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# EDITED TRANSCRIPT

LOW.N - Q4 2025 Lowe's Companies Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

**Christopher Horvers** *JPMorgan Chase & Co - Analyst*

**Kate McShane** *Goldman Sachs Group Inc - Analyst*

**Michael Lasser** *UBS AG - Analyst*

**Jonathan Matuszewski** *Jefferies LLC - Analyst*

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

## PRESENTATION

### Operator

Good morning, everyone, and welcome to Lowe's Companies fourth quarter 2025 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'll now turn the call over to Kate Pearlman, Vice President of Investor Relations and Treasurer.

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**Kate Pearlman** - *Lowe's Companies Inc - Vice President, Investor Relations & 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 2026. 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 in the quarterly earnings section of our Investor Relations website. Before turning the call over to Marvin, I'd like to ask that you please hold December 9 for our 2026 Analyst and Investor Conference, which will take place in New York City.

Now I'll turn the call over to Marvin.

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

Thank you, Kate. Good morning, everyone, and thank you for joining us today. In the fourth quarter, sales were \$20.6 billion and comparable sales increased 1.3%. For fiscal year 2025, we delivered sales of \$86.3 billion, positive comparable sales of 0.2% and adjusted operating margin of 12.1%. This led to adjusted earnings per share of \$12.28, a 2% increase over last year.

Despite a challenging industry backdrop, our relentless focus on expense management allowed us to hold adjusted operating margins flat to the prior year when excluding the impact of our recent acquisitions.

While our outperformance in the fourth quarter demonstrates our team's disciplined execution, our outlook for 2026 remains cautious given the persistent volatility in housing macro. This uncertainty continues to pressure big-ticket discretionary DIY projects as many consumers are reluctant to make significant investments in their homes.

Within this challenging macro environment, it is imperative we remain focused on our perpetual productivity improvement or PPI initiatives. This commitment to PPI is at the center of the announcement we made recently to eliminate approximately 600 corporate and support roles.

Although these are difficult decisions to make, this workforce reduction will help us create greater financial agility within our dynamic industry while continuing to invest in customer-facing areas of the company. We will continue to manage what is within our control, which is reflected in the strength we delivered across Pro, online and home services as our Total Home Strategic initiatives are resonating with our small to medium Pro and DIY customers alike.

Starting with our Pro results, we delivered another quarter of growth as we continue to gain traction with our transformed offering. Our Pro customers are responding to our compelling brand and product assortment, investments in inventory, job site delivery, enhanced service levels and a tailored digital experience. And we're further enhancing our Pro brand offering by extending our assortment of the number one power tool brand, DEWALT, the tool of choice for Pros for over 100 years. We are excited that we now carry the largest selection of the DEWALT power tools and accessories in our stores and online.

Moving to online. We delivered a 10.5% growth this quarter and set new sales records this holiday season on both Black Friday and Cyber Monday. Both DIY and Pro customers continue to shift they're shopping online as our enhanced user experience and fulfillment options offer the ease and convenience they are seeking.

In fact, on Black Friday, our Lowe's app was so popular that it was the number one free app in the shopping category on Apple's App Store in the US. This level of engagement reflects the investments we've made to create a seamless omnichannel shopping experience. And as customers continue to integrate AI into their shopping habits, we are collaborating with leading digital platforms so that we are well positioned to participate in Agentic commerce.

Now turning to home services, where we delivered high single-digit growth. This is another example of a customer experience that we have overhauled at Lowe's by removing the friction for what was a time-consuming process through digital tools and enhanced service to create an intuitive installation solution for our Do-it-For-Me customers.

Let me now shift to our view of the broader macro environment. Consumer confidence remains subdued given inflationary pressures and overall economic uncertainty. And despite modest relief in short-term interest rates and market expectation for additional Fed cuts, mortgage rates remain elevated.

As a result, a persistent lock-in effect remains in place keeping housing turnover and new home starts under pressure, leading us to expect improvement in both the housing and home improvement markets to be gradual.

That said, the structural demand drivers of the home improvement industry remain strong with home equity setting new record levels and homes continuing to age averaging 44-years old. And with the chronic supply demand imbalance in housing analysts continue to expect that approximately 16 million new homes will be needed in the United States over the next decade.

Despite near-term industry headwinds, we're pleased that our investments in our Total Home strategy and operational excellence are paying dividends. Our compelling product assortments, flexible fulfillment options, innovative installation solutions and best-in-class digital experiences are appealing to both the value-conscious homeowner and the busy Pro. And we're confident that these investments position the company to outperform the market regardless of macro conditions.

And with the recent acquisitions of Foundation Building Materials or FBM, and Artisan Design Group, or ADG, we are well positioned to participate in the expected recovery in housing. As we start the year with these two companies, our integration efforts are on track and we're focused on capturing cost synergies by leveraging our combined scale.

