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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning. Please welcome Vice President, Investor Relations & Treasurer, Kate Pearlman.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

Good morning and welcome to the Lowe's 2024 Analyst and Investor Conference. Thank you for joining us today, both in person and virtually. We'll begin this morning by discussing our updated Total Home Strategy and the investments we're making to capitalize on the expected recovery in the home improvement industry.

This includes investments in technology which will play a critical role in the next chapter for Lowe's. We'll also discuss how we're building on our culture of continuous improvement with new Perpetual Productivity Improvement or PPI initiatives across the company and we remain mindful of our role as a responsible corporate citizen while striving to become the employer of choice in retail.

Finally, we'll discuss our commitment to generating long term sustainable value for our shareholders through our disciplined capital allocation strategy. You're going to hear more about each of these themes throughout the morning from today's presenters. Marvin Ellison, our Chairman and CEO; Seemantini Godbole, Executive Vice President, Chief Digital and Information Officer; Bill Boltz, Executive Vice President of Merchandising; Jen Wilson, Senior Vice President, Chief Marketing Officer; Quonta Vance, Executive Vice President, Pro and Home Services; Joe McFarland, Executive Vice President Stores; Margi Vagell, Executive Vice President, Supply Chain; Janice Dupré, Executive Vice President, Human Resources; and Brandon Sink, our Chief Financial Officer.

We're also joined by several members of our senior leadership team, including our Division Presidents, our General Merchandising Managers and other Technology, Supply Chain, and Store Operations leaders. Our Lowe's leadership team members are wearing blue lanyards today and they'll be happy to catch up with you during the breaks.

After the second break, we'll host a one hour in person Q&A session. Once the Q&A ends, we'll have box lunches available for you. And as always, please feel free to contact the Investor Relations team after the event, if you have further follow up questions.

For those of you in the room, you may have noticed a small card in front of you. Lowe's has a long standing commitment to supporting Trades Education, both for inside and outside of our own workforce helping to create job mobility and address the growing shortage in trade labor in the United States.

So instead of an attendee gift, we made a $25,000 donation to positive workforce. Based here in Manhattan, their mission is to train members of the local community to help them obtain entry level and journeyman positions in the construction industry.

Before we begin our presentation today, I'd like to take a few moments to review our notice regarding forward-looking statements. This information is also included in our press release and presentation. Both of which are available on the Investor Relations page of the Lowe's website.

During this event, we will make forward-looking comments including our expectations for fiscal 2024 and 2025. Actual results may be materially different from those expressed or implied as a result of various risks, uncertainties and important factors including those discussed in the risk factors, MDNA and other sections of our annual report on Form 10-K and our other SEC filings.

In addition, we'll discuss certain non-GAAP financial measures. A reconciliation between reported US GAAP and non-GAAP financial measures is available in the appendix of today's presentation.

And with that, please welcome our Chairman and Chief Executive Officer, Marvin Ellison.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you, Kate. Good morning, everyone. Thank you for joining us. So when I reflect on where Lowe's is today, I can see how we transform potential into progress. And even though the home improvement industry remains under some macro pressure, I'm confident that we've taken the right steps to position Lowe's for sustainable growth and market share gains.

So let me start today with an overview of the progress that we made. Then I'll talk about the opportunities that still lie ahead of us.

When I joined Lowe's in 2018, we set out to transform the company with a new leadership team at the Ham. We modernized our technology platform. We improved our Pro offering, we upgrade our merchandising. We intensified our focus on customer service and we introduced a culture of continuous improvement and leadership development.

These vastly improved operating capabilities, coupled with our disciplined expense management across the organization allowed us to deliver strong operating results and capital returns even in the face of an unexpected and prolonged downturn in the home improvement sector that began last year.

Because of these efforts, we're on track to deliver six year operating performance of 26% sales growth in the US, 380 basis points improvement in adjusted operating margin and 132% increase in adjusted EPS. And through our best in class capital allocation strategy, we have nearly tripled our return on invested capital.

And as we enhance the customer experience for both the Pro and the DIY, we've delivered more than 600 basis points of improvement in customer satisfaction. And we've also translated the strong operating results in a $57 billion of capital returns to our shareholders and a total shareholder return of 222%. This is 1.6 times higher than the S&P 500, which returned 141% over the same time frame.

But in order to achieve this kind of success, we put an experienced, talented, and diverse leadership team in place. Industry experts with proven track records of success across home improvement, retail and technology. And we've continued to strengthen this team by promoting some new leaders from within Lowe's as we focus on internal talent development.

And throughout the organization, we built a culture centered around continuous improvement, what we refer to as our Perpetual Productivity Improvement or PPI. And initially, when we introduced PPI, we focus mainly on driving efficiency and store operations, especially around labor productivity.

But after seeing the success and store operations, we've expanded PPI to include all functional areas of the company, including supply chain, merchandising, technology, HR, and finance. And the productivity gains yielded by our PPI initiatives have allowed us to more effectively navigate this challenging home improvement market.

And as a reminder, we operate in a highly fragmented $1 trillion home improvement industry which is split evenly between Pro and DIY . But when our new leadership team arrived at Lowe's, we found that the company had lost its focus on the Pro customer.

So we set out to transform our offering to better serve a very specific segment of Pro, the small to medium Pro and capture market share. And we've steadily increased our Pro penetration as a percent of sales since 2019 when it was approximately 19%.

And now we've reached a major milestone with Pro representing approximately 30% of sales, but we're not stopping there, because when you combine our share across both Pro and DIY with our largest competitor share together, we still represent only a quarter of that marketplace.

So we're confident that there is still a great deal of opportunity for us to grow market share with both Pro and DIY customers by building loyalty with our current customers and winning new customers looking for a friction free shopping experience within home improvement. A shopping experience that saves them both time and money.

So now that I've had a chance to reflect on the transformation journey, let's discuss the market headwinds we're experiencing and what we expect next.

So to be clear, the current macro environment has been difficult for the home improvement industry. In fact, the last time I was in front of you two years ago, we did not expect to see a downturn in home improvement. We were optimistic that our industry could be resilient as the economy emerged from the pandemic.

But even as the overall economy continued to grow, we've seen a sharp pullback specifically in home improvement. However, in the face of these macroeconomic headwinds, we're pleased that the primary drivers of our business remain supportive with appreciating home prices, increasing disposable personal income and an aging housing stock.

But even with the supportive business drivers, we still witnessed a lack of customer engagement in home improvement. And there are a number of factors that account for this. First, we have a less affluent homeowner feeling pressures from inflation and higher interest rates as they simply try to make ends meet.

And second, we have a more affluent homeowner continuing to prioritize experiences over goods, preferring to spend money on travel and entertainment and making up for lost time during the pandemic.

We also saw COVID reversion as spending and home improvement in 2020 and 2021 pulled forward some demand specifically in discretionary categories. Inflation along with steady economic growth translated into interest rates staying higher for longer than originally expected as did mortgage rates, creating a lock in effect for homeowners who were enjoying the benefits of current low mortgage rates.

So as a reminder, there's still a meaningful gap between the current mortgage rates to purchase a home and homeowners existing rates with over half of the current rates below 4% leaving many people reluctant to put their existing homes on the market. All of this has suppressed housing turnover, which is hovering near its lowest levels since the mid-1990s.

And given it roughly 70% of our revenue is concentrated in DIY, whenever these customers become cautious, it disproportionately affects our business, which is exactly what we saw when we had a greater than expected pullback in DIY discretionary spending, especially in bigger ticket categories. All in all, it's been a tougher backdrop for home improvement than expected.

But the good news is that home improvement projects are typically not canceled just postpone. And the home improvement recovery is now widely expected given the pent up demand that continues to build from deferred projects, but the timing and the velocity of the recovery remains uncertain.

That said we anticipate macro improvement on both cyclical factors. Things like the benefits of lower interest rates. That start to gradually unlike discretionary home improvement spending and home buying and improving consumer confidence as inflation moderates, as well as a number of structural drivers that are expected to support our business over the long term.

For example, home prices continue to appreciate which is keeping home equities at historic highs. Disposable income is now growing faster than inflation. And the aging housing stock means that homeowners will make repairs and improvements to their homes.

When you combine those factors with trends, like a large number of millennials forming households and baby boomers aging in place and people continuing to work from home. We remain optimistic about the medium to long term outlook of the home improvement industry.

Now, while it's difficult to know for certain how this will play out. At this point, we're expecting a phased recovery beginning with homeowners reengaging in smaller refresh and repair projects. Then over time, we expect them to engage in more complex remodels.

These bigger projects may be funded partly by home equity loans or HELOC as rates come down, which in turn will not only spur bigger ticket demand for the DIY but also increase business for the Pro.

Now let's turn to who our customers are and how we plan to grow share of business with them. The DIY customer we're focused on and we're focused on winning are millennial homeowners with kids and baby boomers. These two generations make up the largest share of the home improvement market. And by meeting their needs, we're in position to win across all generations.

When it comes to the Pro customer, we'll continue to remain focused on the small to medium sized Pro. These Pros includes plumbers, electricians, landscapers, general contractors, and residential and commercial property managers. And our recent results in Pro demonstrate that our strategy is resonating with these customers. So we have a good foundation to build on.

For both the Pro and DIY customers, we have a distinct value commitment that sets us apart, delivering the most helpful experiences to save our customers, time and money. A place where knowing the customer well translates to better help, a great value on everything home improvement. And we're making a very simple statement to our customers. We help, You save.

Let's take a quick look at the video.

(video start)

At Lowe's. We're making a commitment to our customers, whether they're millennial homeowners upgrading their homes to fit their growing family or baby boomers retrofitting their space so they can comfortably age in place or Pros looking for trusted brands to complete their projects.

Our commitment is to provide the most helpful customer experience both in store and online. From our knowledgeable and friendly Red Vest Associates to the right products and brands and useful app and digital tools to seamless pickup and delivery options and points for every purchase. Helping customers is what Lowe's does best. It's why we've designed our stores to be more family friendly.

With cleaner, wider and brighter aisles, innovative products and assortments tailored to the local market. It's why we go the extra mile for our Pro customers to make sure they can find what they need quickly, with dedicated service and extra touches that make it convenient for them to get in and out and back to the job site.

It's why every experience we create is designed to help our customers feel valued with distinct loyalty programs for both DIY and Pro, rewarding them for their business and encouraging them to come back again and again. When it comes down to it, our commitment is simple: We help, You save.

(video end)

So later this morning, you'll hear more from our leadership team about how we'll bring this commitment to life for our DIY and our Pro customers as they shop both online and in store and rely on us for their total home needs.

Now to deliver on this, we help you save commitment to our customers. We're updating and refining our Total Home Strategy and making investments that closely align with key drivers of home improvement demand. So, Lowe's will be well positioned to take share when the home improvement market inflects.

The strategy reflects our commitment to helping customers solve their total home improvement needs with more value and exceptional service.

The five key pillars of the strategy are: First, to drive Pro penetration by being the go to solution for Pros convenience spend and also expanding our capabilities to serve more plan spend for larger projects which are expected in recovery. We'll accomplish this by leveraging our expanded assortment of national brands, redesigning our loyalty program to be more intuitive, improving our job site delivery capabilities. And we're also introducing a new initiative that we're very excited about, that we're calling our Pro extended aisle.

Second, we're going to accelerate our online sales to support millennial and gen Z demand for omni channel experiences. This will include new digital commerce initiatives with easy to use design tools for home improvement projects and the launch of the first online product marketplace in US home improvement industry.

Third, we're going to expand our home services to create a high value installation solution for both smaller refreshes and more complex projects.

During the anticipated recovery, we expect an increase in demand for larger more complex home installation projects partly funded by homeowners tapping into the $35 trillion in home equity that currently exists in the marketplace.

We'll support this anticipated demand by expanding our central selling capabilities, digitizing and simplifying our installation process and leveraging our best in class in store showrooms for appliances, kitchens, bath, flooring, and Millwork.

And fourth, we're going to create a loyalty ecosystem by tailoring office through sophisticated marketing that drives brand preference especially for millennials. This includes building out our MyLowe's Rewards infrastructure for both Pro and DIY customers.

And fifth, we're going to increase our space productivity by optimizing our assortments and tailoring them to the local markets, all to cater to the busy customer. Specifically, we're balancing our value oriented private brands with our national power brands, intensifying our localization efforts and expanding our rural assortment which includes a national launch of key rural categories.

Our leadership team is looking forward to discussing these new initiatives today and outlining how these efforts will better position Lowe's to capture share during the anticipated market rebound.

Now let me shift gears and close with our commitment to productivity. As I mentioned earlier, we've introduced a culture of continuous improvement over the past few years that permeates every team and every function at Lowe's. And we're pleased with the discipline instilled throughout the organization as we focus on delivering against our PPI road map.

But despite the tremendous progress we've made, we're still just in the middle innings of our journey and we have meaningful opportunities still ahead. We're also excited about the potential to leverage new capabilities unlocked by generative AI and to further advance our productivity initiatives.

Later today, you'll hear more about our new AI framework as well as our future PPI plans from every functional leader.

So let me recap. We're expecting a recovery in home improvement. One that starts with smaller refresh and repair projects followed by more complex remodels. And while we don't know when the industry will hit an inflection point, Lowe's is making the right investments to align our Total Home Strategy to drive the key things expected to fuel the recovery.

And at the same time, we have a long term opportunity to improve our operating margin and return on invested capital to continue to unlock productivity. We're anticipating our customers' needs and we're striving to deliver the best experience in home improvement to save our DIY and Pro customers time and money.

We'll continue to deliver sustainable shareholder value through our best in class capital allocation strategy which Brandon will discuss later today. He'll also outline the thesis explaining why Lowe's remains a great investment.

So I'm pleased with how we weathered this difficult season in home improvement. And I'm looking forward to demonstrating how we expect these investments will translate into growth and share gains when the market improves.

Before I wrap up, I want to thank our hard working frontline associates and our talented teams across the company. These are the people responsible for the progress that we've made the last several years. And together, we're writing the next chapter in this great company's history.

And now because of the integral role technology plays in the future success of our Total Home Strategy, I'd like to introduce our next presenter. The leader of our ongoing technology transformation and among other awards in 2023, she was named CIO of the year by Retail Info Systems and included on Forbes CIO Next List. Please welcome our Chief Digital and Information Officer, Seemantini Godbole.

Seemantini Godbole - *Lowe's Companies Inc - Executive Vice President, Chief Digital and Information Officer*

Good morning, everybody. Marvin just told you about our vision for the future and how the investments we are making to our Total Home Strategy will help us grow the business and capture share. Now, I want to tell you about the important role technology will play in enabling Lowe's to deliver on that strategy.

We are using technology to improve our operating efficiency, not only in our stores but across the organization. And we are looking to leverage the exciting capabilities unlocked by generative AI to enhance our customer and associate experience, driving traffic and sales.

Before I tell you how we plan to do that, let me remind you how we have rebuilt our technology from the ground up over the last several years. When I joined Lowe's in 2018, the company's technology was well behind other retailers when it came to strategy, architecture, processes and capabilities.

At that time, we were using store operating systems and supply chain systems that were built in 1990s and merchandising, pricing and digital systems that were built in early 2000s.

Needless to say the systems could not keep pace with the growing demand for omni channel shopping options and they weren't scalable for profitable growth. So we set out to digitize and modernize these antiquated systems to serve customers how they want to be served today.

We started our transformation by focusing first on technology that's important to our customer experience both in stores and online and the technology that associates use for selling. We built in house solutions to create a consistent customer experience, one that we can own to give us a competitive advantage. Almost all this work is done internally which helps us tailor solutions for our home improvement shoppers.

Our goal was to create a true omnichannel experience. So we kicked off a multiyear project to convert our store operating system to a new omnichannel network that provides a single view of the customer, no matter where they place their order, whether in store or online or through the contact center.

This technology gives our associates everything they need to serve customers across the channels. Instead of multiple hard to navigate green screens, they now have one intuitive touch screen they can use for everything. Even for complex sales like at Pro or appliance desk. And they can look up inventory across the network so that they can sell beyond the limits of their individual store. They can even sell products that just arrived at our distribution centers and are yet to be unloaded.

This new omnichannel network contains all product information, inventory locations, pricing and promotions, and customer orders across every channel. Importantly, we build this architecture with AI in mind. Organizing the data so it can be easily understood and analyzed by AI.

This allows us to easily work across leading AI large language models. So we can use the right platform depending on the use case. With the seamless integrated omnichannel network, we can quickly and easily deploy customer enhancements.

