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LOW.N - Q4 2024 Lowe's Companies Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, everyone. Welcome to Lowe's Companies fourth-quarter 2024 earnings conference call. My name is Rob, and I'll be your operator for today's call. As a reminder, this conference is being recorded.

I will now turn the call over to Kate Pearlman, Vice President of Investor Relations and Treasurer.

Kate Pearlman - *Lowe's Companies Inc - Vice President of Investor Relations and Treasurer*

Thank you and good morning. Here with me today are Marvin Ellison, Chairman and Chief Executive Officer; Bill Boltz, our Executive Vice President, Merchandising; Joe McFarland, our Executive Vice President, Stores; and Brandon Sink, our Executive Vice President and Chief Financial Officer.

I would like to remind you that our notice regarding forward-looking statements is included in our press release this morning, which can be found on Lowe's Investor Relations website. During this call, we will be making comments that are forward-looking, including our expectations for fiscal 2025. Actual results may differ materially from those expressed or implied as a result of various risks, uncertainties, and important factors, including those discussed in the risk factors, MD&A and other sections of our annual report on Form 10-K and our other SEC filings. Additionally, we'll be discussing certain non-GAAP financial measures. A reconciliation of these items to US GAAP can be found on the quarterly earnings section of our Investor Relations website.

Now I'll turn the call over to Marvin.

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

Thank you, Kate, and good morning, everyone, and thank you for joining us today. In the fourth quarter, we delivered sales of $18.6 billion and positive comparable sales of 0.2%. Looking at the full fiscal year 2024, we delivered sales of $83.7 billion, adjusted operating margin of 12.3%, and adjusted earnings per share of $11.99. We're very pleased with our performance in 2024 in a very difficult home improvement macro environment, and we're also pleased to deliver positive comparable sales this quarter with results that exceeded our expectations and were driven by continued momentum in Pro and online, strong seasonal DIY performance, and rebuilding efforts in the wake of recent hurricanes.

Despite these better-than-expected fourth-quarter results we're still seeing a cautious consumer leading to continued near-term pressure on DIY discretionary spending, particularly in bigger ticket projects. And with this challenging backdrop, we remain focused on delivering strong operating performance while continuing to make the right long-term investments for growth.

Turning to our Pro results in the fourth quarter, where we delivered high single-digit comps for the second consecutive quarter, we're gaining momentum with our Pro customer through a flywheel effect that we've created with a transformed Pro offering with the right brands and products, greater inventory depth, improved jobsite delivery, dedicated service levels, and a best-in-class digital experience.

Last week, we took the next steps in tailoring our offering for the small to medium Pro with the nationwide launch of our redesigned Pro loyalty program, MyLowe's Pro rewards. Later in the call, Joe will share more detail about how we updated the program to drive greater engagement with our Pros.

Shifting to online, we drove strong sales growth of 9.5% in Q4, reflected in broad-based improvement across all merchandising divisions, which included a record-breaking sales during the Black Friday and Cyber Monday holiday. Through our new free DIY loyalty program, MyLowe's Rewards, we're generating excitement and driving more traffic to lowes.com. These results give us confidence that our online and omnichannel investments are paying off. These investments include a more intuitive user experience in the app and online, more same-day delivery options combined with enhanced AI user experiences.

And our digital enhancements are earning outside recognition as Forrester just rated the Lowe's mobile app as the overall digital experience leader in US retail mobile apps, highlighting not just the table stake functionalities and omnichannel features, but also innovative, AI-enabled solutions like style your space that helps customers reimagine rooms that they want to refresh through the touch of a button.

Next Monday, in collaboration with OpenAI, we will launch the first AI-powered home improvement virtual advisor on lowes.com, leveraging the same technology that our associates are using on their store companion app to give our customers helpful advice as they tackle their home improvement projects. This new virtual advisor will provide Lowe's customers with both project know-how and product recommendations with direct links to specific Lowe's products for a seamless checkout. This is another example of how we're leaning into emerging technology to enhance the customer experience, saving them both time and money.

Now allow me to transition into our view of the macro. Even though short-term interest rates have started to come down, this remains a challenging home improvement market. Mortgage rates are higher than they've been in more than two decades, creating a significant gap between today's rates for homebuyers and the lower rates many homeowners currently enjoy. This has led to a lock-in effect and the lowest pace of existing home sales in the US in nearly 30 years.

Although it's difficult to predict the timing of when we'll see lower rates and increased home improvement demand, we remain confident in the medium to long-term outlook of our business. As I've stated before, the key drivers of our business are still supportive: Home price appreciation, disposable personal income growing faster than inflation, and the oldest existing housing stock in US history. These drivers will sustain long-term demand as homeowners invest in repairs and upgrades, and we anticipate that some homeowners will began to tap into record levels of equity in their homes to fund larger renovation projects.

Beyond these factors, structural trends, such as millennial household formation, baby boomers aging in place, and the persistence of remote work, reinforce our confidence in the medium to long-term strength of the home improvement industry. In the meantime, we've refined our Total Home Strategy and are making investments that are closely aligned the long-term drivers of home improvement demand.

We unveiled our updated strategy at the December Analyst and Investor Conference. It includes driving Pro penetration, accelerating our online sales, expanding our home services, creating a loyalty ecosystem, and increasing our space productivity.

In addition to the investments we're making in our Total Home Strategy, we're also continuing to take costs out of our operating model through our Perpetual Productivity Initiatives, or PPI. Together, our Total Home Strategy, coupled with our disciplined focus on productivity, ensure that we are well positioned to capitalize on the Home Improvement recovery and take share when the market inflects.