We're also developing solutions to support cross-selling opportunities that will enhance our offering to our respective Pro customers by capitalizing on complementary product offerings. And while FBM and ADG are navigating a challenging residential construction market, we expect them to build on their leadership positions this year, leveraging a reputation for exceptional customer service while maintaining operational discipline.

In addition, we're pleased with FBM's commercial business, which represents roughly half of its revenue, as they continue to win new data center contracts, which reflects the benefits of a diverse customer base.

Before I close, I want to take a moment to recognize our frontline associates who continue to show up every day with a strong sense of ownership and commitment to serving our customers and communities. As a demonstration of our appreciation for their efforts, we awarded a discretionary bonus of \$125 million to our dedicated frontline associates for their outstanding performance in the fourth quarter. This includes our assistant store managers, department supervisors and hourly associates in our stores and distribution centers. It's an honor for me to continue to support these hard-working men and women.

Our dedicated frontline associates are the primary reason Lowe's was recently recognized as Fortune's number one Most Admired Specialty Retailer. This honor truly belongs to them. and I'd like to congratulate our team for delivering another year of outstanding customer service.

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

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

Thanks, Marvin, and good morning. We are pleased with our sales performance this quarter as we delivered positive comps in 9 of our 14 merchandising divisions. Our teams remain focused on offering value and innovation to consumers who continue to be mindful about their home improvement spending.

This holiday season, we helped our customers celebrate with exciting offers and deals on appliances, tools, trim-a-tree and more, making Lowe's a popular destination for holiday shoppers both in-store and online.

Starting with building products. We delivered broad-based growth driven by solid performance in both Pro and Home Services. Rough plumbing was a standout with continued strength in water heaters, water treatment and HVAC along with strength in other Pro-focused areas within our plumbing assortments. This includes a new merchandising display for SharkBite PEX pipe and fittings. It showcases straight pipe stacked upright, which Pros prefer over coiled product as it makes it easier for them to use on the job site.

We delivered positive comps in millwork with strong performance, especially in windows and doors supported by leading brands such as Pella, ThermaTru and Larson, which are exclusive to Lowe's in the home center channel. Our convenient installation solutions combined with our affordable credit offers are helping customers manage these larger replacement projects.

Turning to home decor, where we delivered positive comps across kitchens and bath, paint and in appliances, where we continue to build on our market leadership position. With the widest assortment of leading brands, competitive pricing and rapid delivery, consumers are turning to Lowe's more often for their appliance needs, whether urgent or planned.

As a reminder, Lowe's remains the only retailer that can deliver and install major appliances next day in virtually every ZIP code in the US. In Kitchen & Bath, our recent reset in bathroom vanities continues to drive results as customers appreciate the improved shopping experience and the easier access to big and bulky products.

Within our Bath program, we're pleased that we've been selected by Toto to be the first big box retailer to offer their innovative toilets as we leverage our larger showrooms to feature their premium product, which will be exclusive to Lowe's in the home center channel.

This quarter, we were also encouraged by our results in paint where we delivered positive comps with broad-based growth across interior and exterior paint, primers, stain and attachments as customers took advantage of milder weather earlier in the quarter to work on outdoor projects.

And we're off to a great start with the new Sherwin Williams ProBlock Quick Dry Primers, which we introduced in Q3. Pros are responding to the superior quality and performance versus the competition, helping to drive double-digit Pro comps in primers in Q4.

Looking now at hardlines. We delivered growth in hardware, seasonal and outdoor living and lawn and garden, driven by strong holiday and gift-giving assortments along with storm-related demand. It was exciting to see customers line up at our stores early on Black Friday, inspired by our Creator Network to take advantage of our MyLowe's Rewards Blue Bucket giveaway, including a chance to win a golden ticket for a free appliance priced at \$2,000 or less.

Our holiday trim-a-tree assortment was also a hit driven by our strength in animatronics and customers also responded to great deals in the Tools Gift Center with values from Klein, DEWALT, Bosch and Kobalt. We also had compelling member-only deals online as well, where we delivered yet another record for the Black Friday / Cyber Monday weekend. Along with several viral moments that centered around our bucket giveaway and "trending" products like mini buckets, Teeny Totes and mini toolboxes.

And in January, we help customers prepare for winter storms Fern and Gianna with generators, snowblowers, ice melt, flashlights and gas cans, which contributed to positive comps in seasonal and outdoor living and lawn and garden.

In the quarter, we also completed the rollout of Pet and Workwear to more than 1,000 stores as we continue to expand our offering of convenience items that help our busy customers make the most of their shopping trips. Given the solid results from these new assortments, we'll be expanding them to the remainder of our stores in 2026.

Shifting gears. Our teams are delivering against our ongoing perpetual productivity improvement or PPI initiatives which I outlined at our last analyst and investor conference. These include disciplined product cost management, improving inventory productivity, maintaining a disciplined approach to pricing and promotions and expanding Lowe's media network.