We demonstrated the power of this network with a flawless nationwide launch of our MyLowe's Rewards loyalty program earlier this year. Our customers could earn points and redeem offers across all channels on day one.

We are now putting in place a framework to help us harness the new power of generative AI for our business to enhance how we sell, how we shop, and how we work. This framework helps us standardize the development process. So we are using a consistent set of criteria to establish where we use AI regardless of the project.

We have built an AI platform that allows us to reuse components and gives us agility to create innovative solutions alongside many of the leading platforms like NVIDIA, OpenAI and Palantir.

Our goal is to continue to enhance the experience for our associates and our customers and support our business with tools for better forecasting, sourcing, inventory planning, pricing, and faster fulfilment.

We have actually been using AI and machine learning platforms to accelerate pace of innovation for some time now. We currently have roughly 50 AI models in place that fuel our search and product recommendation, sourcing engine, demand planning tools, and pricing.

Now we are using the experience we gained from these first AI models to help us create leading edge solutions that leverage generative AI. We are excited to share some examples of the work we are doing throughout the day today.

Now, I would like to shift gears and turn to one of the key growth initiatives within our Total Home Strategy accelerating online sales. We are on track to deliver 5% growth in online sales since 2022. As we have improved our conversion rates with a simpler, more intuitive user experience, better online merchandising and enhanced digital tools for the Pro. And we expanded the same day gig delivery options for our customers. To include not only our fully integrated solution through OneRail but also several delivery partners like Instacart, Uber Eats, DoorDash and Shipt, which improves our connection to millennials and Gen Z shoppers.

Now, let me tell you what's next for Lowe's online as we look to accelerate our online sales. Our goal is to use our digital channels to complement the expertise of our Red Vest Associates and provide an excellent omnichannel shopping experience where customers can pivot seamlessly between our physical and digital shopping channels. We are focused on enhancing our user experience acquiring new customer, driving traffic and sales with a number of new digital commerce initiatives.

Let me give you some examples designed with younger digitally native generations in mind. First is the new feature on Lowe's app called Style Your Space, fueled by Generative AI. Take a look as to how it comes to life.

(video start)

Style Your Space is a Generative AI design assistant that helps customers reimagine rooms they want to refresh. Here's how it works. Using the Style Your Space feature on the Lowe's app. Customers take a photo of a room in their home.

So let's say a customer wants to refresh their bathroom. At the touch of a button it gives the room a new look with personalized design recommendations showing a number of different style options from rustic to traditional to mid-century.

All of the products featured are shoppable right in the app. So whether it's flooring, paint, lighting, vanities or more, customers can add the items to their cart and purchase them right there in the app. Style Your Space is one more way that we're helping our DIY customers design and shop for their next home improvement project.

(video end)

Style your space is one source of design inspiration. Lowe's Creator storefronts on Lowe's.com is another way we are inspiring customers to shop. This is a platform that gives customers access to creative ideas from social media influencers, who curate items from Lowe's to make over their signature spaces.

Each influencer shares their designs with their own followers and directs them to Lowe's.com where they can shop for the recommended products. We are looking to meet new customers where they are online so we can introduce them to all that Lowe's has to offer.

And for our DIY customers who are also looking for project know-how, we are offering an online library of how to videos of over 1,000 and growing. These videos walk homeowners through common home improvement projects, like how to patch and repair a drywall or how to install a paver patio.

The content is designed to help DIYers with a range of skills in each step by step video, customers learn how to complete the project and what tools and materials they need for the job. With the links to the item so that they can easily add them to their cart. These videos are appealing to our millennial and Gen Z customers who may not have learned the DIY skills they need to spruce up their new home.

Next, as you heard from Marvin, we are launching online marketplace. So we can deliver an expanded assortment more value and even a wider extended aisle. This exciting initiative is the first product marketplace in the US home improvement industry.

We have been piloting an assortment of third party products across select markets, focusing on products in core home improvement and similar categories, everything from furniture to tools to small appliances and more.

We just launched nationwide. So we are now able to increase the selection that customers expect from Lowe's with a marketplace for products we can offer at a great value without having to carry the inventory or manage pricing and fulfillment.

We plan to work with both new sellers and our existing suppliers to offer their full product catalogs beyond what we carry today. This will include products across price points to better serve both value oriented customers as well as our affluent customers.

Our goal is to further position Lowe's as one stop shop where customers can get everything they need for their home. A true total home solution. We will also support the customer experience by taking returns at our stores for the vast majority of items that are sold to our new marketplace.

In addition, we are going to continue to enhance our omni selling capabilities by giving our store associates the ability to sell from the marketplace assortment just like they sell our extended aisle on Lowes.com from inside the store today.

Our associate can search our online assortment to find what they need and help customers easily check out that order that combines both in store and online items. And customers can shop directly on their Lowe's app, while they are in the store by scanning a QR code. And if they want to purchase a wider selection of online only items, they just need to add it to their cart.

We are also expanding what we call guided selling within our stores. This is a tool that helps customers narrow down the options they should consider when making a complex purchase. And at the same time, it gives associates an easy way to help customers navigate the process. For example, if a customer is at Lowe's shopping for a new refrigerator, an associate can scan a QR code with their mobile device or the customer can do it themselves.

This directs them to a guide on the Lowe's app that ask them a series of questions to help them determine what product will fit their needs the best. The guided selling tool will help them select the configuration, finish, price, brand, and more. Which will lead the customer to the right choice and a link to the product so that they can add it to their shopping cart on the app. We will expand guided selling to more categories in the near future to continue to enhance our omni selling capabilities.

To wrap up I want you to know that Lowe's has made significant progress transforming and modernizing our technology and enhancing our omnichannel capabilities. We are looking forward to applying our new AI framework to improve how we sell, shop, and work. And we are leveraging new digital commerce capabilities and our new online marketplace to accelerate online sales with both our DIY and Pro customers.

And now let me leave you with a look at one of the innovations that we introduced this year, the Lowe's Style Studio app, which helps customers visualize and create their dream kitchen using Apple Vision Pro. They can choose from hundreds of kitchen designs in 3D using products all available at Lowe's from countertops to fixtures, to appliances. See what you think.

(video start)

Your dream kitchen is about to get real. Welcome to a new era of home design. With Lowe's Style Studio for Apple Vision Pro. An immersive 3D kitchen with near limitless possibilities. Where curated collections are at your fingertips and inspiration is a snap away.

Everything you see can be customized with hundreds of real world materials, fixtures, and appliances, all available at Lowe's.

Turn your favorite looks into beautiful style boards, then share and shop them. Find your style, bring it home. With Lowe's Style Studio.

And now please welcome Executive Vice President of Merchandising, Bill Boltz.

William Boltz - *Lowe's Companies Inc - Executive Vice President - Merchandising*

Thanks Seemantini. And good morning, everyone.

Today I want to share with you how our focus on improving space productivity in our stores will help us save customers both time and money by offering them value and differentiation. With the right assortments to meet customers' needs in the many communities that we serve. Before I get into the details, let me give you an update on the progress that we've made in merchandising over the last two years.

For starters, we continue to expand our brand portfolio with new strategic national brand partnerships including Toro, Klein Tools, Hubbell, Carhartt, Wrangler, and Coca-Cola.

And we have invested inventory of our key Pro items which we call Pro Never out SKUs. And this ensures that we can fulfill larger Pro orders and quickly replenish our store inventories so that the next Pro isn't disappointed. We also introduced new and innovative products to Lowe's to generate excitement, motivate customers to trade up from better to best and to make home improvement easier.

And we've ramped up our localization efforts. To meet our rural customers unique needs and make it more convenient for them to get everything they need in one stop. To date we've rolled out our rural assortment to more than 300 stores where we're selling products like pet food, livestock feed, work wear, automotive supplies and utility vehicles.

In partnership with our suppliers. We've also expanded our Merchandising Services Team or MST to now over 30,000 associates who work to keep our shelves stocked and execute resets. And we've increased their responsibilities to now include managing price changes and maintaining our live nursery products.

In fact, since our MST team started working in our garden centers, we've reduced our non-sellable or damaged product by roughly 20%. We've also added MST Assistant Store Managers to help lead this work. And developed an app to direct the team's area of focus to -- some specific bays where it matters most.

And this has improved their productivity and made our stores look better than ever. And it is freed up our red vest associates so that they can now spend more time serving our customers. Looking ahead, we're now placing a sharper focus on improving our space productivity, which is a key pillar of our 2025 Total Home Strategy.

And this includes several important steps to make our space work harder and now creates a more intuitive shopping experience for our customers. First, we're continuing to take a strategic approach to our brands by balancing our portfolio of well-known national brands with our value oriented private brands to drive profitability and sales.

And we know that Pros have a deep loyalty to national brands. And while DIY customers have a strong brand preferences in certain categories like appliances and outdoor power equipment, they're often brand agnostic in many categories like home decor, products like vanity, ceiling fans, and patio furniture. So we're committed to offering the right brands to appeal to these different DIY and Pro preferences across categories.

Brands like Hubble and their Pro branded electrical boxes. In addition to Klein Tools, the number one tool brand for the electrical and HVAC professional. In fact, Lowe's now offers the widest selection of Klein Tools anywhere in the home improvement retail channel. These brands are strong additions to our Pro brand Arsenal, which includes all the great brands that you can see here.

For DIY customers, we have the widest selection of appliances in the industry including LG, Whirlpool, KitchenAid, Bosch, Ge Electrolux and Samsung. And in outdoor power equipment, Lowe's now offers the largest selection of Toro products of any national retailer. It's gas powered mowers and handheld power equipment complement our partnership with EGO, the number one brand in battery outdoor power equipment, which is exclusive to Lowe's in the home center channel.

This gives us an unparalleled outdoor power equipment lineup along with John Deere, Aarons, Husqvarna, Craftsman, Kobalt and Skill. These brands join other powerful national brands across our store like the ones you see here.

And when it comes to our private brands, we're focusing on about a dozen to meet our customers' needs across various lifestyles and generations. In fact, we've grown this portfolio so that it now includes six, $1 billion brands like Kobalt and Allen and Roth.

These private brands deliver value to DIY customers who are looking for high quality on trend products at more affordable price points. They drive differentiation and loyalty to Lowe's along with better margin rate productivity because they deliver higher gross margins than our national counterparts.

As we look ahead, we expect our private brands to drive both profitability and top line growth. As we partner with our suppliers to improve our speed to market for new products and continue to bring new and innovative options that drive differentiation.

We're also working to attract a new customer to Lowe's like Dollar Store customers. For example, who aren't typically shopping in our stores today. And our research shows that we have an opportunity to win these customers with a new value brand featuring products $10 and under.

So we'll be introducing Lowe's Essentials in early 2025 and positioning in the cart start area in the front of the store. And the intent here is to entice customers to start their basket with items that are of value just too good to pass up. Like clothes hangers, garden tools, paint kits and more. And we'll rotate these products seasonally as we balance quality with value.

And one last point on our private brands, we are well down the path of our multiyear plan to accelerate, strengthen, and diversify our global sourcing efforts. We're working closely with our private brand suppliers to diversify their own supply chains to minimize the reliance on a single country or region. And we expect that these efforts will help us offset some of the impact of potential new tariffs.

We're also driving space productivity through localization where we're tailoring our assortments based on demographics, housing sizes, building codes, climate, geography and community preferences. All with the goal of making each Lowe's store feel like your hometown store.

And because Lowe's has roughly 10% more selling space than our primary competitor. We have an opportunity to offer different assortments to meet local community needs.

In fact, I'm excited to announce that we're planning to extend our rural assortments and finalize the rollout of this format in 2025 to the remaining 150 stores that are designated as rural, bringing the total to nearly 500 stores.

In the past, our penetration of rural stores was seen as a competitive disadvantage. But these stores often perform better than the rest of our portfolio with a lower cost to operate. And we're looking to build on that advantage with higher sales that drive better space productivity.

And we're continuing to refine our assortments to get it right for each store. We're leveraging AI driven planning tools and insights from our customers and from our field merchants who serve as our boots on the ground to help us understand those local market needs and preferences. For example, we're putting rural showrooms in a few of our more remote rural stores. Take a look.

(video start)

We're always striving to meet more customers' needs and make our space work harder for us. So in a few remote rural stores, we're piloting something new. Showrooms designed specifically for these customers. Folks who live on larger properties and smaller farms. We're repurposing some of the space in our seasonal department and creating a store within a store concept where we're selling tractors, livestock feed and workwear. We're also expanding outdoor power equipment, automotive, fencing, and our cleaning assortments.

The goal - make it convenient for rural customers to get more of what they need at Lowe's all in one trip, whether it's farm or ranch supplies or home improvement items like appliances, lumber and building materials and flooring, we can meet their total home needs. So they won't have to make an extra stop before heading home on what's often a long drive. With our rural showrooms, we're creating a one stop shop for our rural customers, delivering extra convenience and value.

(video start)

We're piloting this rural showroom in a handful of stores right now. And based on the results, we'll look to expand more stores in the future.

Shifting gears. I'd like to discuss another way that we're looking to drive inventory and space productivity through a focus SKUs rationalization effort that we recently launched. And let me give you an example in cleaning, our team analyzed each cleaning bay identified the top performing SKUs and adjusted the presentation to give these items more space.

And in some cases, pallet positions based on their volume, then the team removed the less productive SKUs to make room for these higher velocity items. And even with fewer items on the shelf sales have improved for the category.

By addressing the low and medium velocity SKUs in the initial phases and then shifting space into the higher velocity skews. We're avoiding the clearance pressure and providing customers with the right assortments and inventory depth.

We're also reducing space in our decor base. Since these product categories have largely shifted online with changing consumer shopping patterns. For example, we'll be giving less space to home accents like pillows, ready to assemble furniture and mattresses and devoting more space to three of our most productive Decor areas, storage and organization, window blinds and shades along with ceiling fans and lighting. We're making some bold moves here with the goal of reducing our total SKUs count in stores by up to 15%.

Another benefit of our SKUs rationalization efforts is that we're now able to reallocate that space and expand in new categories. For example, we're taking categories that have worked well in our rural stores like pet, automotive and workwear. And we're expanding them across our portfolio of stores.

We're confident that these categories have broader appeal, which is evident in our Brooklyn stores where Carhartt Apparel has been a top selling category. In fact, over the last year, we've been piloting an expanded workwear assortment in a few stores to showcase brands like Carhartt, Wrangler, Dickies' and Free Country in products like jackets, hats and sweatshirts. And during this pilot, we've more than doubled the sales productivity of the bays where we rolled out the workwear resets.

Our team is not only focused on driving space productivity, but we're also leveraging our Merchandising PPI efforts to support our product margins as well. And I'm pleased to tell you that our teams have over delivered on the commitments that I outlined at our 2022 conference.

And equally important, we still see additional opportunities for incremental productivity in the years ahead. These PPI initiatives span over 20 different work streams across several focus areas. And let me give you a status update beginning with product cost management.

Over the last several years, we have developed robust capabilities to analyze product components, transportation, and raw material costs. To better determine whether a change in cost is warranted from our supplier. And then leveraging these capabilities, we've worked with our suppliers to claw back some of the costs that we've absorbed due to exceptionally high inflation triggered by the pandemic. And we've worked to then reinvest these savings to drive traffic and sales.

But our work managing product cost is never done. We're engaged in continuous efforts with our suppliers to identify new cost out opportunities based on our team's analysis. And while we have driven an increase in private brand penetration over the past two years, we're always looking at new opportunities to further drive penetration, which will continue to support our operating margin targets.

We've made some real strides in inventory productivity with our market delivery model and our focus on Pro never out SKUs. And our efforts to continue to drive space productivity are expected to yield greater inventory productivity. Maintaining a disciplined approach to pricing and promotions will enable us to execute against our everyday competitive price strategy.

Looking ahead, we'll have a more sophisticated technology powered by AI. Focused on reducing the manual work, accelerating our pricing decisions and optimizing our promotions.

And finally, we're confident that we have the right building blocks in place now to accelerate the growth of our Lowe's media network which Jen will talk about next.

In closing. I hope it's clear that all the work that we're doing in Merchandising to continue to elevate the store assortments. And the overall -- shopping experience is putting Lowe's in a strong position to take share when the home improvement market recovers.

We have significant opportunities to continue to improve the space productivity in our stores. Through our Total Home Strategy as we intensify, our focus on our strong national Pro and DIY brands, our high quality and high value private brands that are expected to drive profitability and growth in new ways. Our expanded rural store formats and other localization efforts and our SKUs rationalization efforts that will open up space for category accelerators.