When we look ahead to 2025, we're confident that the three market scenarios that we outlined at our December conference captured a range of potential outcomes we could see in the home improvement industry this year, and we're very confident in our strategic agility and our ability to execute in any economic environment. So we are prepared to outperform the market in each macro scenario that we outlined in December.

Before I close, I'd like to take a minute to thank our teams who stepped up to support our customers across Southern California who were impacted by the devastating wildfires. Although this is not an area where we have significant store presence, we felt it was important to help these communities recover.

As a reflection of this commitment, Lowe's donated $2 million for relief efforts in the impacted areas. And please join me in continuing to keep those impacted by the wildfires in our thoughts and our prayers.

I continue to visit stores across the country every week, which gives me a great opportunity to personally thank our frontline associates for their dedication and to learn how we can remove friction for them and improve the customer experience. To demonstrate our appreciation for our hardworking front-line associates, we awarded year-end discretionary bonuses of $80 million, including our store managers and assistant managers across the company. This bonus reflects our appreciation for their leadership and commitment to customer service.

And with that, I'll turn things over to Bill.

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

Thanks, Marvin, and good morning, everyone. As Marvin mentioned, we are pleased with our sales performance in the fourth quarter. We are encouraged by the broad-based strength we delivered in Pro with positive Pro comps across all merchandising divisions for the fourth quarter and the full year, as well as the continued momentum in our online sales. In addition, it's clear that our seasonal offers for the DIY customer hit the mark in categories like appliances, tools, storage, and holiday gifts as Lowe's was the go-to destination for many holiday shoppers.

Starting with home decor, we delivered strong positive comps across all of our major appliance categories. We're pleased that we took share in a challenging market, especially when homeowners continue to exercise caution around spending on big ticket discretionary items. Our results were driven by our investments in providing a seamless omnichannel customer experience, including the widest selection of the leading brands that offer innovation and value, whether consumers choose to shop online or in-store, or a combination of the two.

We have built a best-in-class market delivery model to deliver big and bulky products like appliances, patio furniture, and grills, allowing us to double the number of next-day deliveries over the past few years. And as a reminder, instead of going through our stores, these products now flow from our supply chain directly to a customer's home or jobsite. In fact, we are the only retailer that can now deliver and install a major appliance the next day in almost every ZIP code. This is critical for customers who need to replace a broken appliance immediately as this type of purchase accounts for more than 70% of the industry's appliance sales.

Our enhanced customer experience, along with the expanded capacity for rapid delivery, helps further strengthen our leadership position in appliances. We also continued to innovate and enhance our private brand lineup as consumers continue to look for more value across categories.

For example, we're expanding our selection of large format STAINMASTER luxury vinyl flooring nationwide, giving customers the on-trend look they want and the performance that they need. We're excited to have the STAINMASTER brand within our portfolio to now bring the most trusted brand in carpet to new flooring categories like luxury vinyl and tile.

We recently launched our Lowe's Essentials brand, which promises low prices on a range of home basics for value-conscious customers. We're starting with a handful of products priced at $10 and below, and special launch items under $5, including clothes hangers, gardening tools, and water cans, positioned in the cart start area at the front of the store. And because our private brands typically have higher margins than their national brand counterparts, these products will help increase our private brand sales and support our margin goals.

Turning now to building products, where we delivered positive comps in building materials in lumber, driven by the continued strength in Pro as well as storm recovery and rebuilding across the Southeast. We were pleased with the continued growth in outdoor categories like roofing, siding, and decking, driven by our investment in Pro inventory and our improved in-stocks.

In hardlines, we saw a strong trim-a-tree sell-through and an improved margin performance in the fourth quarter. These results were supported by great execution from our Merchandising Services Team, or MST. Our seasonal offering, including live holiday nursery, tools, and pre-lit trees, resonated with consumers during the holidays. We also saw customers get excited about our 10-foot-tall animatronic Yeti named Bumble, which we sold through almost as fast as we could get them in stock.

In addition, we delivered solid growth in apparel where our expanded workwear lineup, including the extension of our Carhartt assortment to more than 1,000 stores, was popular amongst our holiday shoppers. And once again, customers couldn't get enough of the more unique items, like our mini Lowe's buckets and mini KOBALT toolboxes, which drove engaging viral moments on social media.

Looking ahead, we're excited for spring, our biggest season of the year. We are ready with a strong in-stock position and the best product and brand lineup in home improvement. Like in outdoor power equipment, where we are the only home center, with both Toro, the leading gas-powered brand, and EGO, the leading battery-powered brand, truly an unmatched offering in retail. And in our garden centers, we're inspiring our customers to take on new projects this spring with vignettes that showcase all the products they need for vertical gardens, mailbox displays, tree rings, and more. As they shop, customers can rely on interactive signage to help them select the right plans for their space and local growing zone, ensuring they get everything they need to complete their outdoor projects.

We've also expanded our assortment of Sta-Green products, our own lawn and garden brand. The updated packaging and product make the extra performance and value easy for our customers to find. This year, we're in even stronger position to meet the customers' backyard needs and we're seeing some early momentum in patio and grills in areas where the weather has already started to turn. Our patio assortments are localized for the market, and we have a great lineup of grills across Weber, Charbroil, Blackstone, and Pit Boss, including new Lowe's exclusive products like the Weber Stealth family of grills. Overall, we're pleased that where the weather has cooperated, spring is already off to a good start.