This year, our supply chain, merchandising and finance teams drove inventory productivity and completed our multiyear SKU rationalization initiative while also effectively navigating an unprecedented volume of tariffs and ensuring strong in-stocks to drive sales. We are growing our Lowe's media network, as we help our suppliers better connect with our shared customers leveraging insights gained through our loyalty programs.

As we look ahead into 2026, we'll empower our merchants with new AI tools that make their workday more efficient, freeing up time for them to focus on driving sales and optimizing our product assortments. We will also introduce new tools to our merchandising services team or MST associates that will direct them to service the right bays at the right time based on the sales trends of their store.

Looking ahead to spring, we're ready to capitalize on the demand driven by our biggest season of the year with great values, the best products and brands and strong in-stocks to help our customers tackle all their spring projects.

We have an unmatched outdoor power equipment lineup in the home center channel, the only one to offer Toro, the leading gas-powered brand; and EGO, the leading battery-powered brand. And we have a wide array of grills to choose from across Weber, Char-broil, Blackstone, Pit Boss, along with our own private brand, Master Forge.

Our new patio line up is stronger than ever designed to help our customers enjoy their outdoor living spaces in style. We will also continue to earn customer loyalty through our DIY loyalty program, MyLowe's Rewards. We recently introduced a new perk for members, MyLowe's Rewards Kids Club, featuring in-store workshops, family engagement events and giveaways for young DIY-ers, helping us connect with the next generation of homeowners.

As part of these efforts, we are also excited to expand our relationship with the number one influencer in the world, Mr. Beast. Later this spring, you'll see us activate this partnership across family experiences, merchandise and more.

As I close, I want to thank our merchants, MST associates and vendor partners for their hard work and partnership this year. Their focus on delivering the best for our customers really sets the bar and we value the important role that all of them play in helping to drive our success.

And with that, I'll now turn the call over to Joe.

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

Thank you, Bill, and good morning, everyone. I'd like to begin by thanking our frontline associates and store leaders for their outstanding work supporting our customers impacted by winter storms, Fern and Gianna, reflecting the critical role our stores play during hard-hitting weather events.

Their commitment matters and it is just one example of the ongoing focus on customer service that our associates deliver day in and day out. Once again this quarter, we drove improved customer satisfaction for both DIY and Pro customers, including during another busy Black Friday and Cyber Monday weekend. Customers appreciate our flexible fulfillment options during the busy holiday season as they relied especially on the same-day gig delivery to meet last-minute shopping needs.

Turning to our fourth quarter performance. I'm pleased that we delivered another quarter of growth in Pro. We are building on our momentum by expanding our Pro salesforce, which allows us to reach new customers while also bringing share of wallet with existing Pros including in their planned spend.

And with the recent rollout of our new AI-enabled Pro Companion, we're giving our Pro sales teams even more opportunities for success. This new capability helps sales associates quickly prepare for conversations with Pros by enabling rapid access to relevant information so they can walk in with recommendations already in hand, leading to more effective customer interactions.

And we're helping the sales associates at the Pro desk serve complex orders through the Pro Extended Aisle, which is a direct interface to our suppliers' catalogs. We've just introduced a new feature that allows us to stage job site delivery, so Pros can get what they need immediately and then deliver the rest of the order at a later date based on their schedule. This new capability not only improves the customer experience, it replaces what was a time-consuming process for our associates with a single click.

And I'm also excited to share that Lowe's is now the exclusive national home improvement partner to the National Association of Homebuilders, or NAHB. This allows us to connect with their 140,000+ Pros and offer member-only savings. Looking ahead, in our recent survey, our core Pro customer indicate they continue to work on smaller ticket repair projects and that their backlogs remain stable.

Now let me discuss the progress we've made this year against our perpetual productivity improvement initiatives or PPI. As a reminder, each year, our store operations teams tackled a number of productivity initiatives. Let me give you a couple of highlights from 2025.

In the fourth quarter, we completed the rollout of our front-end transformation across our store portfolio. This multi-year effort meaningfully improves the checkout experience for customers while freeing up labor hours so associates can spend more time serving customers in the aisle.

The transformed front end includes an expanded buy online, pick up in store area that makes it faster and easier for our customers to grab their online orders, helping us better serve the continued shift to omnichannel shopping.

We've also enhanced our freight flow as part of our PPI work. By redesigning the process and leveraging tech-driven solutions, we've made meaningful gains in labor productivity as we more efficiently move product from the truck to the sales floor.

Looking ahead to fiscal 2026, we're already working on our next set of PPI initiatives. One priority is to even further enhance our stocking through an initiative we're calling Freight Flow 3.0 which allows us to better sequence inbound inventory from our distribution centers.

Overnight teams will focus on stocking the highest priority product immediately, while early morning teams arrive earlier to manage the remaining product flow. This approach means more associates will be able to help our Pro customers when they arrive early to shop before heading to their jobsites. These changes are already yielding better inventory accuracy and in-stocks while also supporting customer service.