And while we've over delivered on our Merchandising PPI commitments, we're already focused on the next steps of our PPI road map to unlock further productivity.

And now given the alignment of our Merchandising and marketing efforts, I'd like to invite the leader of our Marketing team to tell you more about our new loyalty ecosystem. So please help me welcome our Senior Vice President and Chief Marketing Officer, Jen Wilson.

Jennifer Wilson - *Lowe's Companies Inc - Senior Vice President, Chief Marketing Officer*

Thanks, Bill. And good morning.

I'd like to pick up where Bill left off. And tell you about another key pillar of our 2025 Total Home Strategy, creating a new loyalty ecosystem. A system built to drive preference and elevate the perception of the Lowe's brand with our priority customers.

Specifically Millennial homeowners with kids, baby boomers, and small to medium sized Pros. For us loyalty isn't just a program. It's a behavior we're aiming to cultivate. So more customers choose Lowe's first and come back more frequently.

In March, we launched a loyalty program for DIY customers, MyLowe's Rewards. This free program is designed to give customers more value and more reasons to choose Lowe's because every time they shop with us, they earn rewards toward their next purchase. Along with member only perks. Customers can also save 5% on eligible purchases with a MyLowe's Rewards credit card.

We now have more than 30 million members enrolled and that number is growing every day. While we're still in the early days, our data shows that DIY customers in our loyalty program already spend nearly 50% more than non-members. And we're also seeing notable increases in repeat shopping rates.

Now that we've developed this loyalty ecosystem, we can use the same tech stack to power both our DIY and our Pro loyalty offering. In fact, I'm excited to announce that in early 2025 we're relaunching our Pro loyalty program and calling it MyLowe's Pro Rewards.

Since we've launched our MVPs Pro loyalty program in 2022 we've learned a lot more about what our Pro customers want from us and how they shop with us. And one thing is clear, our offering is just too complex which makes it hard for Pros to fully understand their benefits and get the most out of them.

So we're introducing some exciting changes to make it easier and faster for Pros to earn rewards and redeem them with a single currency and an intuitive customer experience.

We're redesigning this new program intentionally with some standout differences from our largest competitor that will drive value for our target customer, the small to midsize Pro. Adding to these enhanced benefits, if they have a MyLowe's Rewards Pro credit card, they get 5% off every eligible purchase.

With this simpler program will drive greater engagement with our Pro customers to incentivize those repeat purchases and drive more trips to Lowe's.

And by bringing our DIY and Pro loyalty programs into one ecosystem under one single currency, we're creating a simple yet compelling value proposition for these two very different customers. So whether it's a Pro customer who shops multiple times per week and spends hundreds of thousands of dollars with us a year, or a homeowner who shops a handful of times and spends much less. No matter which customer is shopping Lowe's, they'll be confident that we're making it easy for them to save time and to save money.

One way we're bringing this to life is through our new member only deals both in store and online. In categories like paint, kitchens and bath, appliances and more. For example, over Labor Day, we offered member only door busters, many of which sold out in less than a day and members got up to 40% off during our first MyLowe's Rewards Week in October.

We're pleased with the early results including hitting a one week enrollment record and we're looking forward to bringing these weekly deals to our Pro customers when we launch the new Pro loyalty program this spring.

Meanwhile, we are turning our loyalty program into a dynamic ecosystem by leveraging our data and consumer insights. Over the last few years, we built a robust customer data platform which is transforming our ability to understand our customers and how we market to them.

The more we know about them, the more we can put them at the center of everything that we do. And we can connect with them in more sophisticated ways by offering them a more relevant and personalized experience and anticipating what they need next.

To do that we gather customer insights in a number of ways. We use first party data like customers purchase behavior and their activity on our website. We also work with third party data providers to gather information how customers and potential customers are behaving on other sites outside of Lowe's.

And here's what's really elevating our game. It's what we call zero party data, the information we collect through our loyalty programs. Because customers are literally telling us how to market to them. When they create their profiles within MyLowe's Rewards, they tell us what they enjoy doing. For example, they tell us if they have pets, if they like to garden, if they want to hear from us via text or email.

And our Pro customers tell us about the trades they practice and the projects they're working on. And we use all of this information to learn about our customers interest and readiness to engage in home improvement. So that we can create a comprehensive marketing strategy that drives incremental sales.

Our goal is to engage the customer with the right message at the right time to convert the sale.

And these moments that matter are critical inflection points. For our DIY customers, it might be when they're buying a new home and for our Pro customers that critical time might be when they're starting a new project or running into a supply challenge on the job site.

Now, one way we're making MyLowe's Rewards even more valuable is through our new digital home platform, which is designed to help them manage the routine maintenances on their home appliances.

Through this new platform, our rewards members can access personalized information about the appliances they purchased at Lowe's in the last five years, which we automatically add to their profile. And members can add their other appliances manually. So rather than digging through a random drawer, homeowners can look up product information, warranties and manuals right in their profile.

In addition, they'll find product recommendations and maintenance reminders when a part needs to be replaced in content like how to clean an oven or replace a water filter. We're starting with appliances and we plan to expand the platform to include other aspects of the home in the coming months.

Now, even though we're leaning into more customer led signal based marketing. We're not giving up on mass marketing. Instead, we're finding that sweet spot between flexing to the masses and speaking directly to our priority customers.

And when it comes to mass marketing, we're looking to reach a broader customer base by leaning more into live sports, including maximizing our relationship as the official home improvement retailer with the NFL.

This season, we're showcasing our Lowe's app and our MyLowe's Rewards and our NFL campaign featuring our Lowe's home team players, including Dak Prescott, Travis Kelce, Christian McCaffrey and CJ Stroud.

And to extend our reach to more sports fans beyond football, we're tapping into the rapid growth of soccer in the US. With a gamified MyLowe's Rewards campaign featuring sports icon, Lionel Messi, widely recognized as the best soccer player in the world.

As we continue to boost our loyalty ecosystem. We're helping more than 70% of our top suppliers meet their marketing objectives, whether it's launching new products or supporting seasonal promotions. Through our Lowe's media network, our suppliers can reach a captive audience of more than 120 million consumers in a very powerful and measurable way.

This gives us a way to tap into the $50 billion retail advertising industry. Suppliers can communicate with captive home improvement consumers all along their shopping journey, whether they're looking for inspiration or ready to make a purchase. And whether it's on our website, social media or another site where they may be browsing like HDTV or Pinterest.

Looking ahead, we expect to accelerate the growth of our Lowe's media network through a multipronged approach. First, we understand that retail media is about retail and our talented team has expertise in both areas and a deep understanding of client services, media strategy and consumer insights. We're generating measurable, timely and actionable results for our suppliers. For example, we know whether or not the customer actually made a purchase, so we can measure the effectiveness of each campaign and we can make sure our suppliers know they're getting strong returns.

To support these efforts, we're expanding our offering to new channels like paid search, email, instore, audio, and expanded placements on the Lowe's app. One example from lawn and garden, our insights told us that customers react better to inspirational channels like Pinterest and inspirational creative like a finished backyard.

And we also know that if we make lawn and garden an entry purchase for both spring and fall, there is a higher frequency for customers to return that same season. And so we took these valuable insights and partnered with Scotts early in the year with a targeted campaign across the full season.

The results exceeded category benchmarks by 5 times and gave Scotts a great opportunity to capture more share of wallet. When you add it up, we're helping our suppliers engage home improvement shoppers more effectively and continuing to improve our return on ad spend results which are up 50% this year, over 2023.

In closing, you can see how we're driving preference for Lowe's through our new loyalty ecosystem, with distinct programs for both homeowners and Pro customers that are getting stronger every day under the same tech spine and with a customer data platform that's helping us reach these customers in more sophisticated ways.

Not only does our new loyalty ecosystem leverage valuable customer data to maximize the effectiveness of our marketing efforts. But it also creates a pathway to drive marketing productivity because we're able to be more efficient with the channels we use to communicate with consumers once they're already in our ecosystem.

And importantly, we are just getting started. After launching MyLowe's Rewards earlier this year, we'll be relaunching our Pro Loyalty Program as MyLowe's Pro Rewards to make it even easier to use. And we expect to see increasing benefits as these programs mature. So let me leave you with a look at how it all comes together.

(video playing)

And now please welcome, Executive Vice President of Pro and Home Services, Quonta Vance.

Quonta Vance - *Lowe's Companies Inc - Executive Vice President Pro & Home Services*

All right. Thanks Jen. Good morning. Today, I'd like to tell you more about the role that Pro will play in our Total Home Strategy going forward. But before I talk about what's next, I'd like to tell you how we've driven our Pro penetration to approximately 30% which is up from 19% just in 2019. To put it simply, when this leadership team arrived at Lowe's, the Pro service model just wasn't working.

So we overhauled our entire Pro offerings and we started with service where we added dedicated staffing and supervisors at our Pro desks along with Pro Loaders.

We launched a multiyear campaign to win or often win back critical programs to Lowe's. We invested in job lot inventory quantities. We reset our store footprint to make shopping easier and faster for our Pro, and we even introduced MVP Pro rewards in 2022, but we didn't stop there.

We also enhanced our Pro digital offerings. So Pro's can now get quotes for bulk purchases online, authorize crew members to make purchases, schedule job site deliveries, reorder frequently purchased items, and even track their orders.

These changes have contributed to outsized growth in Pro online sales, but we also had to make some strategic investments to increase inventory depth particularly for Pro never out SKUs. With these deeper inventory quantities, we can easily fill larger Pro orders and we have the safety stock we need to quickly replenish our network.

And as you heard from Bill over the past two years, we've added even more essential Pro brands, brands like Carhartt, Coca-Cola, Hubbell, Klein Tools, Wallboard and Wrangler. All strong additions to our Pro brand Arsenal.

With all of these efforts, we're on track to deliver high single digit in Pro comps in a two year time frame while in a challenging home improvement market. And with this increased focus on Pro, we also drove 200 basis points improvement in Pro customer satisfaction.

But before I talk about what's next in Pro, let me spend a minute talking about one of those brands, Klein Tools, Klein continues to improve the performance of its classic tools that electricians and HVAC professionals have relied on for over a century.

Klein continues to lead in innovation, launching over 150 new products since we rekindled our relationship with them back in 2023, this includes two platforms that are exclusive to Lowe's, the Klein MODBox and Klein KNECT.

But as we welcome all these brands back to Lowe's, we see that they are driving sales and they're helping us rebuild our credibility with our Pro customers. Despite the downturn in home improvement, the small to medium Pro we serve has proven to be versatile and resilient. They've concentrated on smaller projects, especially repair and maintenance.

As homeowner demand has shifted toward unavoidable work on their aging homes rather than larger, more discretionary needs. And at Lowe's, we're striving to outpace the Pro market by two times while also capitalizing on investments we're making to serve our Pro's better.

So with those wins in mind, let's take a closer look at this key pillar of our 2025 Total Home Strategy. To continue to drive Pro penetration with the small to midsize Pro, who represents half of the $500 billion Pro market space. This market remains highly fragmented since Pro's often shop multiple suppliers to get their jobs done.

And although we've had tremendous growth over the last few years, we're confident that we'll continue to increase our Pro penetration. You've already heard from Jen about how we're relaunching our Pro loyalty program to make it more intuitive for Pro's to use and for our associates to support.

We're redesigning the program with our core customer in mind, the small to midsize Pro, our goal is to win new Pro's and grow our existing customers, finding them new ways to save time and money and make their businesses more successful.

And we're harnessing the insights we're gaining through the loyalty program to give our inside and outside sales force the tools they need to acquire, grow, and manage Pro accounts using our CRM platform. Our CRM system helps optimize our sales associates time by recommending that they call on the next best customer with the next best action.

With this information, we can better anticipate our Pro customers' needs and we can provide them with a more personalized selling experience.

The second way we're going to increase our Pro penetration is by capturing more of the Pro's planned spend. Over the past six years, we have intentionally focused on creating a great option for convenience purchases while also building a strong foundation to serve Pro's planned purchases, which represents a larger share of Pro spending in the total Pro market space.

And now we're building new capabilities to go after more planned spend for larger orders by creating what we call our Pro extended aisle and also expanding our Pro fulfillment capabilities. Through this Pro extended aisle, we're directly interfacing with our suppliers. So our sales associates can instantly access an expanded digital catalog for special order sales with inventory availability, pricing and supplier services like job site delivery and rooftop capabilities.

With this, we'll be able to offer fast competitive quotes on larger orders like when a Pro is looking for an entire truckload of roofing along with the underlayment, the flashing and the nails. Our new Pro extended aisle would generate a quote in a matter of minutes which is expected to dramatically improve our close rate on larger planned sales.

By contrast, our current quoting process is manual time consuming and cumbersome. Our store associates rely on information and physical binders that are located at our Pro desks, and they have to call multiple suppliers to ask, "do you have enough inventory to fill this order?" to get a competitive quote for the Pro. To say that this is a prehistoric process would be an understatement. Without the ability to provide a quote to confirm that we can handle that Pro's order, we often lose large Pro planned sales.

But with our new Pro extended aisles, associates can easily build a competitive quote right there at the desktop tailored to the Pro's order specs with supplier delivery direct to job site. In fact, we'll be able to give these quotes seven days a week, open to close. An improvement over the current process which is limited to weekdays when our suppliers are open.

We're extremely excited about the early success of our pilot program and we'll be enhancing the platform and adding new suppliers over the coming months, our Pro extended aisle will truly transform our ability to fulfill larger planned Pro purchases.

We're also continuing to build out Pro fulfillment capabilities by actively piloting a few different solutions for job site delivery. But we're focused on an asset light approach tailored to each market's unique needs. And we're leaning into our existing assets by modifying and repurposing our facilities to handle large job site deliveries focusing initially on roofing, drywall, decking, concrete and fencing.

For example, we're converting half of our existing flatbed distribution centers into dual purpose facilities which we're calling flatbed fulfillment centers. So they can deliver large orders directly to the Pro and also support our store replenishment. For these orders, we'll also leverage our stores for what we call "milk runs" to fulfill high margin accessories, items like hardware, masonry tools and molding.

Our enhanced job site delivery capabilities in hurricane prone areas are already helping us respond more quickly to hurricane related demand. And we have same day delivery options in store and on Lowes.com powered by OneRail which allows us to rely on their network of over 12 million drivers to deliver product directly to our Pro's in a matter of hours.

Finally, we're expanding our Pro delivery capabilities from Lowe's Pro Supply or what we call our LPS branches. As a reminder, we formed LPS by integrating central wholesalers and maintenance supply headquarters, which we acquired in 2016 and 2017.

Today, we have 30 LPS branches across the country that provide free same day and next day delivery of maintenance and renovation supplies for the multifamily housing, government and hospitality industries. And we're now giving our associates direct or seamless access to sell from the LPS catalog right at the Pro desk in the stores.

For example, if a Pro comes into our store and wants to buy 50 gallons of paint, 25 refrigerators, 25 sinks or even 25 faucets, our Pro sales specialists can easily fulfill those orders through LPS without wiping out their stores inventory. Historically, Lowe's Pro supply has operated separate from our Lowe's stores and even our Lowe's supply chain.

But now we're making LPS inventory visible to our store associates and making it simple and easy to sell from the LPS digital catalog. So to wrap up, our success in driving Pro penetration to approximately 30% demonstrates that our strategies are resonating with our Pro customers with the goal of continuing to grow share at 2 times the pace of the market.

But we still have meaningful opportunity to drive that even further when it comes to our Pro penetration and we'll do that by redesigning our Pro loyalty program tailored to the small to medium Pro by opening up the Pro extended aisle and by strengthening our Pro fulfillment capabilities. Also, we can continue to be a destination for everyday convenience purchases while also capturing more of the plan Pro spend.

And with that, we'll now take a 15 minute break and thank you.

Operator

(Event Instructions) Please welcome to the stage, Executive Vice President of Stores, Joe McFarland.

Joseph Mcfarland - *Lowe's Companies Inc - Executive Vice President - Stores*

Welcome back and good morning, everyone. Before the break, you heard from my colleagues about our key pillars of our 2025 Total Home Strategy.

Now, I'd like to tell you about one final growth imperative, expanding home services. Then I'll tell you how it all comes together in our store operations, expanding our home services will help us meet the growing demand for installations that's expected in the home improvement recovery.

As Marvin mentioned earlier this morning, we can't predict when the home improvement market recovery will begin, but we expect that as rates come down, many homeowners will tap into the equity in their homes to modernize and improve their living spaces.