Finally, we're excited to build on the great progress that we've made with our DIY loyalty program since we launched it last year. We have built a base of 30 million members who are now outspending nonmembers by nearly 50%. It's clear that these customers see the value in this free program, which now gives them even more incentive to choose Lowe's.

This spring, we'll lean into loyalty by offering exclusive member deals and doorbusters, featuring some of our best-selling products, and we'll support these offers with tech-enabled marketing designed to drive traffic and sales during this important season. We took the learnings from the successful launch of MyLowe's Rewards, and we've applied them as we redesigned our Pro loyalty program, which Joe will discuss in detail in just a few minutes.

In closing, I'd like to thank our vendor partners, our merchants, and our inventory and supply chain teams for all their effort and hard work to continue to serve our customers, provide innovation and value, and drive results.

With that, Joe, I'll now turn the call over to you.

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

Thanks, Bill, and good morning, everyone. As Marvin mentioned, we're continuing to support communities impacted by the wildfires in California as they begin the rebuilding process. Our team has delivered truckloads of water and provided supplies like N95 masks, air purifiers, and ash sifters to firefighters, evacuation centers, and local communities in need. I'd like to recognize our store and supply chain associates in these areas who helped customers and routed supplies while tending to their own families, homes, and communities. We're grateful for their dedication and commitment to assist with the recovery over the long haul.

Turning to our Q4 performance, I'm pleased that we continue to deliver strong customer satisfaction scores, including improved satisfaction with our BOPIS, or buy online, pick up in-store process, which we enhanced through our front-end transformation. Now it's easier than ever for customers to get in and out quickly while they're picking up their online orders.

We've earned these strong customer satisfaction scores while we set Black Friday and Cyber Monday sales records, which you heard about from Marvin. And since roughly half of our online orders are picked up in the store, the strong customer endorsement is particularly meaningful. It tells us that the investments we've been making in our front-end transformation are paying off.

At our analyst and investor conference in December, we discussed a number of ways we're driving productivity through our Perpetual Productivity Improvement, or PPI initiatives. Let me give you some more insight into our efforts in this area as we continue to improve the freight flow process. Driven by new technology as well as redesigned labels and carts, we dramatically streamlined the process, removed friction for our associates, and improved our speed to shelf.

The trucks that bring products to our stores are now organized in a way that makes unloading easier. The labels include the aisle and bay location and there are specific directions for how to load carts efficiently. This reduces the number of touches by associates so products can go straight from the truck to a cart to the specific bay without any unnecessary reloading. And to make the process even more efficient, these improvements give associates more detailed visibility to what's coming before it arrives. We are very pleased with the overall enhancements we continue to make in the operational performance of our stores.

Transitioning now to our Pro performance, we continue to see broad-based growth across our geographies, driven by our Pro-focused investments, resulting in high single-digit comps again this quarter. In our recent survey, Pro’s indicated they are confident in their near-term prospects with stable backlogs.

Now let me give you an update on our revamped Pro loyalty program, MyLowe's Pro Rewards, which we launched nationwide just last week. With our new program, we've tailored our offerings specifically for our target customer, small to medium Pros, who can start earning rewards immediately and can achieve higher rewards with lower levels of spending compared to the program offered by our largest competitor.

This program is easier than ever to use, offering an intuitive customer experience and prioritizing features and functions Pros use most. As members, Pros have access to exclusive perks in store and in the Lowe's app and online, including member-only deals, volume discounts, and a suite of business solutions. All of this is designed to help Pros save time and money.

Now both our DIY and Pro loyalty programs run on the same tech platform and use the same currency, MyLowe's Money. This not only simplifies the customer experience, it's already making it easier for associates to explain and support the program. This should drive greater engagement with our Pro customers and incentivize repeat purchases and more trips to Lowe's.

With both loyalty programs now in one tech platform, our marketing team was able to better leverage the unique data the programs generate to tailor offers for our Pro and DIY customers. This is an exciting time for Lowe's as we continue to evolve our loyalty ecosystem and enhance the technology that powers it. We're making our program stronger every day and more valuable to our customers. And we're now the only home improvement retailer to offer distinct programs for both DIY and Pro customers.

These programs are an important way we're bringing our value commitment to life for our customers by helping them save time and money. And as we look ahead to spring, we're ready to serve customers with improved staffing levels and strong cross-functional coordination across the organization.

From store operations to merchandising to marketing, we're working together to provide our customers with an unparalleled shopping experience, right on time to capture demand during our biggest selling season of the year.

Before I close, I'd like to thank our hard-working frontline teams for their contribution to our results this year. Their expertise and commitment to excellent service are what differentiates Lowe's. In particular, I want to recognize our store managers and assistant managers who hold some of the most critical frontline leadership roles in the company. In appreciation for their efforts, we're awarding them with a discretionary year-end bonus, $10,000 for our store managers and $5,000 for our assistant managers. We're grateful for their incredible support and guidance they provide to their teams.

And now let me turn the call over to Brandon.

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

Thank you, Joe, and good morning, everyone. Starting with our fourth-quarter results, we generated GAAP diluted earnings per share of $1.99. In the quarter, we recognized a pretax gain of $80 million on contingent consideration associated with the 2022 sale of our Canadian retail business. Excluding this benefit, we delivered adjusted diluted earnings per share of $1.93.

My comments from this point forward will include certain non-GAAP comparisons that exclude this benefit, where applicable. Fourth-quarter sales were $18.6 billion, with comparable sales up 0.2%. Strong growth in Pro and online, as well as storm-related demand from hurricanes, Helene and Milton, drove better-than-expected results. We estimate the hurricane-related demand positively impacted Q4 comp sales by roughly 100 basis points as homeowners began the shift from securing their properties and cleanup towards recovery and rebuilding.