Another PPI goal this year is our new full shelf replenishment initiative, which launched across all stores last month. Using real-time data to identify out of stocks this AI-enabled technology sends stores a prioritized list of the most critical items to restock, which helps ensure that products are available where and when customers need them.

These enhancements are improving both the associate and customer experience. And with better visibility, smarter prioritization and more product on the shelf when it's needed, our stores are becoming easier to shop every day.

Finally, as Marvin mentioned, we are recognizing our frontline teams in our stores and supply chain for their critical contributions to our results in the fourth quarter and this year with a discretionary bonus. Assistant store managers will receive \$5,000 and hourly associates will receive bonuses ranging from \$150 to \$700. These bonuses are on top of their normal incentive plans.

These associates show up every day with a relentless focus on customers, an eagerness to embrace new technology and a commitment to helping one another succeed. This bonus is a reflection of a culture of winning together that we have created. That's what sets Lowe's apart.

And with that, I will turn the call over to Brandon.

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

Thank you, Joe, and good morning. Starting with our fourth quarter results, we generated GAAP diluted earnings per share of \$1.78. In the quarter, we recognized \$149 million in non-GAAP charges associated with the acquisitions of Foundation Building Materials or FBM and Artisan Design Group, or ADG.

And keep in mind, in the fourth quarter of last year, we also recorded a pre-tax gain of \$80 million associated with the 2022 sale of our Canadian Retail business. Excluding these impacts, we delivered strong results for the quarter, with adjusted diluted earnings per share of \$1.98.

My comments from this point forward will include certain non-GAAP comparisons that exclude these impacts where applicable.

Fourth quarter sales were \$20.6 billion with comparable sales up 1.3%, driven by growth in Pro, online and home services as well as winter storm activity. We estimate that the demand related to winter storms, Fern and Gianna, positively impacted Q4 comp sales by approximately 50 basis points.

With a strong start to the holiday season, we delivered positive comps of 0.4% in November. Comps were down 1% in December and then accelerated to 5.8% in January, lifted by storm-related demand. Comparable average ticket increased 3.6%, driven by price increases and a mix into Pro and appliances, while comparable transactions declined 2.3%.

For the fourth quarter, adjusted gross margin was 32.7%, down 18 basis points as the dilutive impact of FBM and ADG was nearly offset by higher credit revenue, multiple PPI initiatives and favorable product mix.

Adjusted SG&A was 21.4% of sales, de-leveraging 37 basis points as higher front-line discretionary bonuses and annual incentive payouts as well as sales driving actions were partly offset by the accretive impact from the acquisitions.

Adjusted operating margin rate of 9% was down 41 basis points versus prior year, and the adjusted effective tax rate of 23.6% was consistent with the prior year rate. Consistent with our expectations, FBM and ADG operating results were accretive to adjusted EPS for the fourth quarter while diluting operating margin by approximately 30 basis points.

Inventory ended Q4 at \$17.3 billion, in line with prior year despite the inclusion of approximately \$500 million in inventory from acquisitions as well as higher tariffs. We continue to execute on multiple inventory productivity initiatives through AI-enabled solutions while also benefiting from SKU rationalization. These outstanding results demonstrate the strategic alignment and collaboration we're driving across the organization.

Shifting gears to capital allocation. In 2025, we generated \$7.7 billion in free cash flow and returned \$2.6 billion to shareholders through dividends, which includes a dividend of \$1.20 per share in the fourth quarter totaling \$673 million. We invested approximately \$3 billion in cash for the acquisitions of ADG and FBM and borrowed \$7 billion to finance the remainder of the purchase price of FBM.

During the year, we also repaid \$2.5 billion in bond maturities. Capital expenditures totaled \$2.2 billion for the year, driven by investments in our Total Home strategic initiatives. Adjusted debt to EBITDAR was 3.31 times at the end of the quarter. We ended the quarter with \$982 million of cash and cash equivalents and delivered return on invested capital of 26.1% for the year.

Now I would like to discuss our 2026 financial outlook. While short-term interest rates have been coming down, affordability and the lock-in effect continue to pressure demand. Consumer spending remains resilient, but consumers are still cautious about discretionary big-ticket purchases.

And while many homeowners will receive larger refunds this year, it is unclear how much of that will be spent on home improvement. It is also unclear when mortgage rates will ease, which will continue to exert pressure on existing home sales and new home construction.

Taking all of this into account, we forecast the home improvement market to be roughly flat this year in a range of down 1% to up 1%. We remain confident in the continued execution of our Total Home strategy, which will enable us to grow faster than the market and take share.

With that, we are expecting 2026 sales ranging from \$92 billion to \$94 billion with comparable sales in a range of flat to up 2%. We anticipate that ADG and FBM will contribute approximately \$8 billion to sales. We expect operating margin in a range of 11.2% to 11.4% and adjusted operating margin in a range of 11.6% to 11.8%. This includes 30 basis points of dilution related to the wrap of FBM and ADG in 2026. And as a reminder, the acquisitions drive approximately 50 basis points of dilution on an annualized basis.