Across the US housing market, homeowner equity now adds up to a record $35 trillion which is expected to become a meaningful source of financing for larger more complex home improvement projects in the future. Over the past few years, we've made capital intensive investments in our store environment in appliances, millwork, bath, kitchens, and flooring, making it easier for our customers to find inspiration for and design their home improvement projects.

As you can see, these updated apartments are easier to shop and help us optimize our larger store footprint. So we are well positioned to take share when the market improves. We're seeing pent up demand do it for me or DIFM, which gives us a great opportunity to help customers with both simple installs, as well as larger projects, everything from flooring to window treatments to a kitchen or bath renovation. We're simplifying the process through a team of remote associates that we're calling our central selling team.

Once this team sees the lead that our store associates generate, they take over building quotes, answering questions over a video call or a phone call and providing personalized support. So the customers don't need to return to the store. And because installations can be complicated, this dedicated team is specially trained to close the sale, which means our red vest associates don't get pulled away from customers who need timely assistance in the store. Instead, they can stay focused on helping customers and filling the pipeline with new leads.

When the customer is ready to transact, the central selling associate sends a text that includes a link to a quote for the customer's review. Then the customer can digitally sign the contract and check out on Lowes.com or the mobile app.

This intuitive digital payment solution removes friction for the customer so they can literally transact anywhere. This is game changing for us. It creates a much better experience because the customers don't need to make a special trip to the store to pay for their installation.

Right now, this team is focused on flooring and window treatments and we're launching window and door installs nationwide by the end of 2024. We're also bolstering our sales team of in home selling consultants who focus on window and door installations as well as fencing.

They're now using a single intuitive system that streamlines and simplifies the process for the customer and the associate which we expect will drive more sales. And by this spring, these consultants will be able to take payment at the customer's house on tender anywhere as well.

One last part of our home services is a third party model we use for more complex projects like countertops, water heaters and HVAC systems where the vendor sells, furnishes, and installs the product, what we call our SF&I program. For these projects, we're paid a fee for providing that lead, but typically we don't carry the inventory which supports our ROIC targets. With these enhancements along with our provider network of trusted independent third party contractors who install the products we sell.

We're making home services a best in class experience. We'll be the cost effective solution for convenient installations and we expect to drive growth with our do it for me customer. We'll also be well positioned to take share when the market improves.

I'd like to shift gears now and talk about our store operations and our leadership team's efforts to transform how we run our stores. When we arrived at the company in 2018, we realized we needed to empower our hard working frontline associates with better technology and simpler processes so they could be freed from outdated manual tasks and shift their attention to serving our customers and driving sales.

We began by introducing some foundational changes beginning with mobile smart devices that gave them access to the information they needed to do their jobs right in their hands. Also critical was the launch of a new industry leading labor scheduling system. So we can surgically align labor hours with customer demand for each store and department by day of the week and even by hour of the day, this created tremendous operational agility. So we could quickly react as demand patterns shifted unexpectedly beginning with the pandemic and continuing through the market downturn.

And as Seemantini mentioned, we've been converting our antiquated store systems to modern intuitive omnichannel technology, so easy to use that it barely requires training. All these efforts combined have contributed to a significant improvement in associate and customer experience, yielding meaningful gains in labor productivity and our operating margin.

At the same time, we've continued to invest in our dedicated frontline team. We're focused on helping our customers with their home improvement projects and delivering an excellent customer experience. I can't talk about what's next for Lowe's without acknowledging how critical our frontline teams are to our success.

Their knowledgeable customer service is what sets Lowe's apart. As part of our commitment to becoming the employer of choice and retail. We've invested over $4 billion in incremental wages and share based compensation since 2018 for our frontline associates. And we continue to invest in associate wages with a recent increase in our minimum wage to $15 an hour.

In addition, we invest in hands on training and coaching and our best in class leadership development courses through Lowe's University, all of which creates career opportunities for our associates. Through their commitment to serving our customers, our engaged associates have contributed to a 200 basis points improvement in both DIY and Pro customer satisfaction over the past two years.

Now, let me tell you about what's next when it comes to our store operations. Starting with the role our stores play in meeting the ever growing demand for our omni channel shopping options. Our front end transformation is a critical aspect of this improved shopping experience. It includes our proprietary self-checkout registers, a significantly improved buy online pickup in store experience, and an optimized front end selling space.

We're almost two-thirds of the way through this three year transformation and it's driving improvements in customer satisfaction as well as associate productivity. Take a look.

Unidentified Participant

(video starts)

A few years ago, we realized that the front of our stores wasn't always easy to shop. Checkout lines were often long, and customers had to wait in the same line for returns and pick up. So last year, we began our front end transformation with a new intuitive self-checkout system designed specifically for home improvement shoppers. It creates a faster and simpler check out experience and reduces wait time. And our cashiers are right there to answer questions and help customers if needed.

We're using an all new AI enabled tool that we call “Nudge” in partnership with NVIDIA. It detects discrepancies as the customer is checking out. If they've missed something, the system gently nudges them to scan the missing item and then alerts cashiers if there's an unresolved mismatch. Nudge helps us maintain our strong track record managing shrink. And with this assisted self-checkout, we can shift associate time to the sales floor so they can spend more time driving sales and serving customers.

We've also increased the selling space with quick access to more grab and go items and we created a dedicated pickup zone with triple the staging area for BOPUS orders with an easy to use check in kiosk to support increased online sales. Our new front end creates a much better customer experience while also optimizing our front end staffing to drive greater labor productivity and support sales.

(video end)

Joseph Mcfarland - *Lowe's Companies Inc - Executive Vice President - Stores*

It's been great to see this come to life and what an impact this new front end has on our customers. In fact, we've made the pickup process so easy that our customer satisfaction for BOPUS orders has increased by nearly 150 basis points in stores with the new front end.

But we're not stopping at the front end of our stores. We're looking to several new solutions to help our customers shop more efficiently, take the in store mode on the Lowe's mobile app. It helps customers navigate the store, find product locations, scan products for detailed specs and search for deals.

And we're adding new features including planning tools that help customers select the product they want to purchase before they even come to the store. Then once they arrive, the app will guide them directly to those items, helping to become more sufficient, self-sufficient shoppers and for our customers who want a little more handholding, we're ensuring our associates are where our customers need them when they need them.

So let me tell you about two other technology initiatives that we're testing to do just that, starting with what we're calling Dwell. Dwell uses an AI vision algorithm to estimate sales and traffic patterns and see the trends inside of our stores.

It uses real time heat maps to see where customers stop in our aisles to look at products and sends associates directly to them to ask if they need help. This new technology will help us staff our stores correctly to maximize sales.

We're also piloting technology to put product knowledge in our associates' hands across all departments to keep them on the sales floor to make them even more helpful to our customers. Keep in mind working at Lowe's is different from working at a grocery store or another mass merchant. At Lowe's associates need to know a lot more than how to direct customers to the right aisle to find products.

They need to answer a wide range of complex home improvement questions from plumbing to drywall installation to pest control. This makes training our associates on product knowledge, one of the most important and expensive parts of store operations, to help support their expertise, we've begun testing a new AI powered store companion app which is like our very own version of ChatGPT.

This new app helps our associates understand what's involved in projects like caulking a tub or installing a backsplash. Then it gives them the ability to make product recommendations. So the customer has everything they need to complete their project. If an associate doesn't already know the answer, they can quickly ask for input from the store companion app so they can help the customer more effectively.

One of the defining apps of this app is that there are guardrails. It's not just like doing a Google search or asking open AI to respond. It's customized to understand those products and those policies. There's also a feedback mechanism that allows the associate to give the response a thumbs up or thumbs down so the system can learn to deliver even more helpful information.

We're hearing great feedback from the associates and managers whose stores are participating in the pilot and plan to launch a broader test, early next year.

I'm also excited to tell you about another initiative that we expect to position us for future growth, opening new stores. While we will continue to focus on driving sales productivity in our existing stores and online, we also see an opportunity to expand our brand and our reach by opening new stores.

We're planning to open 10 to 15 new stores per year over the next several years. Specifically, we're looking at fast growing markets where we've seen outsized population growth with the goal of strengthening our position, building our customer base and driving incremental sales and ROIC.

The handful of stores we've opened since 2018 are performing well and we will be leveraging all the space productivity initiatives that Bill discussed earlier as well as other learnings from the past six years to inform our plans on this next phase of store expansion.

Opening new stores is an important step forward for us to help fuel our growth and expand our footprint and track new DIY and Pro customers to our branch. Like the merchandising team, we have also over delivered on the PPI commitments we made at our last conference and we're working on the next steps on our PPI road map with meaningful opportunities to build on our recent wins.

These include first finalizing our front end transformation in our remaining stores, which is roughly one-third of our portfolio. Second, further enhancing the omni channel fulfillment experience for both associates and customers by optimizing picking and staging activities helping to transition this fulfillment team to a selling culture rather than a tasking one.

Third, optimizing freight flow through innovative methods of handling freight from the dock to the shelf, designed to reduce damages and unload pack out time while improving speed to shelf. This will build on our recent success in improving our back end operations including with the new labelling system applied in our distribution centers with labels linked to each store's layout that tell the associates exactly where the products go on the sales floor.

Fourth, continuing to improve our returns rate. Over the past two years, we've reduced our return rate to the lowest level in recent history by using our modern omni channel system to streamline the process. But looking ahead, we see some further opportunity for improvements through better compliance with our returns policies.

And finally, we also look forward to leveraging the new Dwell technology to drive labor productivity sales and a better customer experience. In summary, we're expanding our home services offering, removing complexity and building a best in class experience for our do it for me customers.

So they will increasingly rely on us for their installation as well as maintenance needs. We're enthusiastic about the progress we've made to transform our store operations, driving productivity while improving customer service all at the same time.

And we're pleased with our strong and healthy selling culture. One that's focused on removing friction for our customers by providing the help they need with their home improvement projects. As we make the most of our existing locations while also expanding our footprint through new stores, we are confident we are well positioned for success in the home improvement market recovery.

And with that, I'd like to introduce our EVP of Supply Chain, Margi Vagell.

Margi Vagell - *Lowe's Companies Inc - Executive Vice President of Supply Chain*

Thanks Joe, and good morning, everyone. Like our store operations, the supply chain will be a key sales enabler for Lowe's in order to position the company to capture share gains across DIY and Pro.

So let me tell you how we're going to support our Total Home Strategy with our specific focus on three pillars. First, driving Pro penetration by making sure we have the right products in the right quantities in the right places, whether it's on our shelves or delivered direct to job site.

Second, accelerating our online sales by fulfilling an increasing number of online orders. And third, increasing our space productivity by making sure stores have the right local assortments and inventory quantities for their market. By increasing our speed to shelf and by using our market delivery model to reduce the inventories we hold in stores so we can use that space far more effectively.

Now, before I tell you about those initiatives, I'd like to take a moment to discuss the progress we've made modernizing our supply chain to improve our efficiency, speed and flexibility.

Over the past six years, under Don Frieson's leadership, we've transformed our supply chain from a traditional hub and spoke model centered around replenishing stores to one that's more agile centered around supporting omni channel fulfillment needs.

This multiyear transformation has helped us increase our network capacity, our capabilities to deliver big and bulky items and our flow of product through our distribution centers to our stores. This in turn improves our in stocks and our customer shopping experience and our ability to meet the ever increasing demand from our DIY and Pro customers for fast and flexible delivery options.

We recently rolled out our market delivery model to support the delivery of big and bulky products starting with appliances. As a reminder with market delivery, these products flow from our supply chain directly to customers' homes or job sites.

Instead of going through our legacy store delivery model. Through this new model, we've doubled our number of next day deliveries over the past few years. Combined with faster delivery times, we've also enhanced the customer experience through tech driven solutions. This drove an improvement in customer satisfaction of 20 percentage points.

It also helped us further solidify our industry leadership in appliances. Lowe's is the only retailer that has the ability to deliver major appliances next day in virtually every zip code in the United States. No other retailer can provide such a broad assortment of options for next day or two day delivery which is critical for customers with immediate needs to replace an appliance.

These duress purchases represent over 70% of appliance sales. So this is important value proposition for all of our customers that we provide. We've also strengthened our parcel delivery capabilities with a strategic network of parcel stores and online fulfillment centers optly located to enable nationwide coverage for two day delivery.

These stores complement our gig network of same day delivery partners which extends our reach in both urban and suburban areas. This helps us to drive incremental sales with different types of customers, especially Gen Z and Millennials, which is an important way we're supporting one of the key growth initiatives within our Total Home Strategy to accelerate online sales.

Today, our supply chain includes more than 130 facilities and over 65 million square feet of space. We've improved our network by creating more agile nodes that can both replenish stores and handle direct order fulfillment. This creates increasing flexibility to move product from whatever facility makes the most sense at that time.

We're also driving greater efficiency by reducing the number of nodes that products flow through. We designed this network to help us more quickly flow the different types of products we carry that vary dramatically in size and how we should handle them from a small pack of drill bits that fit into your hand to washers, dryers, drywall and lumber and rapidly deliver them to our stores, customers' homes and Pro job sites.

And now that we've built out our network capacity with increased flexibility. We're looking to optimize our supply chain to make it a proactive sales enabler that drives greater inventory productivity and operational efficiency. This begins with transforming the technology systems we use for the supply chain planning.

We have a three year project that's underway to redesign and modernize our inventory replenishment and demand planning systems. This new technology ecosystem merges custom and third party applications that will create a vastly simplified and cohesive experience resulting in improved forecast accuracy and increased inventory productivity.

With these enhancements to our tools and analytics, we will proactively stimulate the business and simulate scenarios instead of simply reacting to them.

This will help us improve our in stocks and support another key growth imperative within our Total Home Strategy to increase space productivity which you heard about from Bill earlier. Initiatives like our inventory investments and Pro never out SKUs, a rural assortment extension to more than 150 stores and our category accelerators like workwear, pet and automotive.

And for some of the most challenging planning scenarios like planning for spring across the entire country when it's virtually impossible to know when it will arrive every year and every geography, we're leveraging advanced AI driven inventory management solutions to solve this.

These tools also support a rapid storm response, helping our communities prepare and recover from extreme weather events. In short, we're creating an ecosystem that drives the right inventory to the right location at the right replenishment speed and regaining actionable insights that we can turn into sales through intelligent decision making and prioritization of inventory with speed and flexibility across the entire network.

Now, let's talk about how we're driving Pro penetration. Another key pillar in our Total Home Strategy which Quonta discussed. We're using an asset light approach where we're leveraging our existing facilities to handle job site deliveries through our Pro fulfillment network.

This network enables us to fulfill large orders deliver direct to Pro job sites, capture more Pro planned sales. While at the same time, we're actively piloting several job site delivery solutions tailored to meet each market's unique needs. It's not a one size fits all solution.

As Quonta mentioned, we're converting half of our flatbed distribution centers into dual purpose facilities that can handle store replenishment and now job site delivery. These flatbed fulfillment centers expand our ability to handle large orders and to stock larger quantities of our top Pro assortments.

We're focusing first on roofing, decking, concrete, fencing and drywall. We're also looking to leverage 30 Lowe's Pro Supply or LPS branches as well as many of our stores for expanded Pro delivery. Because for the Pro that's looking for same day delivery to the job site, we can efficiently fulfill all of those orders from those facilities.

We're excited about what we're learning through these pilot programs and how we can best serve each Pro across the country. We have a unique opportunity to leverage not only our extensive supply chain network but also our stores and LPS branches to better sweat all of these existing assets in a capital light approach that optimizes ROIC.

With these enhanced job site fulfillment capabilities. In addition to the Pro extended aisle that Quonta discussed earlier, we're confident that we're well positioned to take share in more Pro planned purchases. We're also striving to enhance our direct omni channel solutions in order to be able to meet the dynamic customer demands. We've built one of the best brick and mortar omni channel delivery models in retail today, which includes our market delivery model and our gig network.

And now that we've built these models, we're scaling and optimizing them to increase space productivity. For example, we plan to leverage our market delivery model to handle more big and bulky products. Today, we're delivering appliances, riders, grills, water heaters and patio furniture.

This has driven greater inventory productivity because we've reduced the inventories of products held at each store. Looking ahead, we'll be leveraging the market delivery model to handle even more products including things like generators and larger riding mowers.

This shift will continue to improve the space productivity in our stores, providing more holding capacity for those key seasonal products, taking complexity out of the stores and creating a better delivery experience for our customers.