Comparable average ticket was up 1.5%, driven by strong positive comps in appliances, continued momentum in Pro, and storm recovery project spend. Comparable transactions declined 1.3%, with DIY discretionary pressure persisting especially in larger ticket interior projects.

Our monthly comp sales were down 2.5% in November, up 4.8% in December and down 2.2% in January. The calendar shift of Black Friday weekend and Cyber Monday from November in 2023 into December in 2024 shifted some demand between periods. Additionally, January was negatively impacted by unfavorable winter weather in the final two weeks of the month, especially in southern markets.

Gross margin was 32.9% of sales in the fourth quarter, up 46 basis points from last year, driven by the benefits of our ongoing Perpetual Productivity Improvement, or PPI initiatives, partly offset by supply chain investment costs. Adjusted SG&A of 21% of sales delevered 8 basis points versus prior year, driven by increased compensation and health care expenses, largely offset by benefits of multiple PPI initiatives. Adjusted operating margin rate of 9.4% of sales improved 36 basis points versus prior year. And the adjusted effective tax rate was 23.5%, slightly below prior year. Inventory finished the year up $515 million versus prior year, as we accelerated targeted spring seasonal builds ahead of this critical period.

Turning now to capital allocation. In 2024, we generated $7.7 billion in free cash flow and returned $6.5 billion to shareholders through share repurchases and dividends. In the fourth quarter, we paid $650 million in dividends at $1.15 per share, and repurchased 5.5 million shares for $1.4 billion, returning $2.1 billion to our shareholders.

Capital expenditures totaled $548 million in the quarter as we continue to invest in tech-driven productivity projects and key growth initiatives. Adjusted debt to EBITDAR ended the year at 3.01 times, and we delivered a return on invested capital of 32% for the year.

Now I would like to take a few minutes to discuss our 2025 outlook. In December, we laid out three scenarios detailing a range of potential outcomes based on the performance of the home improvement market. Core demand drivers remain supportive, real incomes are forecast to grow again in 2025, home prices are near record highs, and we have the oldest housing stock in US history. But there is still a good deal of near-term market uncertainty around the timing of an inflection in the home improvement market, especially for larger ticket discretionary spend. We also expect mortgage rates to remain elevated, continuing to put pressure on existing home sales and some of the larger projects that are linked to those occasions.

Based on these factors, we are forecasting the home improvement market to be roughly flat this year, with Pro outpacing DIY, driven by the repair and maintenance occasion. However, the investments we have made to drive growth are resonating, which is reflected in our strong Pro and online results this quarter. And we are confident that the new initiatives we laid out as part of our updated Total Home Strategy will enable us to grow faster than the market and take share.

Taking all of this into account, for 2025, we are expecting sales ranging from $83.5 billion to $84.5 billion, with comparable sales in a range of flat to up 1%. We expect operating margin in a range of 12.3% to 12.4%, with PPI initiatives across store operations, merchandising, and supply chain, driving approximately $1 billion in productivity this year.

This productivity will offset pressure from merit increases and general operating cost inflation, elevated health care expenses, investments in our Total Home strategic priorities, and higher depreciation expense, which is forecasted to increase approximately $100 million over prior year as we lean into our tech-driven strategic investments.

Additionally, we expect net interest expense of approximately $1.3 billion as we plan to repay $2.5 billion in debt maturities this year, but will also have less interest income due to lower short-term investment rates. These assumptions result in expected full-year diluted earnings per share of approximately $12.15 to $12.40. We also expect capital expenditures of approximately $2.5 billion as we invest in our Total Home strategic priorities and begin to ramp up new store builds. In 2025, we plan to open 5 to 10 new stores.

To assist with your modeling, here are a few items to keep in mind for the cadence of the year. We expect comp sales in the first half to be roughly flat, with some spring demand moving from the first quarter into the second quarter, where we are cycling particularly poor weather.

Taking this into account, we expect first-quarter comp sales approximately 200 basis points below the bottom end of our full-year guide. We also expect first-quarter operating margin rate to be approximately 50 basis points below the bottom end of our full-year guide, driven by deleverage on the lower sales volume, the wrap of incremental wage actions for our frontline associates, and the prioritization of investments in our Total Home strategic initiatives, including category accelerators to capture the spring selling season.

In closing, we remain focused on executing at a high level through the near-term market pressures by driving productivity, diligently managing costs, and investing in our Total Home Strategy, all while continuing to drive sustainable long-term shareholder value.

And with that, we will open it up for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Christopher Horvers, JPMorgan.

Christopher Horvers - *J.P. Morgan - Analyst*

I wanted to talk a little bit about the strength that you saw in the fourth quarter and how you're putting that into context. Maybe did you see election deferral? Was there any weather benefit that maybe helped November and December? Obviously, you had the hurricane and the storm. Do you think there was tariff pull forward? Putting that in the context of that comp, in the context of how you guided the year, you're really not expecting much improvement even though we're another year out from the COVID pull-forward dynamics.

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

Chris, this is Marvin. I'll take the first part, and I'll let Brandon give some specifics. Look, my main point is, overall, we're really pleased with how we performed in the quarter. This, as we said in the prepared comments, remains a very difficult home improvement macro backdrop, and we're pleased across the board with the execution of the merchants store, supply chain, and in our stores. As a result of that, we delivered a positive comp, and we still have confidence in 2025 in spite of the fact that we don't expect the market to have any growth.

I'll let Brandon give you more specifics relative to Q4 and how we feel that relates to 2025.