We expect gross margin to decline approximately 75 basis points compared to the prior year when we factor in the dilution related to the acquisitions. However, the acquisitions are accretive to consolidated SG&A as a percentage of sales.

We will continue to drive our perpetual productivity improvement or PPI initiatives across the enterprise with a target of roughly \$1 billion of productivity again this year. This includes the impact from the workforce reduction that Marvin mentioned earlier.

This productivity will offset pressure from merit increases and general operating cost inflation and continued investments in our Total Home strategic initiatives. Additionally, we expect net interest expense of approximately \$1.6 billion as we absorb incremental expense related to the FBM acquisition partly offset by planned repayment of \$2.3 billion of bond maturities in the first quarter.

These assumptions result in expected full year diluted earnings per share of \$11.75 to \$12.25. We expect adjusted diluted earnings per share of approximately \$12.25 to \$12.75. This includes the impact from FBM and ADG, which is expected to be accretive to adjusted EPS for the year.

We also expect capital expenditures of approximately \$2.5 billion for the year as we invest in our strategic imperatives to drive growth. This will be heavily concentrated in our retail business.

Finally, to assist you with your modeling for the first quarter, here are a few points to keep in mind.

Given severe winter storm activity in February, we are now expecting Q1 comp sales to be below the midpoint of our full year guide. Adjusted operating margin rate is expected to be approximately 20 basis points below the bottom end of our full year guide due to the dilutive impact of the acquisitions.

In closing, we're pleased with our track record of disciplined execution and that our DIY and Pro initiatives are gaining momentum. Looking ahead, we are confident that we're making the right investments to deliver long-term sales growth and sustainable shareholder value.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Peter Benedict, Baird.

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### Peter Benedict - Robert W. Baird & Co Inc - Analyst

I guess my first one is just on the Pro Extended Aisle efforts that you guys started to kind of roll out last year. Just maybe give us a sense of where you are with that. It got a brief mention in the prepared remarks. I'm just curious kind of where you sit with that, what the opportunity is going forward? That's my first question.

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

Peter, this is Marvin. Look, we continue a multiyear build-out for 2026. We're very pleased. It's actually exceeding all expectations. And we're adding new suppliers, new markets every single week, and we'll do that throughout 2026. This is helping us create more traction with planned Pro spend, and that's something that has been on our playbook for quite a while.

We're excited to get new products like vinyl siding, building materials, doors, flooring, electrical wiring. And so overall, we feel really good about this. We're not yet providing specific financial results other than to say, this is exceeding expectations, assisting with the planned Pro spend and something we're excited about, and we think it will help to drive our Pro business for the balance of this year.

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

I guess my follow-up would be, maybe for Brandon. Just how should we think about the incremental margins here once we get past integrating the acquisitions and the noise is kind of related with that, I think there's a question out there in terms of as sales eventually start to recover, what the flow-through is going to look like? Any updates to your thoughts there? Just to level set us on what your view is there.

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

Yeah. Sure, Peter. I'll start with the fact that we're very pleased here with our Q4 performance progression in the year. We had positive comps here for the last three quarters. Marvin announced a payout to our frontline associates of \$125 million in discretionary bonuses, delivered another \$1 billion in productivity, delivered flat operating margin on the core business for the year.

That all being said, as we look ahead to operating margin for 2026, as we've referenced and as I said in my earlier comments, FBM and ADG is creating an additional 30 basis points of dilution related to the wrap, 50 basis points on an annualized basis. We are generating \$1 billion incrementally in productivity for 2026 as we outlined at our AIC last year.

We are seeing some modest incremental cost pressures that we haven't previously anticipated that are also embedded within that. And then I also mentioned that we're continuing to invest in a number of sales-driving initiatives that are tailored to value-conscious consumer investing in fulfillment options, member benefits. So all that's reflected in our updated expectations for 2026.

And the last thing I'll say, Peter, I think this team has demonstrated a history of disciplined execution. We believe it's a hallmark differentiator for us and expect that to continue here in 2026 as we focus on landing that number.

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**Operator**

Chris Horvers, JPMorgan.

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**Christopher Horvers** - *JPMorgan Chase & Co - Analyst*

So my first question is just thinking about demand. I know you said Fern and Gianna were 50 basis points benefit to the quarter. That would still suggest like a 2 or 3 in January. If you look at the 2-year run rate, that also improved in both December and January and for the quarter, and you were lapping, I think, a 70 basis point headwind relative to the hurricane recovery last year.

So at a big picture level, do you think the demand in the category is just starting to elevate at the margin? Could you maybe try to put together the narratives around the winter storms versus lapping polar vortexes versus lapping also hurricanes last year? So some detail there on sort of the net weather and elevate to a high level, how you think about whether or not maybe the demand is just getting better at the margin?