Over the past two years, we've delivered productivity not only through better technology and automation, but also by process standardization across our network. As we look ahead, we see new opportunities for us to unlock productivity and drive efficiency in our operations through our detailed PPI road map which includes reducing transportation costs by adjusting our fleet strategies and leveraging our scale to take costs out and improve the customer experience.

Rationalizing our footprint by transitioning more of our supply chain nodes from single purpose to multipurpose facilities and leveraging technology and process optimization. This includes initiatives like brake pack automation and robotic trailer unloading.

This is a really exciting time to be working in the supply chain at Lowe's. We're putting new technology capabilities and tools to work to be a catalyst for sales and drive productivity across the organization. We're driving better end to end inventory visibility, increasing speed to shelf and enhancing Pro and DIY fulfillment and delivery capabilities all while supporting many of the initiatives in our Total Home Strategy.

Now, please welcome, Executive Vice President of Human Resources, Janice Dupre.

Janice Dupre - *Lowe's Companies Inc - Executive Vice President of Human Resources*

Good morning. And thanks Margi. My colleagues have shared the what and the how of our Total Home Strategy. And it is my privilege to tell you about the who. Home improvement retail will always be a people business, which is why investing in our associates is just as important as all the initiatives that you've been hearing about all morning.

And it is why that we have been so committed and laser focused on our commitment to becoming the employer of choice in retail. Two years ago, I shared this lofty goal and today, I am pleased to update you on the progress that we have made in providing good jobs, a sense of belonging and a promising future which sets us apart from other retail peers.

These pillars are what enable us to reward and retain our talented associates who bring our strategy to life each and every day. Our annual associate engagement survey provides us the data points that we need to track our progress. And I am really pleased to share that the participation in our survey continues to increase and is now well over 90% which is industry leading.

So let's take those pillars one by one, starting with good jobs, a good job starts with good pay. And as you heard from Joe, we have made strategic investments in incremental wages and share based compensation for our front line associates, totaling more than $4 billion since 2018.

Additionally, we recently our recent move to a starting wage of at least $15 an hour helps us remain competitive for talent with other retail employers in every single one of our markets. We also offer a comprehensive benefits package and competitive bonuses. This includes a quarterly profit sharing bonus for our front line associates. It includes stock grants for our assistant store managers and our store managers and an everyday 10% discount for all of our associates.

And we offer flexible scheduling options for many of our full time front line associates, which is a particularly important considering today's competitive labor market. These options give them more dependable options on scheduling, and it provides stability and flexibility in planning their time.

Let's pivot now to a sense of belonging. I mentioned at the top are more than 90% response rate to our annual engagement survey, which is a critical component to our proactive associate listening strategy. What this participation rate is telling us is that we have earned the trust of our associates. That is because we continue to take their feedback and turn it into meaningful changes, meaningful changes like in the areas of leadership effectiveness, associate wellbeing, which translates into a better work experience.

Beginning last year, we split this yearly survey into two collection periods. This enables us to capture seasonal differences that our associates may be experiencing, and it helps us address opportunities sooner. Additionally, our associates tell us that they feel connected to their communities when they have the opportunity to give back. Whether that may be helping with disaster recovery after a hurricane hits or assist in a neighborhood revitalization through our Lowe's hometown programs to name a couple of examples.

We support these efforts at both the local and the national level through our charitable giving and by compensating our associates for spending a day on a community improvement project. One other critical aspects of belonging is feeling included. At Lowe's, one of our central values is inclusion, which is why we welcome all of our associates to participate in helping shape the culture of our company.

Now, I'd like to take a moment to reinforce Lowe's commitment to diversity and inclusion. Earlier this year, we updated some of our associate programs. First, we combined our eight business resource groups into one umbrella organization. By making this shift, we are able to foster networking and development for all of our associates, including those in our stores, as well as those that are in our distribution centers.

Secondly, we eliminated sponsorship of our outside festivals, parades and fairs to focus solely on our four community pillars which are safe and affordable housing, community improvements, skilled trades and disaster response.

This ensures that external activities and sponsorships are consistent with our company's philanthropic focus areas. And it also helps us maintain our reputation. And at last, we are evaluating our participation in external surveys. We are factoring in the goals of the survey and whether we will gain actionable insights with that.

And we are making a conscious decision to avoid surveys or organizations that are driving extreme political ideologies.

These are the only changes that we have made. And they were implemented with the goal of creating an inclusive place for all of our associates to work. Further, we have a very simple philosophy. We hire and promote people based on their talent. And we never exclude anyone because of their differences. And this slide captures our senior leadership team, which is one of the most diverse in the Fortune 500.

Our approach is not a slogan and nor is it a phrase. It is a philosophy that is deeply embedded into our culture, and is one of the key reasons for the financial results that you have seen us deliver over the past six years.

And here, we have captured the advancements that we have made during that same time period. The best-in-class diversity results that you see here on this slide were driven by this very simple philosophy. And more importantly, they were accomplished without targets or quotas.

Finally turning to a promising future. We have created more opportunities for career advancement for our front line by adding 10,000 department supervisor roles and more than 2,500 assistant store manager roles since 2018.

And we're helping our associates see their bright future at Lowe's by launching a visual career map, which indicates what it takes to move from an entry level hourly position to a department supervisor role, to an assistant store manager role, and even a store manager role. And it gives you the compensating jumps that you would experience as you move through these levels.

And we're actually getting some pretty good results with this. This past year, over 85% of our store leadership positions were filled internally. And nearly 90% of our store leaders started as an hourly associate. We also encourage our associates to pursue the skilled trade certification through our internal Track to the Trades program.

Now, we have built on this expertise of this internal program and we are expanding it beyond Lowe's, and creating a lasting impact on the skilled trades industry as a whole. Last year, through the Lowe's Foundation, we announced a $50 million and 5-year commitment to train 50,000 people for jobs in the skilled trades.

We are partnering with our supplier community to meet the needs, the country's growing needs, of having more home improvement pros. We do this through our Gable Grants that are awarded to community and technical colleges and community-based and national nonprofits to create innovative and scalable solutions in trades education.

And our store teams are a part of this effort as well. They serve as ambassadors who connect with the grant recipients to bolster relationships with their local Lowe's stores.

So I hope that you can see the progress that we have been making on our continued journey to become the employer of choice in retail. We are creating good jobs, a sense of belonging, and a promising future for our 300,000 associates, and for a growing number of skilled trades people as well.

Now, please join me in welcoming our Chief Financial Officer, Brandon Sink.

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

Right. Thanks Janice, and good morning, everyone. I'd like to begin today by affirming our full-year 2024 financial outlook that we outlined a few weeks ago on our third-quarter earnings call. We are expecting sales of $83 billion to $83.5 billion. And comparable sales of down 3% to down 3.5%.

We also expect full-year adjusted operating margin of 12.3% to 12.4% as we remain focused on disciplined expense management in a down sales environment. This results in adjusted diluted earnings per share of $11.80 to $11.90 for the year. And capital expenditures are expected to total approximately $2 billion, as we focus on high return investments that we expect to drive our long term growth.

Now, let's talk about our expectations for 2025, beginning with our outlook for the home improvement market. And there's still a great deal of uncertainty about near term sector performance, given that there's a balance of both expected demand drivers as well as persistent challenges.

And as Marvin mentioned, the core drivers of home improvement demand remain supportive. With record high home prices, income is growing faster than inflation and the oldest housing stock on record in the US. And especially as these older homes will need unavoidable repairs, we expect continued demand for Pro services.

And at the same time, consumers are still facing pressure from higher rates, which in turn is dampening consumer sentiment. And even if mortgage rates were lower, many homeowners who are benefiting from their existing historically low rates may feel locked in their homes and unwilling to move. Finally as rates come down, it's uncertain how quickly this will translate into consumer demand.

And taking all of this into account, we're expecting our relevant market to range from down roughly 3% to up roughly 3% in 2025. And as a reminder, we view our relevant market on a mix adjusted basis, reflecting our higher DIY penetration compared to the broader market.

Turning now to our expectations for our own performance in 2025. In this morning, you've heard from our executive leadership team about how we've updated our Total Home Strategy. So Lowe's is well positioned to capture share as the home improvement market recovers.

To recap some of these initiatives, we're looking to open up a Pro extended aisle while continuing to invest in job site delivery capabilities to capture more Pro planned spend, build the first product marketplace in the US home improvement market. This will create a one-stop shop for our customers without a significant capital investment in more online fulfillment centers.

Next, we plan to offer high value, easy to use home services solutions to meet the installation and home maintenance needs for our do it for me customers. We're going to relaunch our Pro Loyalty program with a simplified experience that's expected to drive greater utilization.

Combined with our new MyLowe's rewards program, we're creating a powerful loyalty ecosystem that will help us market more effectively to our customers. And finally, we expect to improve our space productivity by leveraging our expanded rural store formats and other localization efforts as well as our category accelerators.

All of these initiatives will be powered by technology which is at the center of our Total Home Strategy, especially as we look to capitalize on the new capabilities unlocked by generative AI. At the same time, we're making a value commitment to our customers that sets Lowe's apart, with knowledgeable frontline associates who are focused on serving and helping our customers save on their home improvement projects. To support these initiatives, we expect to make incremental investments next year, especially in technology, Pro, and online.

Our recent investments continue to drive results. Specific to Pro, we're on track to deliver two-year high single digit growth in Pro comps, leveraging our strategic investments in Pro never out SKUs, our expanded program portfolio, and our enhanced Pro digital offering.

And we're on track to deliver 5% growth in online sales since 2022. Driven by enhancements, we've made to the user experience, better online merchandising and expanded same day gig delivery options. Looking ahead, we are confident that we're making the right strategic investments to position the company for sustainable share gains with both our DIY and our Pro customers.

Now, I'd like to discuss our approach to planning our business for 2025. And given that the macro environment remains uncertain, we're planning for a range of outcomes based on various scenarios just like we did in 2023. And by using this approach, we'll be able to quickly adjust our operating plans as needed throughout the year, with a focus on outperforming our relevant market.

On this slide, we're outlining three points along a spectrum of outcomes for 2025. A robust market, where the industry rebounds quickly with improved demand throughout the year, and our relevant market is up approximately 3%. A moderate market where the industry rebounds in the second half of the year, and our relevant market is roughly flat for the full year, and a weak market where the recovery is largely delayed until 2026, and our relevant market is down approximately 3%.

Market expectations for 2025 are still uncertain. And two years ago, when we were looking ahead to 2023, we did not anticipate that the home improvement market would experience a protracted downturn. But while we can't control the market, we can be prepared to pivot quickly as the macro environment changes. And that's by managing our inventory and our SG&A to meet dynamic demand trends.

We also remain focused on driving productivity through our enterprise-wide PPI initiatives, which are expected to yield approximately $1 billion of cost reductions next year. These PPI initiatives will be partially offset by wage investments which include merit increases and the wrap of the $15 minimum wage for the front line.

We'll also be making incremental investments in our Total Home Strategy especially as we build capabilities to capture more Pro planned spend, invest in new AI technology solutions and enhance our digital capabilities including the new online marketplace. These are the critical investments that we expect to position the company for long term share gains, taking all of this into account. We're expecting operating margin of 12.4% with comparable sales of positive 1% and return on invested capital of 30% in our moderate market scenario for next year.

This is roughly in line with our rule of thumb that we've discussed previously, and that's 10 basis points of operating margin leverage for every one point of comp growth.

Now keep in mind as we invest in the tech initiatives outlined in our Total Home Strategy and we ramp our new store builds. We're expecting approximately $2.5 billion in CapEx next year. And we expect to repay $2.5 billion in debt maturities next year as we move back towards our 2.75 times leverage target. Then, we plan to allocate the remaining free cash flow to approximately $1 billion of share repurchases.

And finally, please note that none of these scenarios contemplate the impact of potential tariffs as the timing and the details remain uncertain. But we're confident that we're well prepared to respond with best-in-class tools and processes in place.

Now, I'd like to discuss our run rate expectations beyond 2025, when the home improvement market is expected to return to sustainable growth.

And as Marvin mentioned, there are broadbased expectations for a recovery in the home improvement market, but the timing and the pace of recovery is uncertain, especially since there's no direct historical precedent to the current market dynamics.

And given that there's a range of expectations around the longer term market growth rate, we're providing both a base and an accelerated long term market outlook. In the base case, the market is expected to grow at low single-digit pace supported by the cyclical factors that we've mentioned today. And that's lower rates, improving consumer confidence, strong home prices and household incomes, as well as the aging housing stock.

In the accelerated case, the market would grow at a mid single digit pace. As the cyclical factors that I just mentioned would be bolstered by structural drivers like millennial household formation, baby boomers aging in place, and continued remote work.

Also, homeowner equity has now reached a record of $35 trillion and this is expected to be a source of financing for larger home improvement projects, especially as interest rates decline. In both the base and the accelerated market growth scenarios, we would expect low sales growth to outperform the market by approximately 100 basis points.

And while we've outlined several growth initiatives within our 2025 Total Home Strategy this morning, our efforts to drive Pro, online, and our new loyalty ecosystem are the key contributors to our longer-term growth expectations.

We would also expect our operating margin to expand in line with our rule of thumb, which again, is 10 basis points of operating margin leverage for every one point of growth in comparable sales.

Gross margins are expected to be roughly flat over the long term. And that's driven by our merchandising and our supply chain PPI initiatives, which will be offset by our supply chain and our Pro investments and by our commitment to invest in price to remain competitive. We expect to lever SG&A through sales growth and enterprise wide gains in operating productivity through our PPI efforts, which will partly be offset by investments in wages and other input costs, as well as the incremental labor hours required to support higher sales volumes.

And as we maintain our disciplined focus on capital allocation, we expect our return on invested capital to expand 50 basis points per year in the base market scenario and 100 basis points per year in the accelerated market scenario.

I'd like to spend a few minutes now discussing our financial expectations for the PPI initiatives that were outlined this morning, beginning with merchandising and supply chain. And as Bill mentioned, we'll continue building on our strong product margins. We expect the next set of merchandising productivity initiatives to yield approximately $500 million per year in gross margin enhancements, while also supporting our everyday competitive price strategy and strong supplier relationships.

Now, there are numerous merchandising PPI work streams that are centered around several focus areas: ongoing product cost management, increasing our private brand penetration, driving inventory productivity, leveraging data-driven pricing and promotional strategies, and accelerating the growth of Lowe's media network.

When it comes to our supply chain, as Margi mentioned, her team is focused on delivering against three PPI goals, reducing transportation costs, rationalizing our supply chain footprint, and leveraging technology and process optimization.

Now turning to our PPI initiatives that impact operating expense. These are also expected to yield approximately $500 million per year in OpEx savings. Store operating expense presents the largest opportunity for continued OpEx productivity gains.

Joe outlined five key initiatives earlier this morning: finalizing the front end transformation of our stores, enhancing omni channel fulfillment, optimizing freight flow, continuing to improve on our returns rate, and leveraging the new Dwell technology. Finally, we will leverage new tech-enabled capabilities to drive productivity across all of our support functions.

Shifting gears to Lowe's value creation strategy. As a reminder, we first introduced this framework at our 2018 investor conference. And since that time, we have nearly tripled our return on invested capital and driven total shareholder returns ahead of the S&P 500.

This framework is focused on three key areas: first, drive operational excellence throughout the enterprise; second, generate high levels of free cash flow; and third, deploy a shareholder focused approach to capital allocation.

We are confident that this disciplined approach will continue to create sustainable shareholder value in the years ahead. As the home improvement market returns to growth, we expect that the company will continue to generate significant levels of cash. And with our discipline execution, the company can generate annual operating cash flow of $9 billion to $10 billion.

We expect to reinvest approximately $2.5 billion back into the business every year through capital expenditures, which will support our strategic growth initiatives including our new store builds. This would result in $6.5 billion to $7.5 billion in annual free cash flow.

And while we are currently focused on paying down debt to delever back down to our 2.75 times leverage target, we will have capacity to issue $1 billion to $2 billion per year in net new debt after we return to our leverage target, while generating sustainable earnings growth. We don't expect to issue net new debt until 2026 or later. Taking all of this into account, this would result in $7.5 billion to $9.5 billion per year in cash available to return to our shareholders.

Our disciplined capital allocation strategy is also unchanged and it's centered around three priorities: First, strategically investing in our business to drive outsized returns, which includes ongoing capital expenditures as well as periodic investments in inorganic opportunities that enhance our operating capabilities.

Second, supporting our 35% dividend payout target; and third, returning capital to our shareholders through value-enhancing share repurchases.

