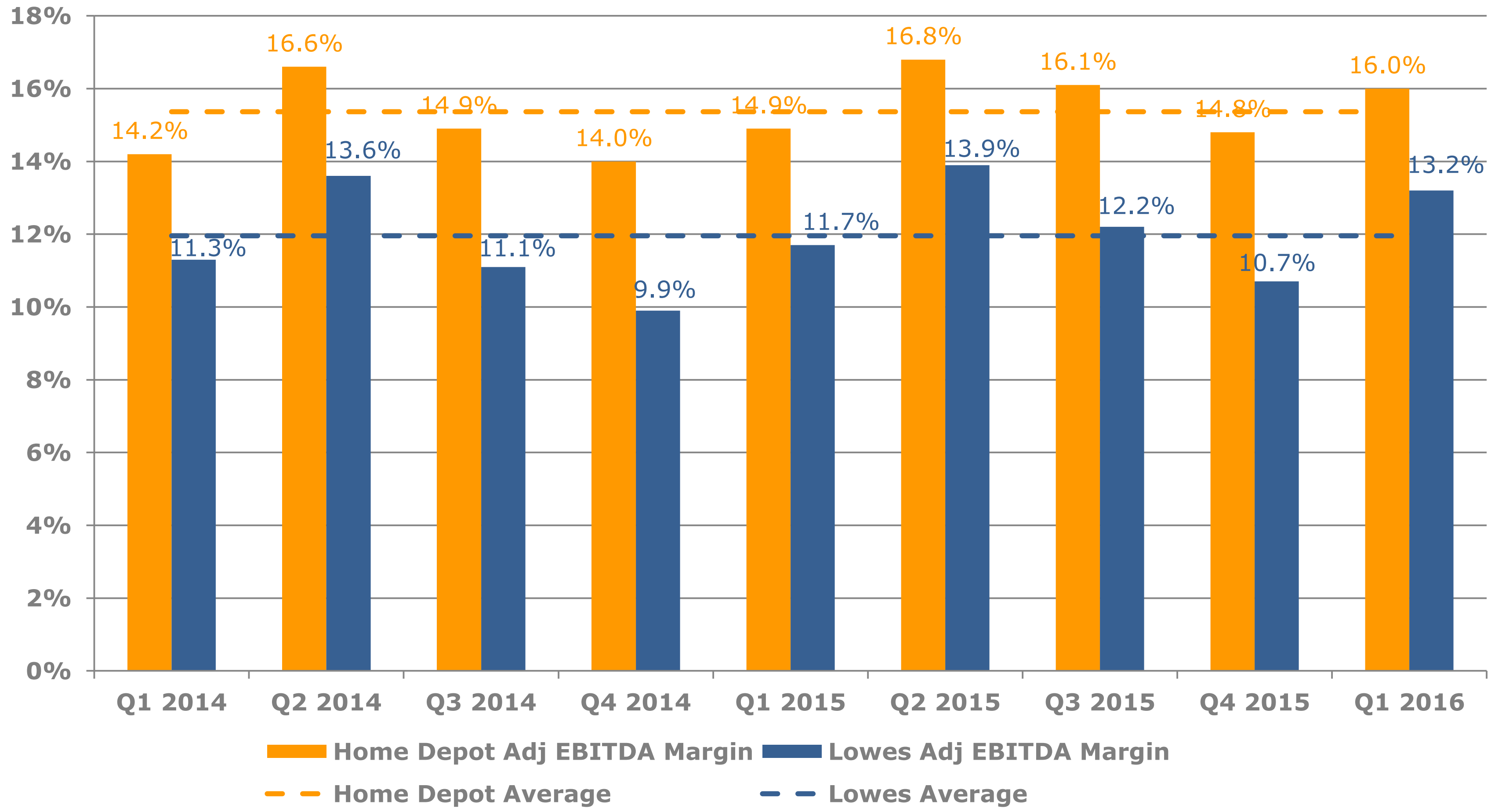

COMPARATIVE ANALYSIS
LTM Performance

($ in Millions)	The Home Depot	Lowe's Companies
LTM Sales	$90,390	$60,179
YTD Sales Growth	9.0%	7.8%
LTM Adjusted EBITDA Margin	15.9%	12.6%
LTM Cash Earnings	$9,231	$5,085
Debt Issuance (Repayment)	$3,939	$3,958

COMPARATIVE ANALYSIS
Guidance for FY16

($ in Millions)	The Home Depot	Lowe’s Companies
Annual Sales Growth	6.3%	6.0%
Comparable Store Sales Growth	4.9%	4.0%
Operating Margin Improvement	+70 bps	+80 bps to 90 bps
Capital Expenditures	$1.64 billion	$1.5 billion
Share Repurchases	$5.0 billion	$3.5 billion

COMPARATIVE ANALYSIS
Credit Quality

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($ in millions)	Home Depot	Lowe's
Total Liquidity	$5,257	$6,311
Working Capital	$3,861	$2,352
Working Capital Coverage	2.7 months	2.1 months
Total Debt	$20,948	$15,405
Total Assets	$44,576	$37,177
Tangible Net Worth	$4,212	$7,212
Leverage	1.83x	2.38x
Coverage	8.25x	7.70x
GCS Rating	B-	C
Outlook	Stable	Stable