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

Yeah, sure, Chris. This is Brandon. A lot to unpack as you mentioned here for Q4. So I'll start with, you referenced, we had 100 basis points of headwind from Hurricanes Helene and Milton last year. That has been, in part, offset by the benefits I called out 50 basis points for Fern and Gianna here in Q4.

And then we also referenced on the call last year in the easier lap from the ice storms that played out over the course of January. And then as it's specific to the month of January, the 50 basis points on the quarter for Fern and Gianna was about 200 basis points on the month.

So sort of cutting through all of that noise we're still very pleased with the underlying demand trends and traction that we're seeing across all areas of the business, Pro, DIY, DIFM. And as that translates then looking at Q1, we do expect the demand drivers that we've seen, the underlying consistency to be, again, consistent with what we've seen in Q4.

We are seeing some level of disruption here out of the gates with the after effects of Fern and Gianna to start the month of February and now Hernando up in the Northeast here to end the month. But we're managing spring over the course of the first half, looking at it as a first half event, excited about everything we have locked and loaded. We have the biggest weeks ahead of us. And for the first half of the year focused on delivering at the midpoint of the guide.

And Bill, you may want to reference just some underlying strength across categories that are separate from sort of the weather demand that we've seen.

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

Yeah. Thanks, Brandon. I think when you look at January and you set the weather aside, we saw strength across as was called out in our prepared remarks, these Pro-related categories, millwork, lumber, building materials, electrical. And then we continue to see strength in paint, garden businesses outside of ice melt, hardware, soft surface flooring, which is carpet, kitchens and bath, rough plumbing. So those are all built around the foundation and we're going to leverage those as we go into the first half of the year and continue to drive those.

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**Christopher Horvers** - *JPMorgan Chase & Co - Analyst*

And then my follow-up question is, as you think about sort of the post-storm and post tough winter recovery and lawn and landscape and even exterior homes, we haven't had a winter like this in perhaps a decade. You do -- you also have a larger relative outdoor business relative to your peers. So is there an analog? How are you thinking about the potential pickup in sales in the first half of the year as it relates to the tough winter that we've had?

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

Chris, this is Marvin. Look, we're optimistic, and we've tried to build all of that into our guidance. But candidly, we've also tried to take a conservative approach. I think it's pretty obvious, and I'll state the obvious that this is a pretty unique environment with unpredictable tariffs, high interest rates and a consumer demand that is not as sustained as we would like it on the DIY side.

But we feel really good about our plan for spring. We feel great about our plan for 2026. And part of that is the fact that we have the best in-stock that we've had in my tenure here going into spring. We have the best garden strategy that we've had in my tenure here going into spring.

And so we have a lot of things working in our favor, not to mention that we have 30 million and growing members of our MyLowe's Rewards loyalty program that gives us a unique opportunity to message to those members.

And so we are optimistic, but we're also cautiously optimistic just because there's lots of uncertainty out there. But we are very, very confident that whatever the macro environment provides, we will outperform the macro, we will take share. We took share in the fourth quarter. We took share in the third quarter. We'll take share in 2026.

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**Operator**

Kate McShane, Goldman Sachs.

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**Kate McShane** - *Goldman Sachs Group Inc - Analyst*

I wanted to drill down on the comments that you'll be investing in sales driving initiatives for the cautious customer in 2026. What could that look like? Are we -- are you looking at price investment, promotions, some combination of both? And how does that compare to how you managed through that in 2025?

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

Kate, this is Marvin. Thank you for the question. Kate, there's really no major change coming to our strategy relative to price or promotion. We manage price on a portfolio basis in this really volatile tariff environment, we'll continue to do that. We will be very, very specific on what we call Tier 1 promotional events.

You know, think the launch of spring, think Labor Day, Memorial Day, 4th of July. So you'll see us lean in hard on some of those time frames. But other than that, we don't plan to be more promotional than any years past.

What I will tell you, and I'll hand it over to Bill, is that we're really excited about offering the customer value and making sure that the cost-conscious home owner can look to Lowe's, both in-store and online, to find anything they want at a value and also find anything they want that could be more of a premium item.

And so I'll let Bill talk about some of the things we have in store for spring in 2026.

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

Yeah. Thanks, Marvin. And it's -- Kate, I think as we look at 2026, it's largely reflective of what we try to do in Q4, and that was meet the customer where they want to be met. And so both online and in-store, offering these values for both the DIY and Pro customer, be out there, be relevant with seasonally relevant products, which is very similar to what we've been doing and working on over the last few years.

But we're excited about what we've got planned in our lawn and garden business. We're excited about the new that we have, the innovation that we have across the store. The merchant teams have done just a really nice job of bringing new exclusive and innovative values that we can put in front of the consumer.

We've got great brands. We've got great partners with our vendors. We're starting from deep south to north, and we'll take it as the season comes and as spring starts to come alive. We want to be there and meet the customer where they're at. And so we'll just have great offers out there throughout the spring season.