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

Thanks, Marvin. Chris, I'd just echo, really pleased with execution in Q4. Beats top and bottom-line positive comps and EPS growth here for the first time in a couple of years. High single-digit growth in Pro and online gave us the ability to share in that success with our associates, paying $80 million in discretionary bonuses back. You mentioned the weather was a drag, in particular for January, impacted the month just north of about 150 basis points. That is pressing into here, the month of February, which is -- we've seen particularly poor weather here over the course of the first three weeks.

That is factoring in to how we're thinking about Q1 and the full year just from a company-specific standpoint. But from an overall macro standpoint, we expect the conditions to remain challenging in '25. As we talked about in the prepared remarks and all that's been taken into consideration as we looked at a flat home improvement market. And then where we fall relative to that, we expect to drive about 100 basis points from our Total Home initiatives, and that's how we get to our guide as we start thinking about '25.

Christopher Horvers - *J.P. Morgan - Analyst*

Got it. And then as a follow-up, you talked about the investment pressures here in the first quarter, along with obviously the deleverage. But on the other side of it, can you talk about the shape of gross margin over there? You are still expecting, I think, the vendor clawbacks to cycle into the first half of the year, and I think they should be decent in terms of tailwinds. So do you expect gross margin up and then roughly flattish over the year?

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

Yes. Chris, you cited the Q1 50 basis points that we highlighted on the operating margin, majority of that is from the sales deleverage. We have about $400 million that we expect to shift from Q1 to Q2. So that's going to put a little bit of pressure on Q1. There's also a few other unique items with the wage investment that we made in the second half of the year that we're cycling in some upfront investments, in particular, in the category accelerators that we're rolling out. We're expecting the PPI to continue to ramp as we move through the year.

Your question on gross margin, we are expecting that to be overall flat for the year. As we look at that, again, the PPI initiatives are offsetting pressure that we're seeing as we invest in the Pro business and then our supply chain. I will also say, we're very focused on continuing to invest in value for our customers. We're investing in sales and traffic-driving actions, especially as we look at first half seasonal promotions, marketing, and price action to ensure that we maintain leadership. And we really like the model. We've created a model that allows us to make investments in the associates, improve our value proposition with our customers and still hit our rule of thumb as we start to see sales increase over the course of the year.

Operator

Simeon Gutman, Morgan Stanley.

Simeon Gutman - *Morgan Stanley - Analyst*

Just to clarify, the sales guidance for the year, is this roughly the same framework from two months ago? Or did it move slightly because of either backdrop or even the lower -- some of the volatility that you saw? Because it sounds roughly the same. And if you are going to take market share, I think it would still lean closer to the one. So I'm just trying to put that out to understand if anything changed at all in the last couple of months.

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

Sure, Simeon. This is Brandon. Roughly the same, I would say, from an overall macro. As I mentioned, the weather pressure in January we're factoring that in as we've seen a slower start here to February. I also mentioned we're lapping the expected hurricane benefit that actually outpaced our expectation in terms of what we saw in 2024. We saw about 100 basis points of benefit each in both Q3 and Q4, and that's going to create a slight drag for us as we look at '25.

But the conditions still remain challenging, elevated rates, cautious consumer, particularly around the big-ticket discretionary. Those are all things that we cited back in December. And again, relative market, still roughly flat. So overall, the framework, we're trying to take into account some near-term company-specific items. But I would say overall, it's still the same framework.

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

Simeon, this is Marvin. Just two additional points. So specific to February, where the weather has cooperated, spring is off to a good start in February. But overall, February is pressured because of the weather, specifically in parts of the south. And that's, again, not a surprise to anyone.

Relative to the scenarios we laid out in December, in all three of those scenarios, as a reminder, it included outperformance. And so even though we look at the home improvement market -- or our relevant home improvement market in 2025 being roughly flat, we plan to outperform that. And so if the market is better than what we anticipate, we anticipate our performance is going to be better than the market. So irrespective of what the market gives us, we believe we have the initiatives, the agility, and the strategic plan to outperform it.

Simeon Gutman - *Morgan Stanley - Analyst*

Fair enough. My follow-up, it's about the relationship with PPI and then how the business performs. So let's just say the market ends up being a little lighter, you have a specific plan on what you're going to spend and invest in for this year. Does that change at all? And then if it doesn't change, do you have toggles in PPI to help offset it to basically land the margin in a certain place? So can you just give us a sense of the flex that you have in both of those areas and how you approach them?

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

Simeon, I would say definitely some flex in that. But right now, we've built the plan we highlighted in December. We have $1 billion of productivity that we're expecting to deliver here in '25. That's split roughly evenly across the portfolio, about $500 million in margin consisting of the merchant supply chain efforts, another $500 million on the expense side, mainly through the stores teams. We expect that to continue to sort of ramp as we move through the year.

And as we've referenced, we're confident in the flywheel that we've created with PPI and believe we have the right opportunity here for '25 as well as the multi-year opportunities. So look, as things soften, as they get better, certainly can ramp up, ramp down in terms of near-term factors as well as some of the larger initiatives, but really confident with the plan that we have and the operating margin that's been included in our outlook.

Operator

Peter Benedict, Baird.

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

First just the outlook for the hurricane rebuild. I understand you start to cycle in the back half of the year. Any reason you would expect kind of a similar dollar lift, I guess, over the first half of the year versus what you've seen? Is there anything unique or different about the rebuild or the cadence of the rebuild you're seeing versus maybe what your expectations were? That's my first question.