Looking ahead, it's important to note that we do not need to make a sizable acquisition to continue to increase our Pro penetration, but instead can lean into an asset-light solution by opening up the Pro-extended aisle and sweating our existing assets across our stores, Lowe's Pro Supply branches and our flatbed fulfillment centers.

We remain committed to maintaining a strong balance sheet and a solid investment grade rating, which is consistent with our 2.75 times leverage target.

We're also one of the roughly 70 companies in the S&P 500 that have attained Dividend Aristocrat status. And that's by increasing our per-share dividend every year for more than 25 years, which has been an important means of rewarding our shareholders.

Our discipline strategy also enables us to deliver a meaningful returns via share repurchases, which is reflected in the roughly 30% reduction in our shares outstanding over the past six years.

In closing, this is a really exciting time at Lowe's. We operate in a resilient industry that has a favorable medium- and long-term outlook. And we're making the right strategic investments across the enterprise to ensure that Lowe's is well positioned to capitalize on a market recovery.

We have significant opportunities ahead of us to grow both our top and our bottom line. We have a distinctive value commitment to our customers. We're building a powerful loyalty ecosystem that will enable us to market more effectively to both the Pro and the DIY, while also investing in the critical omni channel capabilities necessary to attract younger generations of homeowners.

We are confident that we're well positioned to capture market share while also expanding our operating margins and our return on invested capital. And finally, we have a strong well-established track record of returning capital to our shareholders through a best-in-class capital allocation strategy.

The company consistently generates high levels of cash flow and we're deploying this cash to deliver long-term sustainable value for our shareholders.

With that, we'll take a 15 minute break and return for our Q&A session.

(break)

Operator

(Event Instructions) Please welcome back to the stage, Vice President of Investor Relations and Treasurer, Kate Pearlman.

QUESTIONS AND ANSWERS

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

Welcome back, everyone. Now, we're going to have a 1-hour Q&A session. (Event Instructions)

Peter Benedict - *Robert W. Baird & Co. Incorporated - Analyst*

Oh, great. Good morning, everybody. Peter Benedict at Baird. Thanks for the presentation and all the information. That was terrific. My first question is just -- first, it was on 2025, the view on the market. Is there any strong difference between what you think the DIY market might do versus the Pro market? I know you said that your outlook includes an adjustment there, but just curious, any thoughts around that?

And then my follow up would be on the longer-term outlook, the accelerated -- what are the key unlocks to that accelerated case? Do you think it's as simple as interest rates getting to a level that start to unlock housing turnover or is it something else?

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

So Peter, I'll take the first part of the first question, and then I hand to Brandon, and he can give some more context and then he can ask the second part.

I think relative to Pro versus DIY , if the market is consistent with what we anticipate, we think that we're going to continue to see more strength in Pro. As you heard from Quonta and from Brandon, we're going to continue to invest, but even this year coming out of the third quarter, we had single high digit comps in Pro and we believe that we're going to continue to see really strength in the Pro segment.

And as I discussed in my opening comments, when you think about the DIY, we're still feeling that discretionary big-ticket pressure and we think that is directly correlated with the macro environment, whether that's interest rates, inflation, and also just the overall consumer sentiment.

So we believe that in the first half of next year, we're going to see continued strength in Pro, but we're going to see the DIY start to slowly come back as we discussed in that phased approach. And again -- and that's, that's our perspective. Now, if some macro accelerators happen, obviously that could change for a more positive outcome. But as we look at it today, that's what we're assuming.

Brandon?

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

Yeah, I would just add, Peter, within the Pro expectations, not just for '25, but beyond when we look at the market, we're expecting Pro to outpace DIY over that three- to five-year time frame. We expect to continue to grow Pro like we've shown over the last few years 2x the market. So that's going to drive an outsized portion of our performance as Marvin mentioned.

DIY is going to take a little bit longer to recover. That's going to be dependent on when we see some of the big ticket discretionary spend start to pick up.

I think to the second part of your question, as we look out at the three to five years, it's really just, I think dependent on the confluence of the factors that come together. I mean, we've continued to lay out the medium- to long-term drivers of our business which continue to be home prices, wages growing faster than inflation, and the age of homes. We do believe in '26, we're forecasting a recovery.

So we believe we're going to start to see momentum there, and the pace of that, whether that's 3% or 5% I think is going to depend on how quickly some of these cyclical factors start to recover. And then we talked about being bolstered by some of the structural drivers. So millennial household formation, boomers aging in place, post-COVID utilization of the home.

So we have a base case, we have an accelerated case. Forecast models could be both directions. But that's where we stand and that's what we outlined today.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

And Peter, the other point I'll make is, the updated Total Home Strategy is designed specifically for us to understand where we think the demand drivers will come from. As we spend time looking at historical trends, as we spend time talking to economists, just looking at market factors, we believe that when the market recovers, it's going to recover in the areas where the Total Home Strategy is going to position us to get an outsized piece of that potential growth.

And for us, the investment cycle didn't just start now. I mean, when you look at the capital investments, that Bill and his team have driven just in the in-store environment, in appliances, kitchens, bath, flooring, showrooms, when that market comes back when that $35 trillion in equity starts to be tapped into, it's going to get tapped into people updating their kitchens, their bathrooms, you're buying new appliances, putting in new flooring. And we're in a great position physically with showrooms and also digitally with the great work of Seemantini’s team.

And so again, it's a line around where we are anticipating the demand will come -- again, we can't time it, but when it happens, we're going to be prepared for it.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Thanks. Good morning. Chris Horvers, JP Morgan. So my first question is, what is your expectations around rates that's baked into the outcomes both in 2025 and the long-term. And related to that, if mortgage rates stay in this high-6 range, what outcome planning could we think about?

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

I would say, Chris, as it relates to interest rates, the environment, as you know, continues to be very dynamic. We've seen -- even since the fed started taking action in September, the rates on the longer end of the curve have actually gone up in the last three months. We've seen anything pegged to the 30-year mortgage rate actually up 75 basis points compared to where it was three months ago.

So I think for us, we're going to have to see how rates shake out. And that's the fed, how that impacts short term rates, how that flows in the longer term rates. And ultimately, what that does for housing turnover and home improvement spend.

But I'll reiterate what Marvin said. I think we have $35 trillion in home equity that's pent up. So we're certainly looking at that as being a catalyst, and as the rates move down short-term, that does enable our consumers to start tapping into that. And we believe that's going to be a major source of financing, I think for our business, especially in the bigger ticket, more complex remodels that I laid out.

So we tried to have within our 25 scenarios, we're trying to give a range. I think it's fair to say in the weak scenario, a bit of a higher for longer type of an environment. But again, we're not going to peg the timing and the implications. And under the new administration, there's obviously a lot of factors that are going into the longer-term rate environment.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Got it. And then my follow up question is, just with respect to those three scenarios. Last time you talked about weighting it towards one outcome versus on the other side of the robust versus the moderate versus the weak. Are we -- as you think about '25, are they all equally weighted potentials in your mind?

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

I think, Chris, we sat here two years ago and outlined a set of scenarios. I think that was based on the uncertainty that existed in the market at that time. The variables, the drivers of our business, you fast forward to where we are today, two years later, we're dealing with the same set of dynamics, right? If not more complex than what we were looking at two years ago.

Short-term drivers of the business continue to be inflation, higher rates, pressure on consumer sentiment, housing turnover, and then you have the tailwinds for the business, which again are, housing prices, wages, age of home.

So we tried to put together a set of scenarios that are reasonable and realistic, based on where we stand today. I know it's a bit of a range from a market down plus-3 to up-3 and we have comps down-2 to plus-4, but we believe that captures the potential range of circumstances that could exist for 2025.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

So Chris, what I'll add is, for me, the way I think about it is that we stated it will outperform the market by 100 basis points. So basically, that is a definition of -- we can't control the macro but we can control our level to execute and our ability to be agile as we have to flex the business based on what the macro is giving us.

And so that's a way for us to hold ourselves accountable, that whatever the market gives us, we're going to outperform it by 100 basis points. And we're going to be very disciplined on our expense management and we're going to lean in hard on these PPI initiatives that we spend a lot of time talking about today.

Steven Forbes - *Guggenheim Securities, LLC - Analyst*

Steve Forbes, Guggenheim. Maybe for Bill or Joe. You think about this idea of driving improved space productivity, maybe if you can help us better understand the opportunity at hand, whether it be backroom footage that's underutilized or just how you think about how much footage in the box, there's true opportunity to increase. And then how the merchandise service teams that you're leaning into has influenced your learnings?

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

So let's let Bill take the first part on the merchandising on the floor. And then Joe, you can talk about some of the back room initiatives that's driving PPI, that's going to allow us to use that space effectively. So Bill, you can take the first one.

William Boltz - *Lowe's Companies Inc - Executive Vice President - Merchandising*

Yeah. Thanks, Marvin. You think about the journey we've been on really for the last six-plus years and what we've done to improve the look and the adjacencies in our stores. And that was really the first efforts that we had to had to take on. How productive were our end caps, getting the adjacencies and categories together. And if you remember us talking about this US store reset, we undertook that project a few years back in order to get stuff organized the way the consumer shops, the way the Pro shops.

That's now gotten us to this next step where we're now with the tools that Seemantini has built, our team is now able to go in and look bay-by-bay, category-by-category, and how is it performing across every store in the country. And those are some of the areas and learnings that we've had that has opened up this opportunity for new opportunities that I covered in my prepared remarks.

Categories like workwear, for example. We tested those in some rural stores. It has an opportunity to perform and outperform other categories in the store. So as we reduce space in areas like decor and move that online, we've got an opportunity to bring categories like workwear into the store and do something bigger and better with that and have it dramatically outperform and that's just part of good merchant rhythm.

They do that all the time and they do it a couple of times a year. What did I learn? What opportunities do I have to go forward, and how can I better use that space inside my store to make it as productive as we can.

Joseph Mcfarland - *Lowe's Companies Inc - Executive Vice President - Stores*

And then on the back room. Over the last several years, we've been making a lot of changes. Market delivery now has removed the majority of the appliance inventory from the back room. And you think about our freight flow. We talk about dock-to-shelf; the ability for us to bring in new conveyor belts, speed up and improve the unloading time, time to unload. We centralize the return to vendor system. So we don't have that clog up in the back room.

And as I think about looking forward -- in the presentation, I talked about how the merchandise will show up in the carts. Every store has its own unique layout, and so our supply chain system will be tied right to these freight carts which will drastically speed our time to get the product out of the back room and on the shelf.

We have several stores that are fulfillment stores for us, for our online small package. And then as well as hub and spoke, you heard about some of the Pro fulfillment centers and how we have some of the incremental merchandise to supplement those large Pro orders. So a lot happening in that back room today.

Steven Forbes - *Guggenheim Securities, LLC - Analyst*

Thank you. And maybe just a quick follow up for Jen. As we think about loyalty, I believe you mentioned 30 million members. Curious if you can comment on private label adoption among those members. And then any framework on the number of Pro members ahead of the new relaunch?

Jennifer Wilson - *Lowe's Companies Inc - Senior Vice President, Chief Marketing Officer*

Yeah, so a couple of things. First, we're not going to disclose today just for competitive reasons where we sit with our Pro program. But what I can tell you on the 30 million is that we're seeing a lot of really great progress and we're not even 10 months into our launch. I mentioned earlier that we're seeing great repeat visit rates. We're seeing increases in average order value, we're seeing really solid sales penetration.

And I think importantly, as we think about the loyalty program versus the loyalty ecosystem, what we're most looking forward to and you made the point of private brands, is leveraging those consumer insights so that we can quickly move that into action and then more repeat visits.

So we're not disclosing again, as I said, specifics regarding our Pro side, but we're really pleased with how quickly we're already gaining momentum on those repeat visits because of the data insights.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

You have a question over here.

Simeon Gutman - *Morgan Stanley - Analyst*

Thanks. Simeon Gutman, Morgan Stanley. My first question is on margin. I know we're waiting for the home improvement market to get better before we talk about long term. But in '26 and beyond, are there any things that you're investing in that would not get you back to that line of sight numbers [14, 15] that we outlined a couple of years ago? So is there anything that you're investing in these new initiatives that would hold the ultimate margin power of the business back?

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

No, I don't think -- So I think, Simeon, we still, within the scenarios, we have a line of sight. Really, if you look at what we communicated two years ago, it's really just a function of the last two years underperforming frankly, given the macrodynamics of where we stood at that point in time. So we have a different jumping off point now. Call it the $83.5 billion. But when you look at those long term scenarios, both the base and the accelerated, we have a path as we continue to grow volume based on the rule of thumb to put us back in those, 14%-plus operating margin assuming that the scenarios play out in that manner.

Simeon Gutman - *Morgan Stanley - Analyst*

And for Marvin and team, this is a take on the unlimited CapEx or P&L question. Of these initiatives, Pro, home services, any of these you'd expedite if the capital or P&L didn't matter? And Brandon, you mentioned the Pro plan project in a asset-light or capital light way. Can you just tell us where your aspirations are? Eventually, are you going to build something that's not as capital light where your head is around this bigger Pro distribution model? Thanks.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

Well, I can take both of them. So on the first one, the lady sitting to my left is our Head of our Digital Transformation. And we kid Seemantini that she's the only person who does not have a budget and still overspends it. (laughter) Because we were so far behind from an IT infrastructure, digital technology, that we really relied on her. Everything centers around her team connecting all of the points relative to infrastructure.

And now with generative AI, it's just exponentially more important. And so we constantly look at prioritization and what we're trying to do now is understand where we think the inflection point will happen in what categories of the business, and we're moving those things forward.

What you heard today primarily are where we're going to put the investment. I think Brandon summarized it really well at the end where we're going to lean in hard with our endless aisle Pro with generative AI with some of the category expansions that Bill talked about, the investments in supply chain.

We made a conscious effort -- I'll let Seemantini speak to this in a second, where we focus first from an IT standpoint on associating customer facing technology, which meant that we consciously decided that some of the innovation and supply chain, we would hold back until we had more stability in the store. So I'll let Seemantini talk about that. But before I'll address the Pro piece.

Here's our philosophy. We tend not to set penetration targets for Pro, for online and for other parts of the business because I've been in environments where the penetration target became more important than serving the customer. And so we set the strategy, we serve the customer, and the penetration targets will take us where the customer will allow us to go.

Having said that, we believe that we have the ability to significantly grow Pro in the small to medium customers without making a large capital-intensive investment.

And conversely, we believe, as Margi outlined, as Quonta outlined, that we have a set of assets that not only allow us to continue to grow market share, but it allows us to do it market specifically. We don't believe a one size fits all is the way to go. Is it hard for us to go out and spend a lot of capital and buy somebody? Sure, we could. We think it's unnecessary.

We believe that we have excess capacity that we can tap into with our flatbed DCs, with our Lowe’s Pro Supply centers, with the backroom fulfillment Joe talked about, etc. And now the new endless aisle opens up tons of possibilities. Why do we need to go out and buy a business and buy all these assets when we can tap into a large supplier that can digitally order the product and they can do the fulfillment and job site delivery for us?

So we're looking at this in a more agile, more market-specific way than the old cookie-cutter one single approach and, and it's worked well for us thus far and we think it will continue to. So Seemantini, if you could, just talk a little bit about the technology prioritization.

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Seemantini Godbole - *Lowe's Companies Inc - Executive Vice President, Chief Digital and Information Officer*

Absolutely. And like Marvin was saying, we continue to invest in technology and at the same time, we have a very disciplined approach. So it has to be connected to customer satisfaction, sales, productivity improvements and I'll just give you an example. You know, we have focused a lot on customer facing technology, whether it's lowes.com, whether it's in store and all our associates who are selling associates. And we have made sure that they have the tools and technology that is really useful in driving customer service and sales both.

I'll quickly give you an example like self checkout when we all came in, the first thing we saw is it wasn't working so well for us, it had a weighing scale, for example, which nobody in home improvement needs, but it wasn't doing military discount or 5% of our credit card that we really needed. So we build the self checkout so that it will do everything we need for home improvement, but nothing extra like unnecessary weighing scale.

And so today, we are able to do a lot of things with it such as nudge them for loyalty, nudge them for, do you want to install if you're buying a faucet? And at the same time, we are able to partner with NVIDIA and actually also build something which will be anti theft. And so all that, so we have continued to invest but make sure that it is really tied to goals such as is it increasing customer service? Is it lightening the load on our associates and factors such as that.

