

**Name: Senan Mele**

**Task: Calculation of WACC for Lowe's Companies**

**Calculate the weighted average cost of capital (WACC) of Lowe's Companies, Inc (NYSE: LOW) -- As of May 25th, 2015**

WACC = (Weight of Equity x Cost of Equity) + (Weight of Debt x Cost of Debt x (1-Tax Provisions))

**Market Value of Equity: 951.70M x \$73.09 = \$69.56B**

Number of shares outstanding: 951.70M (951,700,000) (Yahoo Finance)

Price per share: \$73.09 as of May 16th, 2015 (Yahoo Finance)

**Market Value of Debt: \$10.82B**

**Cost of debt: 30.50/8= 3.81%**

Debt (in Millions) (Lowe's Companies 10k, Page 49)

Mortgage notes due through fiscal 2027	5.65%	\$16	
Notes due through fiscal 2019		3.35%	\$2,721
Notes due fiscal 2020-2024	3.70%	\$3,221	
Notes due fiscal 2025-2029	6.76%	\$813	
Notes due fiscal 2030-2034	-----%	-----	
Notes due fiscal 2035-2039	6.06%	\$1,536	
Notes due fiscal 2040-2044	4.98%	\$2,569	
Capitalized lease obligations due through fiscal 2015		\$491	
Less Current Maturities		(\$552)	
<b>Total Long-Term Debt (Jan 2015)</b>		<b>\$10.815</b>	

**Cost of Equity**

**Re = Rf + Beta(Rm-Rf)**

**Re = 3.29 + 1.07\*(7.2-3.29) = 7.50%**

Rf: 10 Year Treasury notes from Jan 2005 to April 2015: 3.29% (Federal Bank of St Louis)

Rm: 7.2% (U.S. Large Cap Equity- Research from BNY Mellon, Page 7)

Beta: 1.07 (10 years monthly historical prices, Yahoo Finance)

**Tax Rate (as of January 30th, 2015): \$1,578/ \$4,276 = 37%**

(Amounts in Millions)

Pretax Earnings: \$4,276 (Lowe's Companies 10k, Page 34)

Income Tax Provisions: \$1,578 (Lowe's Companies 10k, Page 34)

**In Summary**

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$$E+D = (10.82B + 69.56B)=80.38B$$

$$Wd = 10.82B / (10.82B + 69.56B) = 13.46\%$$

$$We = 69.56B / (10.82B + 69.56B) = 86.54\%$$

$$Ke = 7.50\%$$

$$Kd = 3.81\%$$

$$\text{Tax rate: } 37\%$$

$$\begin{aligned} \text{WACC} &= (0.8654 \times 7.50) + (0.1346 \times (3.81 \times (1 - 0.37))) \\ &= 7.38 + 0.32 \end{aligned}$$

$$\text{WACC} = 6.82\%$$

**Sources used:**

- Yahoo Finance, <http://finance.yahoo.com/q/ks?s=LOW+Key+Statistics>
- Lowes Companies 10K (2014), *Securities and Exchange Commission*, <http://phx.corporate-ir.net/phoenix.zhtml?c=95223&p=irol-IRHome>
- “10-Year Capital Market Return Assumptions- 2014”. *BNY Mellon*, [http://us.bnymellonam.com/core/library/documents/Pension\\_Services/bny\\_mellon\\_10\\_Year\\_capital\\_market\\_return\\_assumptions\\_2014.pdf](http://us.bnymellonam.com/core/library/documents/Pension_Services/bny_mellon_10_Year_capital_market_return_assumptions_2014.pdf)
- Board of Governors of the Federal Reserve System, 10-Year Treasury Constant Maturity Rate, <http://www.federalreserve.gov/releases/h15/current/h15.pdf>