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

Yes. So Peter, I think definitely have some benefit that we've baked in here in the first half. But as you know, especially in some of these hurricane markets, the timing of the insurance proceeds, when that's going to get awarded, how that's going to be respent. So we've tried to take a little bit more of a conservative approach.

And as we think about the benefit that we do have baked in, as I mentioned, slightly lower than what we saw in the back half of the year, and that's how we cadenced it in. But we're ready to support these markets. We've loaded it in inventory from a Pro standpoint, ready to support across the Carolinas and Florida. But just in terms of financially what we've baked in, that's the assumption.

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

Okay. That seems prudent. That leads me to my next question around the Pro. Really good to see the performance there. Can you maybe talk about the broadening of the engagement or the demand that you're seeing within the Pro segment? Give us a sense for -- or remind us how you define kind of small versus medium versus larger Pro. And then any categories in particular that are kind of resonating as you continue to put these good growth rates with your Pro business.

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

Yes. So Peter, I'll take the first part of that, and I'll let Bill talk about the category performance. We define the Pro based on the Pro shopping pattern and their annual spend. And again, we do quarterly surveys, so we're really engaged with these customers. We understand the business that they're in, we understand what their annual spend, and we basically understand what their overall financial position is. And so we define it in that regard.

Now the thing that we've been able to do is to really see the benefits of our Total Home investments really taking hold on things, like responding to product load-in, improved service levels, or more flexible and agile delivery. And we saw double-digit Pro growth online. And again, we just think we have a best-in-class online offering.

And as you think about the overall engagement of the Pro, we think it has a lot to do with some of the brands that Bill and the merchant teams have brought to bear, in addition to the fact that we have made a commitment to have inventory where it needs to be and to have the delivery flexibility that we've really never had before.

And we're excited about the relaunch of our loyalty program, MyLowe's Pro Rewards, based on the fact that the data that we received from those customers is that they wanted something that was more simplistic, but also something that they could earn and achieve higher rewards at lower spend levels, because, again, they are more of a smaller to medium-sized small business. Overall, we feel great. We think that momentum is going to continue.

And I'll let Bill be specific about some of the categories that we've seen take off as a result of these efforts.

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

Yes. Thanks, Marvin. And Peter, as I said in my prepared remarks, really pleased with the Pro business, both for the quarter and for the year, as we saw positive growth across every merchandising category for the quarter and for the year. And so largely led by what you would think is those Pro-centric areas, but building materials, lumber, millwork, some of those key categories. But also strength across appliances, paint, and some other businesses across store tools, hardware. So it's really encouraging for us to see the strength both in the quarter and for the year across those merchandising categories in Pro.

Operator

Kate McShane, Goldman Sachs.

Kate McShane - *Goldman Sachs - Analyst*

We wondered if you could talk to us about how you're thinking about transaction versus ticket throughout '25. How much inflation do you think can be in the space during the year? And specific to Q1, when you're going through why the margin would be slightly below the range for the year, you mentioned category accelerators as one of the drags. Is that just something that's happening more in Q1 than the other quarters? And can you remind us what that looks like?

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

Sure, Kate. This is Brandon. I'll hit the ticket transaction assumption for '25. We are expecting slight ticket growth, and that's mainly driven by the continued strength that we're expecting to see in Pro. The offset is that we also expect DIY traffic pressures to persist as we look at the balance of '25. Commodity inflation, not really a part of that formula. We expect that to be muted just as we've seen for the majority of '24, and that's as it relates to lumber and copper.

As it relates to the Q1 pressure, I mentioned the main item just being the shift in sales due to the season that we're cycling last year. So you have the sales deleverage, the wage investment. And I would say from a Total Home Strategy standpoint and the initiatives, a little bit of unique pressure in Q1, just given the timing of the rollout, in particular, the category accelerators, where we're going out and resetting and touching our stores as we look at the rural initiative rollout and some of the other things that we're doing there. So I would say that's the uniqueness there as it relates to Q1, in particular, with that initiative.

Operator

Greg Melich, Evercore ISI.

Greg Melich - *Evercore ISI - Analyst*

I wanted to just follow up a little bit there on inflation. What was it in the quarter? Was there anything that's part of that ticket growth? And are tariffs contemplated in your guide?

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

Greg, I would say like-for-like inflation, pretty muted when we look at Q4. And then your question on tariffs, it's not explicitly included or incorporated in our guide in terms of what's recently been enacted. But I would say, there, the situation very fluid. Our teams are already activating against the tariffs that have been enacted.

We're running the play. We're keeping a close watch on other potential policy changes or announcements that may be coming and prepared to respond. We're confident in our merchant and finance teams, across my team and Bill's team, have the right tools and processes in place, and we continue to run that and respond in an effective manner.

Greg Melich - *Evercore ISI - Analyst*

Got it. And on the leverage, you've talked about at the Analyst Day a sort of 10 bps of leverage on the upside and potentially 15 on the downside. Is that still a good framework to think about given the demand levels here?

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

Yes. I think it's spot on, Greg. We still have that framework in place, 10 on the upside, 15 on the down. It doesn't necessarily apply on a quarterly level. The framework works better when you're thinking about sort of the full year. But yes, very much still operating against that expectation.

Operator

Michael Lasser, UBS.

Michael Lasser - *UBS - Analyst*

Where do some of the large ticket remodeling categories for Lowe's stand today versus where they were in 2019, specifically areas like kitchen remodels and bath remodels, because it does seem like Lowe's is being disproportionately adversely impacted by the softness. So presumably, it would be a benefit as those categories improve?