ADMINISTRATIVE ITEMS
Contact Information

- **Tyrel Powell, CFA – Industry Analyst**
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  - **Email: powell@globalcreditservices.om**

ADMINISTRATIVE ITEMS
Upcoming Webinars

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- **Bon-Ton Stores**
  - Tuesday, August 9th @ 2PM Eastern
  - Rob Pike - Senior Industry Analyst
- **US Foods**
  - Thursday, August 18th @ 2PM Eastern
  - Arthur Simonson – Director of Credit Analysis
- **Big 5 Sporting Goods & Sportsman’s Warehouse**
  - Tuesday, September 13th @ 2PM Eastern
  - Iwana Juwana, CFA – Senior Industry Analyst
- **Cabela’s & Dick’s Sporting Goods**
  - Thursday, September 22nd @ 2PM Eastern
  - Rafay Khalid, CFA – Senior Industry Analyst

GCS RATINGS DEFINITIONS

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Rating/Risk	Financial Structure	Liquidity	Cash Flow	Revenues	Operating Profitability
A **MINIMAL Risk**	**Strong financial structure** – low leverage, strong coverage, high quality capitalization.[1]	**Strong liquidity** – both cash & short-term investments, as well as proven access to unsecured credit	**Strong cash flow** – from profitable continuing business, adequate capital investment, strong management of working capital.[2]	**Dependable revenues** – organic growth; competitive dominance.	**High quality operating profitability** – margins better than industry norms.
B **LOW Risk**	**Solid financial structure** – modest leverage, strong coverage, tangible equity, longer debt capital.	**Solid liquidity** – both proven access to unsecured credit with committed lines backing any commercial paper; adequate cash, short-term investments.	**Solid cash flow** – from profitable continuing business, adequate capital investment, solid management of working capital.	**Dependable, growing organic revenues** – strong competitive position.	**Solid quality operating profitability** – solid margins vis-à-vis industry.
C **MODERATE Risk**	**Stable financial structure** – moderate leverage, acceptable coverage, moderate-quality capitalization; some elements of financial structure may pose risks.	**Dependable liquidity** – committed unsecured bank lines with moderate usage and availability, securitization programs, adequate cash holdings.	**Cash flow** – from profitable continuing business, capital investment, and adequate management of working capital; cash flow may be erratic some years.	**Dependable revenue base** – organic growth in line with economic environment.	**Operating profitability** – margins at or better than industry norms.
D **ELEVATED Risk**	**Risky financial structure** – heavier leverage, marginal coverage, lower quality capitalization.	**Defensive liquidity** – secured bank lines usually in use, availability still sufficient.	**Cash flow occasionally negative** – capital investment constrained, defensive management of working capital.	**Revenue base stagnant** – little organic growth, uncertain competitive standing.	**Weaker operating profitability** – margins at or below industry norms
E **HIGH Risk**	**Weak financial structure** – heavy leverage, weak coverage, short-to-medium-term debt capital, little if any tangible equity.	**Weaker liquidity** – secured bank lines mostly in use with little availability; defensive cash hoarding may be evident.	**Cash flow frequently negative** – capital investment limited, defensive management of working capital; asset sales material ongoing source of cash.	**Revenue base declining** – weak competitor that's losing market share.	**Weak operating profitability or losses** – margins below industry norms.
F **DISTRESSED Risk**	**Extremely weak financial structure** – overwhelming leverage, inadequate interest coverage, impending debt maturities, negative tangible equity.	**Little or no liquidity** – secured bank lines near limits with no effective availability; defensive cash hoarding.	**Negative cash flow** – inadequate capital investment, cash conversion cycle lengthening, working capital eroding; marketable assets mostly sold already.	**Declining revenues** – eroding competitive standing, losing market share.	**Operating losses** – on continuing business.

[1]Quality of capitalization includes tangible equity and maturity of debt capital. High quality capital includes tangible equity and long term unsecured and subordinated debt. Elements that weaken capitalization include goodwill and debt maturing within next couple of years.

[2]Management of working capital emphasizes the cash conversion cycle: turnover of receivables, inventory, payables and unearned income.

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MAP OF GCS SORES & RATINGS TO AGENCIES

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Global Credit Services				
Score		Rating		
From	To		S&P / Fitch	Moodys
-	-	0	NR	NR
1.00	1.32	A+	AAA	Aaa
1.00	1.32	A+	AA+	Aa1
1.33	1.65	A	AA	Aa2
1.66	1.99	A-	AA-	Aa3
2.00	2.32	B+	A+	A1
2.33	2.65	B	A	A2
2.66	2.99	B-	A-	A3
3.00	3.32	C+	BBB+	Baa1
3.33	3.65	C	BBB	Baa2
3.66	3.99	C-	BBB-	Baa3
4.00	4.32	D+	BB+	Ba1
4.00	4.32	D+	BB	Ba2
4.33	4.65	D	BB-	Ba3
4.66	4.99	D-	B+	B1
5.00	5.32	E+	B	B2
5.00	5.32	E+	B-	B3
5.33	5.65	E	CCC+	aa1
5.33	5.65	E	CCC	aa2
5.66	5.99	E-	CCC-	aa3
6.00	6.32	F+	CC+	a1
6.00	6.32	F+	CC	a2
6.33	6.65	F	CC-	a3
6.66	6.99	F-	C	
6.66	6.99	F-	D	D