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

I'll just add. In addition to that, we mentioned the Pro Extended Aisle, and we continue to make the investments. This is a multiyear build-out. And so as we think about it, that meaningful growth opportunity is still ahead of us. The investments that we have made with our Transform offerings in our home services business and to continuing to make the investments in the Total Home strategy.

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**Kate McShane** - *Goldman Sachs Group Inc - Analyst*

And then I just wondered if we could follow up with Brandon, how we should be thinking about the cadence of transaction versus ticket throughout 2026?

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

Yeah. Sure, Kate. I think similar, when we look at '26 and what's embedded with the guide, similar to the second half of 2025 that we saw, we do expect the growth to be more weighted towards ticket in the first half of '26, and that's primarily as we wrap the tariff price increases that we've been implementing.

And then as we move into the second half, we do expect to see transaction trends to improve. So we're going to start cycling that over the second half of the year and expect that to move more in line with neutral again as we start looking at the second half of the year.

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**Operator**

Simeon Gutman, Morgan Stanley.

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**Unidentified Participant**

This is [Zack] on for Simeon. What are the strategic priorities for the wholesale distribution business? And can you give us an update on the integration of FBM and ADG with the core Lowe's business?

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

This is Marvin. I'll take the first part, and then I'll let Brandon jump in. First, what I would say is that we're really excited about the integration activities and the progress that we're making with both FBM and ADG. When you think about the future of acquisitions, we've already made a few tuck-in acquisitions for both FBM and ADG.

And we feel as though we'll continue to do that to ensure that we're building out this interior solutions platform that we talk about. And our objective is to have the ability, when you combine Lowe's, ADG and FBM, to provide the homebuilder virtually everything they need for the interior space of the home. You think doors, windows, ceiling systems, insulation, appliances, cabinets, countertops.

And so that is the strategic vision that we're building out for both. So as we think about future tuck-ins, they will be more than likely in that direction to ensure we're building out that portfolio of companies and products and services so we can serve that larger homebuilder.

I'll let Brandon provide some additional context.

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

Yeah, sure, Zack. As we put some financials to this, as we look ahead to '26, I mentioned we're going to have revenue, we're guiding revenue of about \$8 billion combined for ADG and FBM, that does represent organically low single-digit positive growth, solidly accretive to adjusted EPS as we look at 2026.

We like what we're seeing on the commercial side with FBM as we manage through sort of the cyclicity of what we're seeing -- some of the near-term pressure we're seeing on the homebuilding side. As Marvin mentioned, we've activated our integration teams.

We continue to work together with both FBM and ADG on our strategies and plans to realize synergies, and we're making really nice early progress, specifically work that we've done with vendors on product costs, looking at SG&A, logistics, back office and then at the same time, really looking go forward the cross-selling opportunities that exist across all three of these businesses. So really nice progress, excited about what's ahead for 2026, and we'll continue to manage this and continue to get after it.

**Unidentified Participant**

That's helpful. And then just as a quick follow-up. If we adjust for the mix impact of these acquisitions, can you speak to what you're expecting for the core-on-core EBIT margin in '26, both at the low end and the high end of the range and how that relates to the rule of thumb, if you will?

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

Yeah, sure, Zack. I think I mentioned earlier, stripping this out. Really, it's just a function of top line. So excluding the 30 basis points of step back, again, you're going to see at the high end, a reflection on our 2% comp, and that's if we see upside traction that we have with some of our sales driving initiatives, potential for tax refunds and then the low end is essentially on a flat comp for the core business is going to be at the low end.

So really just a reflection, we mentioned the investment in the sales driving initiatives and then where we fall within that range is just going to be a function of how the top line plays out.

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**Operator**

Michael Lasser, UBS.

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**Michael Lasser** - *UBS AG - Analyst*

The guidance you provided spans a bit broader of a range than Lowe's has historically provided. So if 2026 turns out to be meaningfully better or worse than that range, what internal and external key performance indicators would have told you that first? And what is that KPI seeing to date?

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

Michael, this is Marvin. I'll take the first part of that. I think the best way to think about your question is whatever we get from a macro perspective in housing, we intend to outperform it. That is our internal expectation every year. And I think consistently, we've been able to do that.

So we're basically forecasting home improvement macro to be relatively flat looking at 2026. And therefore, we set a guidance from 0% to 2% with the expectation that we'll outperform the macro and will take share against any competitors small or large and we think that we demonstrated that in the back of this year.

Having said that, there are always indicators in merchandising categories, certain financial metrics we're looking at. Obviously, the one thing that we look at closely relative to the DIY are big-ticket discretionary purchases. When we start to see a sustained number of discretionary big-ticket purchases from the DIY, that's going to give us an indication that the consumer is getting healthier, and they're more confident in making those purchases. So I'll let Brandon add any additional context.