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

Well, Michael, this is Marvin. I think one thing we said consistently is that DIY discretionary big-ticket is under pressure, and everything you listed is DIY discretionary big ticket. And so the obvious answer is those categories are under pressure since 2019. And with 70% of our revenue coming from the DIY customer, when those big-ticket discretionary categories feel pressure, it disproportionately impacts our business and our revenue.

And so I'll let Brandon give you any more context.

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

Yes, Michael, we've been pretty consistent around sort of the over-reversion in these categories, as we look at flooring, decor, K&B relative to five years ago just in terms of what we've seen. So I certainly believe there's pent-up demand when the market inflects, and when it turns, and we're ready for that.

But another data point I'll call out just when we look specifically at larger tickets and the sequential improvement here in 2024, the term I would use is it looks like it's getting less worse. On our bigger ticket, we were high single-digit negatives over the course of Q1, Q2. We're coming out of Q4 here roughly flat on tickets over $500. So a good sign that we're seeing in those categories. Not projecting an inflection or a recovery certainly as we look at 2025, but we hope we're kind of bumping along the trough in the bottom here.

Michael Lasser - *UBS - Analyst*

My follow-up is there was a description around some incremental activity to drive the DIY business between promotions, advertising, and other initiatives. So A, can you quantify that? And B, how are you thinking about the cost to drive the DIY business today versus where it has been in the past? Meaning, is it just becoming more expensive to maintain market share given all the changes that have taken place?

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

Michael, I don't know exactly the context of the question, but what I will tell you is that we are not planning, nor have we seen any inflection point change in promotional cadence for DIY, nor are we anticipating doing anything to create any change in our cadence. The one thing that we will do is to leverage our DIY loyalty program, which we will be cycling over the launch in March, and we're very excited about that program. That is specific to the DIY. And as Joe mentioned, I mean, we're the only home improvement retailer with a distinct Pro and DIY loyalty program.

Other than that, we're going to continue to be competitive in the marketplace, but we have no expectation that we're going to be investing more aggressively in the DIY marketing space. We're going to continue to run a very specific play. And one of the key benefits of a loyalty program is that it gives you more database, modernize one-to-one marketing capabilities than what we've had in the past.

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

Michael, I would just add just in terms of the cost or the investment, whether it's in the promotional space, pricing actions, all that factored in as we look at 2025 in that flat gross margin expectation that our reference, marketing within SG&A flow-through all of that factored in, in terms of what it's going to take for us to continue to resonate, continue to take leadership in the right categories, and, at the same time, deliver on our financial guide.

Operator

Zach Fadem, Wells Fargo.

Zachary Fadem - *Wells Fargo - Analyst*

Do you think it's fair to say there was some post-election exuberance on behalf of the consumer as a whole in Q4 that's maybe died down a little bit in 2025? As it sounds like you attribute this January, February air pocket to be more about weather. So just trying to think through the factors that give you confidence that trends can snap back as we move through Q1 and into Q2 and through the year.

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

So Zack, this is Marvin. I appreciate the question. I will tell you that we have no real tangible data to support any election exuberance during the holiday season. But what we can point to specifically is the impact of weather on our business.

As we look at -- for the points of January and February, as Brandon mentioned, as we look at the geographic spread of our business, it is crystal clear that where the sun is shining and we have seasonal normal weather, spring is resonating really well. And where we have unseasonably cool, wet, and any frozen precipitation, the business is not performing well. So we see this more today as a weather story than any election impact or any other broader macro shock that could be happening. Again, we have no data to support that.

Zachary Fadem - *Wells Fargo - Analyst*

Got it. Appreciate that. And then on the policy environment, lots of moving parts here. You talked about the incremental potential for tariffs. Curious how you think through other policy dynamics like immigration and how that could impact your business?

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

It's another really, really fair and timely question. What I will tell you is that, like most large US companies, we are paying very close attention to it. We are highly engaged with all of our customer segments. We have one of the best government relations teams of any public company in the US, and we are going to just be as agile as we can.

The one thing that we do know is if there are any policies that impact our business, we will not be alone. And so our objective is to just focus on controlling what we control and being very keenly aware of the marketplace. Again, your question is a timely and very fair question. But what I can tell you is we are prepared for everything and we're prepared for anything. And we believe that our team has the agility and the high level of execution ability to manage through any political environment or any policy changes that could be coming our way.

Operator

Brian Nagel, Oppenheimer.

Brian Nagel - *Oppenheimer & Co. - Analyst*

So this may be a bit repetitive, so I apologize. But I think a lot of us are looking at your results today, congratulations on a nice quarter, together with the results of your competitor report yesterday and just really trying to make sense of that, the sales pickup we saw late in 2024. So I guess -- and this is the repetitive part, so I apologize. But Marvin, as you're looking at the business -- and again, recognizing there's a lot of moving pieces out there with weather, the election, like someone else has mentioned, but is there anything you can see that may give us some indication that we have hit some type of positive inflection in the business despite these ongoing macro challenges?

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

Brian, thanks for the question. What I would tell you, for us, it comes down -- and Brandon mentioned it, it comes down to discretionary big ticket for DIY. I mean that, to us, is one of the key indicators that the homeowner is going to be returning to what we consider to be a normal cadence of home improvement spend. And so we're going to be tracking that really, really close, and we're going to be paying attention to it.

Another key for us is our home services business, i.e., home installations. That's another indicator for us that consumers are either tapping into the equity. And as you know, we have record amounts of equity. I think we, on average, roughly $400,000 per home. And so we believe that, at some point, customers are going to get normalized in this high mortgage rate environment and they're going to start to tap into that equity, making the decision that they're going to stay in their existing home but modernize that home.