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

And Simeon, the last part of your question on the P&L being an inhibitor, we're driving a billion dollars of productivity a year that's giving us tremendous flexibility, I would say to really be aggressive in the areas that we've talked about. You saw what we outlined, with our Total Home Strategy, the key components of the growth, coming from loyalty, coming from online and coming from Pro. We're taking an aggressive posture, into reinvesting that based on the flexibility that's created to the point when the market turns and when it inflects, we want to be ready to go. So that, that's the flywheel that we've created.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

I have a question over here.

Michael Lasser - *UBS Investment Bank - Analyst*

Good morning. It's Michael Lasser from UBS. Lowe's is objectively made enormous strides over the last few years. If you look at the DIY market, either through purchase occasion, customer demographic or category, why and where has the DIY customer not given Lowe's either enough recognition or consideration to what it's accomplished over the last few years.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

So Michael I'll take the first part and I'll let Jen provide any additional insights if she has it. The way I view this is not that the DIY is not giving us a consideration, is that this is a macro environment that's forcing the DIY to be very cautious.

We are very optimistic that the capital investments we've made in our flooring showrooms in the stores, appliance showrooms, millwork, kitchen bath, et cetera is going to pay dividends when these DIY customers are in a financial position, in a in have a degree of consumer confidence that they're going to invest back in their homes.

As the old saying goes, you don't fix the roof, when it's raining, you fix it when the sun is shining. And so we anticipate that the market is going to recover. And so rather than waiting and scrambling to update all these showrooms when the market inflects, we decided to get in front of it because we know that that demand is coming.

And so we believe that the moment that DIY customer starts to get the macro environment just to create a degree of stabilization, that customer is going to give us all the consideration and more. And so we worked really hard on that. The thing that Jen can respond to. It's just what we're learning, from our DIY loyalty program. And again, one of the reasons we launched this program was because we came to the realization that if the DIY customers are going to be 70% of our revenue and they are. We're going to accept that reality and we're going to embrace that reality and we're going to determine how we can be the best DIY centric home improvement retailer in the world and in this loyalty platform and this ecosystem that Jen is creating is giving us insights to help us to do that. So Jen.

Jennifer Wilson - *Lowe's Companies Inc - Senior Vice President, Chief Marketing Officer*

Yeah, I would add, zooming out that the generational cut. We see Gen Z's extremely engaged in our program and millennials as well. Encouragingly, Gen Z actually prefer Lowe's as their number one home improvement retail as we look at our research and a big driver of that is because they view us as the most helpful brand. They view us as this very friendly and helpful brand.

And so a lot of the background in additional context that Marvin shared today about we help you save is about making sure that every day that we're positioning, not only the way that we think about the organization, but also the way we express ourselves to consumers in that way so that we can continue to take credit for that.

Michael Lasser - *UBS Investment Bank - Analyst*

Thank you for that. My follow up question is during Brandon's discussion, you discussed how you reserve the right to be price competitive and make some investments in those areas. So a. can you give us a sense of what's driving the need to be price competitive? And b. as we look at your rule of thumb of 10 basis points of margin expansion for every one point of comp. Is there an influence of the pricing environment that would mean you wouldn't see exponential improvement if you're doing 5% comps over the next few years? Thank you.

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Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

Yeah, I think, we called out Michael $500 million that we're driving of, of productivity. We're going to -- there's some mix pressures that are in there, there's some investment in the Pro ecosystem that's in there. But you know, large majority, we recognize where the consumers are at right now, in particular DIY, they're looking at, seeking out and responding to value and we got to be in a position to offer that we're doing that through a variety of different options.

And we're going to continue to make those investments. We see the pricing environment still is very kind of disciplined, rational and stable. But again, we want to take an aggressive posture. We know we want continue to drive traffic and relevance into our stores. And you saw a lot of initiatives that are going to bring that to life. So I think that's how we think about, the value, the productivity and where it's going to get invested. And Bill, I don't know if there's anything else you want to add from a customer value proposition standpoint.

William Boltz - *Lowe's Companies Inc - Executive Vice President - Merchandising*

The only thing I would add is that, we laid out six plus years ago to be everyday competitive price and then, through these seasonal relevant time frames, put offers out there that the consumer expects us to have and then wants to respond and that's some of the stuff that Jen's team is doing. And then, we now have the ability to do it through our loyalty program as well. So, but you know, you're competing a lot against a lot of different retailers and you want to make sure in those categories that you're in that you are competitive and that was what, we want to make sure we stay relevant to.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

We have a question over here.

Gregory Scott Melich - *Evercore ISI Institutional Equities - Analyst*

I Greg Melich with Evercore ISI. My first question is on tariffs. So especially given the price competitiveness and the pressure on the consumer with inflation. Remind us what is your percentage of COGS now that are imported and what's direct. And then your philosophy, if that comes to fruition to protect gross margin rate or progress gross margin dollars, as you think about managing through that.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

So, Greg, I'll take the first part and, and I'll allow not only Brandon to answer the question relative to percent of our product that's imported, but I also want to be able to talk about the steps we've taken to diversify country of origin and how we work with our suppliers. I think number one, thanks for the question. I think it's a very relevant question, but we're also at an incredible disadvantage to answer it as precisely as we would like because it is a evolving topic and we don't have great clarity on where we're going to end up.

And so what we don't want to do is be presumptuous and start to lay out a philosophy without understanding exactly what the tariff environment will look like. What I will say is that we're in a much different position than we were in 2019 when we had literally no systems and no infrastructure to manage cost and price.

We would argue today that we have the best systems and infrastructure of any retailer in the world. And so whatever comes our way, we will be equally capable, if not better to manage it than any other retailer that exists. And so we're preparing for a range of scenarios and we are confident that whatever they are we'll manage well, and we'll serve our customers at a high degree of confidence and competence. So I'll let Bill talk about country of origin. I'll let Brandon get into the more specific question.

William Boltz - *Lowe's Companies Inc - Executive Vice President - Merchandising*

Yeah, thanks Marvin. It was really a part of the playbook that, we learned not only in 2019 but also coming through the pandemic and that we needed current country plus one. And so the team, working with our private brand suppliers has been on that journey for the last three plus years of helping them find and work with them to find alternative sourcing locations to be able to help offset those costs. And so now working with our national brand suppliers doing the same thing and then as it relates to preparation, it's all about getting that playbook ready and making sure that we're having the discussions now before anything gets announced.

So that we all understand how we're going to approach it in to the tools that Marvin mentioned. You know, we have those in place now and those processes and teams stood up to be able to tackle that and I'd put my team up against anybody. I think, we're ready to take it up.

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

Yeah, Greg and Bill and I, our teams have been working on kind of building, tweaking and improving these teams over the last five years. And I think if you look at the environment across '21, '22 with ultra high inflation, we had commodity, costs, et cetera, our ability to manage both gross margin dollars and rate sort of demonstrates the ability and the value that these teams are driving.

So to the point these guys are making, we're confident, no matter what the administration comes at us with that, we'll be able to manage it. The question that you asked, we relayed this on our Q3 call, 40% of our cost of goods sold are imported. That's inclusive of both what we import directly as well as our domestic suppliers and national brands that we source from our domestic suppliers. So that's all in number 40%.

Gregory Scott Melich - *Evercore ISI Institutional Equities - Analyst*

That's great. Thanks. And I guess my follow up love to get more into the retail media network. We have the loyalty program. We're getting the data. A lot of other retailers have talked about it. Sort of being a 2% of digital revenues is the sort of profit opportunity as a starting point.

If you could help us frame what that is. But then even a little more instead of even trying to expand that, what other ways can you really use this membership engagement? Is it really about getting more profit dollars out of retail media network? Or it sounds like it might be more about driving more sales and top line and value to the member.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

Jen, would you take that.

Jennifer Wilson - *Lowe's Companies Inc - Senior Vice President, Chief Marketing Officer*

Yeah, absolutely. I would think about it as a two pronged approach. When we think about the loyalty program, it's designed to drive frequency and stickiness with customers, the ability to bring more people and acquire more people into your network and then to be able to nurture those customers with a more productive way of marketing to them, right through digital, through owned channels like email and SMS, text message is what drives productivity. So we're sort of driving top line and bottom line in that scenario.

When you think about then this ecosystem conversation, we talked a little bit in my prepared remarks about our customer data platform which is generating these real time actionable insights. So as an example, if a customer is coming to us in the spring for lawn and garden and not coming back in the fall, that's a big audience that we should be retargeting and going after incremental revenue.

Not only does that allow us to drive our revenue, but then we can monetize that as well through the media network. And then as I would just end by saying, as Seemantini talked about marketplace, those sellers become revenue generators for us through our media network as well because they're going to be advertising. The fact that we are, we stood up our Lowe's media network pilot in 2021 and we already have 75% or over 70% of our top suppliers, advertising with us is significant.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

We have a question over here.

Robert Ohmes - *Bank of America - Analyst*

Oh, hi, Robbie Ohmes, Bank of America. I'm going to follow up to Greg's question. Can you talk a little bit more about the new marketplace first ever in Home improvement. How curated will it ultimately be? How fast could it ramp up? Are the partners going to be exclusive or semi exclusive to Lowe's or is it going to be a lot of people who are already on Amazon and Walmart?

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

No, it's a great question. I'll give you some context and I'll let Seemantini get into to really the meat of the question. One of the things that we evaluated in the marketplace, we looked at omni channel, e-commerce, existence and ecosystems. We actually question what's the common denominator of brick and mortar retailers that have transitioned to the omni channel environment that's created explosive growth. And one common denominator was a marketplace.

And so then we conversely asked a question, can we grow our online sales at the rate we desire without having to create capital intensive investments in fulfillment centers, et cetera. And how do we do that and do it in a profitable way where we are driving profit contribution and marketplace again was the answer. And then the third question was we're in an environment where we're dealing with pure play online competitors that really are aggressive on value.

And so how can we as a traditional brick and mortar retailer offer the customer a wide variety of choices, and I call it, we're really good in the core. But what about the premium customer and the value customer and the answer to that was marketplace? And so that led us to the strategy, then I'll let Seemantini to get into the specifics of your question.

Seemantini Godbole - *Lowe's Companies Inc - Executive Vice President, Chief Digital and Information Officer*

Absolutely. And like Marvin was saying, that's exactly what we are looking at that. What do our customers want? And like you all have been talking, we have a lot of insights into what do customers want. What are the search terms that we are not addressing? What are they looking for? What are they browsing for? And I think to Marvin's point, we have our customers who are looking for value price points, but also lots of customers who are looking for premium product.

To answer to your question, we are going to hand select these suppliers. So it's going to be a closed marketplace. So we are taking a measured approach as to who do we let on our marketplace. But on the other hand, in other places we are going really fast. Like once we onboard the seller, their entire catalog is available to our customers and we feel like the speed and scale at which we can grow, we can really give a phenomenal selection of product to our customers.

Robert Ohmes - *Bank of America - Analyst*

Thank you. That's very helpful. One quick follow up again. I follow up to Greg Mill's question. Excluding tariffs and you look to the 2026 plus outlook. What do you see as the drivers to inflation because that was mentioned in the presentation?

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

Yeah, I think we, when we look at inflation, I think if I kind of break down the productivity drivers and where the reinvestment is going to come from, I'll kind of take it in two parts. You have the gross margin side of the business where we are reinvesting in price, there's some mixed components there that we're offsetting and then continuing to look at how we drive Pro planned spend.

On the SG&A side, it's going to primarily be wage. We talked about the ongoing need for Meritt in 2025 there's the wrap of the $15 minimum wage. So we know we're going to be absorbing and cycling that. Also when you look at the longer term, we know we're going to have to make a reinvestment in ours. We've had multiple years now in a down sales environment where transactions have been stepping backwards. We're expecting a more normalized environment as we move forward where the comp a little bit more evenly split between traffic and transactions and know we have to make a healthy reinvestment back into the business to support those hours and support the customer service, you know that we need to drive the sales. So that's primarily where the pressure points are coming from when we look out beyond.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

A question over here.

David Bellinger - *Mizuho Americas LLC. - Analyst*

Hey, good morning everyone. David Bellinger with Mizuho. Thanks for all the details today. My first question is around trip consolidation as you move into more home related categories and the Total Home Strategy, things that include small price point essentials. So as you add more space to those in the stores, what's being deemphasized? And can you also talk about what the implications are for merchandise margins? Does that perhaps make holding gross margins flattish over the next few years, somewhat more difficult.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

Bill you can take the first part and Brandon will take the second part.

William Boltz - *Lowe's Companies Inc - Executive Vice President - Merchandising*

So you know, the whole strategy around Lowe's essentials is continuing to learn and for the merchants it's do are we missing a segment of their current assortment? And so that space up front that when you walk in the store, we call it cart start. But it's a flexible area in the store that we rotate seasonally. We rotate on a quarterly basis.

So it's a great opportunity for us to test and learn and I rattled off a few item examples that we'll be testing in early 2025 where we think based on our consumer research and in information we've received from Jen's team that these are categories and areas where the consumer is looking for us to provide them a value in those kind of product categories.

So we'll try a lot of different stuff up there. We've done some stuff with cleaning which has helped us, lead to the private brand introduction of Moxie and it's allowed us to do a lot of different things up front. It's, today, if you walked into the store, it's representative holiday and we'll quickly switch that to represent these. And it's all about providing that customer a great value and continuing to enhance that private brand penetration without detrimenting what we're trying to do on a national brand perspective.

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

And on the assortment, changes, obviously a lot of exciting stuff happening, in Bill'sspaces, we bring some of these new categories to life. I would just say the team's been super methodical over the last three years as we've rolled these out, as we've tested, as we've piloted, we've kind of managed test versus control. We're looking at sales, sales per square foot, gross margin return on investment.

We're looking at gross margin rate, inventory turns and we get comfortable within all of that as we test these, as we pilot these. So anything that you heard from Bill, whether it's the rollout of rural, whether it's, apparel, whether it's pet, very confident in the financial results, the operating margin, dollar and rate implications and that's where we're going to be before we sort of green light these longer term rollouts.

Joseph Mcfarland - *Lowe's Companies Inc - Executive Vice President - Stores*

One thing I'd add to that is if you think about the front end of the future that we've been working on the last two years, this creates incremental merchandising space for convenience for those kind of grab and go items. So that whole kind of front end reconfiguration and we all work together on these projects.

David Bellinger - *Mizuho Americas LLC. - Analyst*

Great. And then just my follow up switching over to PPI. Is there a way to frame up how much excess cost is in the system today? You've talked about a billion dollars a year of cost takeouts. And should we think about that as a good run rate over the next three to five years? And could you potentially throttle that up or down with how sales are panning out? Thank you.

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

I think for us, it's our best estimate. We believe we can drive a billion dollars of productivity. Hopefully, you've heard we've done a thorough job across looking at the entirety of the organization at every function at every area. You heard Bill talk about merch productivity, Margi talked about things we're doing within transportation, within the supply chain footprint. And obviously with Joe, a number of things going on within stores.

So I wouldn't necessarily think about it as excess costs, but more as the strategic initiative sort of shift and change where of the business we can continue to prune where we can harvest them and where we can reinvest. But we're confident in the billion dollars that we've laid out and then confident where we're reinvesting those dollars going forward.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

So one additional point, I think the key message is that we're going to continue to be aggressive with our PPI initiatives even in a positive sales growth environment. I think that's to me the broader message. As you all know, and I'll state the obvious. It is really difficult to continue to drive operating leverage in a negative sales environment. And I give this team an incredible amount of credit across every function you see represented on the stage that they've been intense and intentional around this expense focused culture that we've created.

That's not going to change when we get back into a positive growth environment. As a matter of fact, it's only going to intensify because we're going to then have a little bit of wind at our back, so to speak, and we're going to continue to be aggressive. And that's when we think that we'll start to see those operating margins get back to where we want them to be and we'll be very purposeful around continuing to stay very disciplined.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

I have a question over here.

Steven Emanuel Zaccone - *Citigroup Inc - Analyst*

Thank you, Steven Zaccone from Citi. Thanks for all the detail today. First question I had was just on the decision to grow stores. You know why now? And years ago, you were kind of in some urban markets. If you think about the geographic regions that maybe you want to increase your penetration or would you consider growing to some more of those suburban urban markets again?

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

No, it's a great question. And so I think it comes down to just a couple of basic points. First and foremost, during the pandemic we saw population shifts and we saw certain markets that really just started to change in the dynamics of population and demographics and so we keep a really keen eye on what we call real estate voice, do we have the right number of stores based on the population density of a location? So that's one reason.

