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LOW to buyout OSH

Lowe's announced they are buying OSH for $205 MM. The AP release reveals they are buying 60 of the 90 stores, and assuming the vendor liabilities, which is not disclosed on the 10K. We have been following OSH for about a year and we wrote back on April 15th, that the equity would be wiped out and the senior debt would be the fulcrum security.

Surprisingly, the market reacted positively to the purchase and the stock rallied 12% on top of the news. But a closer inspection reveals the $205 MM is not the price for the equity, but rather the assets, or the 60 stores. The total assets on hand is about $500 MM, so if we assume a 2/3 acquisition, then the proportionate asset carve out would be $330MM. Essentially, Lowe's bought the stores at a fire sale price of 62%.

As investors, we have to be careful of what we read on the news since they don't break down what the figures actually mean. Many media outlets such as Reuters, Bloomberg, AP throw around the term "price", which can mean equity, EV, or in this case, the asset price. This is why it is crucial to run our own valuation and use the market values as a reference point.

With the $205 MM in cash, OSH can pay down a big chunk of their debt ($270 MM total) and deleverage their BS, which should help with the bottom line, should OSH choose to operate as a restructured entity. Of course, Lowe's bid is the initial offer, or the stalking horse bid, and will need to wait for further offers in order to come see the final remaining value.

Lowe's made a great purchase. 60 stores for $205 MM breaks down to roughly $3MM per store, and we assume the average annual sales per store is $7MM, or 0.5 P/S. OSH is concentrated in California and was hurt by the weak real estate market in California.