So the moment we start to see that home services business start to tick up positive on a more continuous basis, that's going to be another positive sign for us. So those are two key data points that we look at that will really give us a sign that the inflection is hopefully around the corner.

Brian Nagel - *Oppenheimer & Co. - Analyst*

That's very helpful. And then my second question, somewhat related, but on the Pro business. So another great quarter, where you're clearly performing well and outpacing the market. A lot of internal initiatives are, sort of to say, taken hold at Lowe's. So I guess the question I have is, how should we think about the sustainability here? You're looking at these initiatives and the Pro business start to take hold, materialize. From your standpoint, I mean, given nothing else changing maybe in the macro environment, how much longer can Lowe's continue to put up these substantial market share gains in Pro?

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

So again, another fair question. I'll just give you kind of a broad perspective, and I'll let Joe talk about some of the key initiatives that we're executing that gives us confidence. So the way we look at the total addressable market for Pro is that it's roughly a $500 billion market, and 50% of that is the small to medium Pro where we are focused as our key Pro customer segment. And that is an extremely fragmented marketplace.

And as Joe cited in his prepared comments, when we surveyed our customers, they still feel confident in their backlog and they still feel confident in their ability to have really good sales, although they're paying really close attention, like we all are, to changing dynamics in the political process that we're in and policies and macro, et cetera. But overall, the degree of confidence remains high. So we have a $250 billion fragmented marketplace where the customer feels confident in their ability to drive business. And so that gives us an indication that there's still lots of opportunity for us to grow.

And I'll let Joe give you some examples on some of the initiatives that gives us additional confidence.

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

Thanks, Marvin. And Brian, as we look at the Pro business, thinking about the relaunch of our MVP Pro Rewards, resonating with that Pro. But we talked about some of our asset-light investments we're making, things like our Pro fulfillment centers, our flatbed fulfillment centers, what we're doing in outside sales, how we're leveraging Lowe's Pro Supply. And so we have a lot of continued initiatives. Just scratching the surface on what we're doing with Pro, and we have great confidence that it will continue into the future.

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

And the last point I'll make on this, Brian, just to close it out, is we have a hypothesis that when the DIY customer comes back, and this customer will come back, we're perfectly positioned for that with our new Total Home Strategy. So we see that DIY customer coming back. And then at the same time, we're going to be able to execute on our small to medium Pro initiative. We're going to continue to drive our omnichannel strategy. And when we do all of these things in concert, we think that it bodes really well for us in our future.

Okay. Rob, we have time for one more question.

Operator

Steven Zaccone, Citi.

Steven Zaccone - *Citi - Analyst*

I wanted to ask on the appliances side of the business. So it seems like we're seeing some stabilization from yourself and from your larger competitor. What are you seeing there? Do you think we're just kind of seeing natural replacement cycles, maybe some duress, some innovation? Just be curious to hear.

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

Yes, Steven, thanks. This is Bill. So really pleased with our appliances business. We saw really strong results in the quarter across all of the key categories. So we saw unit growth as well as, you cited, innovation obviously driving it. It is largely driven by duress customers. I think our model sets up well to be able to take care of that customer. As I cited in my prepared remarks, the delivery model that we have set up is best-in-class. And being able to install and deliver an appliance in almost every ZIP code across the country is remarkable for us.

And our online business for appliances is equally as strong. And so the consumer is finding ways to engage with us, and the level of service that we're providing in our stores to take care of the customer are kind of all the pieces of the puzzle, I guess, for us that we're excited about. And the merchants have done a nice job of bringing innovation. We've got a lot of innovation coming as we go into '25 across every category, new launches, new products, and that just keeps us at the forefront.

Steven Zaccone - *Citi - Analyst*

Yes. And then my other category question for just -- as we think about '25, would you expect any material change in kind of category performance across the business? I ask you, too, in the sense of first quarter seems to have a little bit of noise of weather. But when you think about spring overall here in the first half of the year, are you expecting your typical spring categories to see growth relative to what you saw last year?

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

Yes. We're actually -- where we've seen some weather early in the quarter, we've actually were really encouraged about how our spring business is starting. And the collaboration work that we've had with our store teams, our inventory team, the merchants, supply chain of getting product ready, the resets are underway, we'll wrap those up in a couple of weeks in our northern markets.

But we have a lot of ammunition in the gun for spring that we're excited about. A lot of new product, in addition to being just ready across both the do-it-yourself customer and the Pro customer. And just to give you a few examples, we've got new innovation really across every merchandising category, whether that's easy-to-install windows from Pella, the new drywall tools that we talked about from WAL-BOARD, which is the number one tool for a drywall professional.

We are the go-to destination for composite decking, when you think about Trex, TimberTech, and Deckorators. We've got Whirlpool being launched in water softeners and rough plumbing. Then you go to the spring categories, you've got exclusive product from Webber that will only be found at Lowe's. We've got 14 new products at EGO that continues to heighten that innovation in the outdoor power category.

New camp, new collections in patio. We've got new products from Valspar for metal application and garage floor paint. I mean, I can go on and on and on in regards to what we have going. So if mother nature gives us a little bit of a nudge, we're ready to rock and roll.

Kate Pearlman - *Lowe's Companies Inc - Vice President of Investor Relations and Treasurer*

Thank you all for joining us today. We look forward to speaking with you on our first-quarter earnings call in May.

Operator

This concludes the Lowe's fourth-quarter 2024 earnings call. You may now disconnect.