The second reason is we've opened a handful of stores over the last six years and those stores are doing really well and now they're doing well because we had the ability a to put a very rigorous process of capital approval in place every single capital project before it's approved has to get a final sign off from Brandon and myself because we're looking for a specific hurdle rate. It's no accident that our ROIC is almost triple in the six years that most of us have been in these positions.

So we're very committed to that. So we have a really disciplined process that we're confident in. And I think that the third piece is that some of the initiatives Bill talked about, from a space productivity, all of those initiatives are going into our new store design. And so we're going to take the best ideas we have and we're going to open the store with the best ideas and we're really excited about seeing that come to life.

And here's just one final point when I remember vividly arriving here and we had a couple of new stores and we looked at the performers myself, Bill and Joe and when I looked at Pro penetration, most of these stores were opening with a planned Pro penetration less than 20%. And some of these were in urban markets. And so in home improvement, you cannot operate a profitable store with a Pro penetration that low.

And so we have had to work really hard through Quonta's leadership, Margi and the supply chain and everyone on the stage to get our Pro penetration up to the level it is today, so we can open the store and confidently say that this is a 30% Pro penetrating store because that creates a whole different value proposition that we simply could not, we couldn't commit to as recent as three years ago, but now we can.

And so all of those factors give us confidence that we can hit this target. But the commitment is these stores will go through a rigorous approval process before they get green lit and we're excited about serving more customers with new stores.

Steven Emanuel Zaccone - *Citigroup Inc - Analyst*

Great. It's a good segue to the second question I had on Pro penetration. So we're at 30% now. Do you see the opportunity for that to go higher over time? Is there a ceiling potentially? And specifically for 2025, can you talk about some of the timing of some of those new Pro initiatives with like the extended aisle and the supply chain? Like how does that roll out into stores?

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

We're excited about it. I'll let Quonta, you talk about the key initiatives specifically Pro extended aisle and some of the commitments we've made to inventory depth and also how we're leveraging Lowe's Pro Supply at the Pro desk. So Quonta you can take.

Quonta Vance - *Lowe's Companies Inc - Executive Vice President Pro & Home Services*

So as you heard in my prepared remarks, we absolutely think that we can drive our Pro penetration higher than what it currently is at 30%. And the reason why we have that you know, that line of sight is based on what we're seeing with our extended Pro. Like I said, we are extremely excited with the results. We're not going to put a timeline on how many vendors we have loaded and give any type of numbers like that. But as I said, we are looking to load more vendors in the coming months.

So and then when you think about our investment as our partner with Margi and our FFC's, we also see that as an ability to grow up Pro penetration because that is going to really allow us to go after more of that planned Pro spend more than just convenience that we focus on with our small and medium Pro. And then lastly, we are heavily investing in our Lowe's Pro Supply.

You heard me say we currently have 30 existing and we're expanding our diversity of what segments that we're going after. So you heard me talk about the multifamily housing, government and hospitality. So as we see this resurgence of multifamily, we truly believe that's going to be a big caveat in us growing our Pro penetration.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

So Margi, can you also talk about this flat bed fulfillment transformation to fulfillment centers. How that's going and while we're excited about that as a fulfillment, you'll know for our Pro customers.

Margi Vagell - *Lowe's Companies Inc - Executive Vice President of Supply Chain*

Sure. So we'll be complete with all of the transformations by the end of this fiscal year. And in fact, we've got one opening this week and another one opening next week. We strategically located these in the places where as we look at the overall market and the market opportunity, we thought that there was opportunity for us to be able to make these conversions.

The conversions have been great because when you convert these buildings, you make sure that you not only have the right product in the building to be able to support the stores, but you have the right product to be able to support the customer. The delivery aspect of that from a market delivery perspective, we've really been able to kind of hone our skills in market delivery with appliances and now take those into these buildings in order to be able to deliver direct to job site. Because it's a very different delivery experience.

You've got to know who you're serving and that you're working direct with that Pro and that job site. And so we're excited for these conversions. Again, we'll be done here at the end of the fiscal year.

Joseph Mcfarland - *Lowe's Companies Inc - Executive Vice President - Stores*

Let me give you a quick example of what that actually kind of looks like. And so previously, if a Pro needed a big order, two trucks of drywall, two trucks of lumber, that product had to get delivered first to the store and then offloaded, put on the ground, reloaded back on to a different truck and then to the job site. So you had opportunity for damages. You had delays in orders, maybe you had incomplete orders. And so now going direct to job site removes all of that friction that we've had at the store. And so not only in Pro, not only in supply chain, in the store delivery is benefiting across the board.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

We have a question over here.

Michael Baker - *D.A. Davidson & Co. - Analyst*

Hi, thanks. It's Mike Baker from DA Davidson. I wanted to ask Marvin when you got here in 2018, the story was all right. I came from the other guys. I know what they did well, I know what we do poorly. I know how to fix it, a lot of low hanging fruit. In 2024, now it sounds like you're gotten there and now it's about being best in class. How much harder is that? A and then B are there still areas where like you just know you underperform what the other guys do and it's almost sort of low hanging fruit.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

You made the last five years sound a lot easier. I describe what we've done here with supply chain transformation, IT infrastructure, pricing systems, labor management system, digital platform as the equivalent of entitlement reform.

It has been really hard. It has been time consuming, it's been very expensive, but these were foundational parts of the business that if we did not do those things first, it prohibited us from doing any of the things we've talked about now which we believe will give us differentiation and allow us to really have growth when the market starts to just stabilize and cooperate from a macro perspective. So, but to answer your question, we really focus on a. this is a trillion dollar marketplace. And so the one thing we didn't want to do is come in initially say, okay, how can we differentiate from the other guys.

With a trillion dollar marketplace, the question was how do we fix a broken business? So customers won't just pass by our stores or never log on to Lowe's.com because it's such a poor experience. And so we spend time solving those infrastructure things first and now that we feel very confident that we've addressed the majority of and all the really hard infrastructure things first.

We now have the ability to scale and grow at a faster rate than we ever could have three or four years ago. The only challenge we face is a really, really difficult macro environment that we're hoping and believing that the pent up demand and some of these factors that Brandon and I talked about in detail today will start to at some point shift in our favor from a macro standpoint.

And when that happens, we feel like we're really prepared. And because of that, we have a long list of initiatives. You heard some today, some we didn't talk about that we now have the ability to execute, implement that will drive incredible value. And for us is not about execution as much as about the macro environment. You have given us a level of cooperation.

Michael Baker - *D.A. Davidson & Co. - Analyst*

But by the way worth mentioning that your stock outperformed there is six years in a row while you went through that transition. One follow up, I guess for, but really unrelated is any more details you can provide on the rural initiative. You said often those stores outperform anything on balance in terms of the margins. We get that sales are lower but costs are lower. How are the margins on balance in those roughly 500 stores?

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

No, it's a great question. I'll hand it over to Brandon. But I just a little context. I grew up in rural America myself and Bill and Quonta. So we grew up, kind of in the definition of rural South for myself and Quonta and Bill in Montana. And so we all had a passion for this rural project because we believe that there was something there for us. What really unlocked it for us was the data that we received from Jen where the customer was basically telling us " I gotta make multiple stops. I got to go to this other place to pick up stuff that you don't sell. Then I go to your place for home improvement, it sure would be great if you sold this other stuff too" because it would save me one trip because there's not a lot of convenience based on where they live.

And so we decided, okay, let's take a shot at this. And so we started to really go very slow and methodical, but we ended up really locking into something and as Bill noted in his prepared comments, I mean Juliette Pryor, our Chief Legal Counsel went in our Brooklyn store earlier in the year and they were telling me that one of the best selling items was Carhartt, and we just kind of put it in there just to see what would happen.

And all of a sudden we came to the realization that you can't be more urban than our Brooklyn store. And so that opened up our thoughts to maybe this is much broader than just rural, maybe this is something that a broader segment of customers will choose if we assort it correctly. And so Brandon, you can talk about it and Bill anything else you have on rural too.

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

Yeah, Mike, I would just add structural advantages in these locations when you think about payroll cost, shrink and cost of real estate. So already sort of built in when we look at profit margins in those locations and then just based on the momentum that we have when you take some of the space productivity and the opportunities and where we can accelerate now from a sales per square foot and sales productivity standpoint, it just allows us to drop more of those additional sales dollars to the bottom line based on the structural advantages that we have in those markets.

William Boltz - *Lowe's Companies Inc - Executive Vice President - Merchandising*

And I'll just, I'll go back to, you know what I shared earlier in the fact that, the journey we've been on to get our stores kind of positioned in the right way is then allowed us to localize those stores. And the work that our field merchants do, the work from our MST team gives us that, on the ground feedback in regards to what opportunities we have. And so as we've evolved on this localization effort, the rural initiative was one that we had tested and piloted in 15 stores. And what we quickly learned where there are categories that the customer was giving us a lot of credit and was really excited about us putting them in their store and they came back to us and told us this now feels like my store.

And so with that, we've been, taken pet, workwear, automotive, and some of those categories and said they have broad enough appeal that they can apply to more than just a rural store and then stay really, in that farm and ranch range with livestock feed and stuff related to that you know, that smaller farmer rancher that we're focused on in those stores.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

Question over here.

Scot Ciccarelli - *Truist Securities, Inc. - Analyst*

Good morning, Scott Ciccarelli with Truist. You talked this morning about building a marketplace as well as quite a bit about the media network. But can you help quantify that the profit impact you're expecting? And what kind of you're building into your margin expansion now go over the next couple of years, like just an idea of how impactful these businesses could be and then related to that. Could we potentially see all other alternative revenue streams outside the core retailing business?

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

Yes, Scott, I would just say you again when we look at the algorithm that we've laid out for '25 and beyond, all of these initiatives are layered in terms of the expectations around pacing. I said earlier as it relates to driving the top line, Pro, the online initiatives and the loyalty initiatives are going to create, the majority of that contribution to comp. But I would just say largely as we design each of these efforts and each of these initiatives we're designing them both to be operating margin accreted both from a dollar and a rate standpoint.

Now, some of these have different time frames depending on the ramp, depending on the timing. Some of them, 2025 some of them beyond, I'm not going to get down into the specifics but, confident that the scenarios that we've laid out include that and we've taken a very thoughtful approach initiative by initiative to lay that out.

Scot Ciccarelli - *Truist Securities, Inc. - Analyst*

And what would the scaling be? Should we assume both of them continue to ramp over the next like become more significant as we ramp further down the time line?

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

I think that's fair. Yeah, I think '25 we have a lot of things that are in motion, scaling and maturing. And then by the time again, a lot of it's going to be macro dependent. But I think when we look out at three to five year plus, that's when we expect these to be more full at maturity. And when we're looking at annual run rates, you would expect to be the sales, to see the sales fully loaded.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

Next question over here. Over here.

Brian William Nagel - *Oppenheimer & Co. Inc. - Analyst*

Hi, good afternoon, Brian Nagel from Oppenheimer. So thanks for all the detail today. You know, clearly one, I guess I wanted to focus on the sector of the macro backdrop if I could, if initially, I mean, clearly one of the big messages is that you very much expect to turn, but we don't know the timing of that turn. So the question I want to ask is, as you're watching the business and all your indicators, are there new green shoots of the term coming or conversely. So you've seen some indications that maybe the backdrop is actually getting more challenging here the near term as we head into 2025.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

Brian, I'll take, I'll take that. I don't, I wouldn't say that it's more challenging. I think it's consistent with what we outlined on our Q3 earnings call. We believe that we're going to see continued strength in Pro and we think that there's still going to be a cautious DIY consumer specifically on big ticket discretionary. We haven't seen any material changes in that. Obviously, we're in the holiday season. So you have different buying patterns and different buying motivations, but that's consistent with what we had forecasted and what we had guided to.

For us, we'll have much a much better indication in spring because obviously for this business sector, spring is our true holiday season. And so we'll have a really good understanding of the health of the consumer during that time frame, what we're doing and I'll just restate what I've said a couple of different times. We don't know when the inflection will happen. We have a good idea of the categories that will drive it and we are making investments and we are prepared for that macro inflection to occur and we believe that we will be better positioned than any other home improvement retailer to take advantage of it when it happens. And that's what we're kind of spending our time and our energy on.

Brian William Nagel - *Oppenheimer & Co. Inc. - Analyst*

Then the follow up just on the Pro business. So we talked a lot about how the Pro continue for you Pro is outperforming DIY. This has been a big emphasis of yours, Marvin, since you joined Lowe's. So clearly, there's a big piece of this, the improvement that Lowe's has made in the Pro side. But the question I have is, I mean, if you look at that business now, is it mostly internal initiatives driving that outsized growth versus DIY or do you think there's actually is from a macro or sector perspective, a stronger demand within Pro.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

I think it's a combination of both, the small to medium Pro is resilient and they're agile because they have to be. So if there is a certain segment of their business that's not working well, they just flex over to repair and maintenance. And so I think it can't be overstated. The importance of the age of housing stock is the oldest on record, which means things break. And so a lot of these electricians, a lot of these plumbers, general contractors that would love to be working on new home construction and other projects they just pivoted and they're just focusing on the smaller repair and maintenance projects and that falls right in our sweet spot.

And we also believe that that in this small to medium Pro, we've been very purposeful to focus on this customer because of two things. Number one, we believe we can service them well from a convenience spend and convenience of our locations. And two, we felt like they were being overlooked in the marketplace. So a loyalty program, our 5% off credit. Some of the things that we're doing relative to brands that Bill and Quonta talked about, and just the improved service we think gives us the ability to not only attract those customers but retain them. And so I think it's less about the Pro being more vibrant and more about that segment of Pro being more agile, more flexible to make sure that they can find work, when they need to keep their businesses going.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

Great. We have time for one last question.

Peter Keith - *Piper Sandler Companies. - Analyst*

All right. Thank you. It's Peter Keith with Piper Sandler. Great presentation, a lot of detail today. The theme of 35 trillion of home equity came up throughout the day today. And I'm wondering because it's such a big dollar amount with both Pro and DIY spend. If you feel like you've been a little inefficient in your positioning to capture those dollars in the past and then how the model is changing as we think about those dollars coming to market and how you can take advantage of that trend in the coming years.

Marvin Ellison - *Lowe's Companies Inc - Chairman of the Board, President, Chief Executive Officer*

Well, look, I I'll take it because anytime you say inefficient, I feel like I need to respond to that. I don't believe we've been inefficient. I believe that we've been incredibly transparent as a management team from my first very first earnings call that we had a lot of issues that have been neglected for many, many years that as we call them foundational infrastructure, I think we coined the phrase retail fundamentals and so whenever you have an inability to service a customer at a baseline level, then you're going to miss out on opportunities.

I mean, there was a huge dialogue when I arrived here around conversion and there was a major conversion issue. Well, it wasn't a conversion issue. It was an out of stock issue. It's hard to buy when there's nothing on the shelf. And so we had to go back and we have to fix the basic fundamentals of the business and it took us a while and now that we believe that we've been able to do that, then we have the ability now to again do some more creative, differentiating innovative things that you heard some of that today that we're really excited about.

And we believe as I said that we're in a great position now to tap into that $35 trillion in equity that's in the marketplace whenever those customers are ready to tap in our objective all along was how do we position ourselves to be the best home improvement retailer during that time and we think that we're embarking upon that.

Brandon Sink - *Lowe's Companies Inc - Chief Financial Officer, Executive Vice President*

And I would just add, if you think about the last few years where we've seen pressure in the business and where you look at reversion. I mean, it's been in these bigger DIY big ticket categories, right? So as we look at the $35 trillion a third of that being tappable, we talked about the repair replace cycle happening in '25 and then we get into '26 and beyond and you start to get into that larger complex remodel. We've seen those categories revert. So we believe that there's pent up demand, we believe that $35 trillion is tappable. And a lot of our initiatives that we've outlined today are putting us in a position to take advantage when those categories turn and when those DIY customers get back in the game.

Joseph Mcfarland - *Lowe's Companies Inc - Executive Vice President - Stores*

Yeah, just add if you think about some of those businesses, I talked about the home services business and when we arrived at home services business was managed in a notebook and binder and a dry erase board. And so where we've come, the improvements we've made there, the investments we've made in kitchens, in flooring, in mill work, in the central selling. And so I think we've got a lot of great investments for when that market does come back and just a few specifics there.

Kate Pearlman - *Lowe's Companies Inc - Vice President, Investor Relations & Treasurer*

Great that concludes our Q&A session. As I mentioned earlier, please feel free to contact the investor relations team. We'll be happy to answer any of your questions. And with that, we'd really like to thank you for attending the conference today. There is lunch available for you right outside the door. Thank you again for your time.