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

Yeah, Michael, I would just add, a 2% spread has been pretty consistent the last couple of years as we've come out with the guide at the beginning of the year in an uncertain environment like this. And I'll just add a little bit more color to what Marvin said. This is really for us, I think where we fall is purely sort of indicative of overall home improvement in the macro and what plays out versus what doesn't.

And I think on the low end, probably an environment where we're seeing elasticities a bit more pressured, deteriorating consumer sentiment, the continued deferral of big ticket spend which we've been experiencing now for a number of years.

And then on the high end, I think potentially some uptick in big-ticket discretionary projects, potential benefit from the tax refunds, HELOC activity, which we think is an opportunity for us and then obviously continued momentum in some of the core areas of the business, primarily Pro with some of the planned spend initiatives. So that's just to give you an indication sort of on the high end and the low end as to how the macro could play out and how that translates to where we fall within the guide.

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**Michael Lasser** - UBS AG - Analyst

That's very helpful. And my follow-up question is a bit broader of a question. But Marvin, there's a lot of focus in the market and in the economy as of late, about what all of the technological innovation is going to mean both for companies as well as industries. The home improvement sector seems to be perceived to be a bit more insulated at least as of today. So how are you thinking about the broader impact of artificial intelligence on home improvement? And how is Lowe's looking at the potential positive versus the drawbacks from deploying all this technology, both from a demand perspective as well as how it's evolving the cost structure over the next couple of years?

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

No. Michael, I appreciate your question. I think for us, we set an internal framework that AI will help us improve how we sell, shop, and work. And basically, as we think about AI internally, we frame it around those three strategic areas of our business.

And as a result of that, we're very focused on employing AI to help our associates sell to improve the shopping environment for our customers, both in-store and online and creating productivity in the workspace, both in-store and at our store support center.

And so some examples of that are things like our Mylow Companion which we are leveraging as a virtual assistant, not only for customers, but also as a companion tool for our associates. And we've seen roughly 1 million questions a month come through this virtual assistant in this companion tool.

We've built this on an OpenAI platform. It learns and it gets better with every interaction. It helps our associates do the most difficult part of transition to a home improvement world, and that is product knowledge. One of the biggest challenges that Joe faces and our HR team faces whenever we bring on a new associate is giving them the confidence they can be on the sales floor, engage a customer and provide specific product knowledge.

Not only does this platform and this assistant allowed that to happen, it also now can do it in Spanish that helps to break the language gap that we may have in certain geographic areas. And we've seen dramatic improvements in customer service in a 200 basis point range in our stores where sources are adopting this, and we're seeing our conversion rates online roughly double when customers engage with Mylow. So that is just one tangible example of how we're taking AI, and we're making it work, not in a philosophical, not in a theoretical perspective, but in a very tangible perspective.

And then as Joe mentioned in his prepared comments, we're leveraging this in Pro. We've now built a Pro Companion tool, which gives our Pro team the ability to understand exactly how to prepare for customer conversations. So when they engage with a large preplanned Pro, they can be informed, they can be -- have great advice and counsel, and they can provide good direction.

I can give you 50 examples of how Bill is leveraging this from the merchant team, how we're freeing up its merchants from being task-driven and now being more strategically driven working with suppliers on how we can drive revenue, how the tech team is using AI tools for development and code review, and they're seeing double-digit productivity gains and increasing speed to market.

And so we are embracing this as a net positive, and we're understanding that it's coming and we're on the cutting edge of working with it, and we're excited about some of the work we're doing in Agentic commerce with some of the leading tech platforms out there as well. So it's something as a large company that we understand is critically important to our current state in our future, and we're embracing it.

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**Operator**

Jonathan Matuszewski, Jefferies.

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**Jonathan Matuszewski - Jefferies LLC - Analyst**

Marvin, if you adjust for the weather and put the storms aside, are there commonalities in markets where you're seeing comp sales underperforming and where they're outperforming and basically, can you draw any conclusions from home prices or white-collar employment or other factors on a market-by-market basis?

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

Jonathan, thank you for the question. I can say that there are really no material differences that we're seeing in geographies if you strip out weather. Now we understand that there are different housing dynamics across the country, but we've seen no material difference in our overall financial performance in these geographies thus far.

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**Jonathan Matuszewski - Jefferies LLC - Analyst**

And then a follow-up question. You referenced Lowe's Media Network. I was hoping you could share an update there in terms of how that's contributing from a P&L standpoint and how you see any tailwinds to the gross margin guide in 2026, Brandon, as that continues to grow.

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

Well, I can tell you, we're really excited about the Media Network. It's something that we've been investing in for a while. We've now hired a new leader. We've improved our technology platform. And what I'll do is I'll let both Bill and Brandon talk about how we're leveraging it from our supplier partnerships on Bill side and I'll let Brandon provide any financial perspective.

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

Yeah. Marvin, I'll jump in here. Just a couple of things. We're leveraging insights from our customers from both our loyalty platforms, both the Pro and DIY, which is giving us a key differentiator for our media network. We're expanding channels, looking at creator networks, as I mentioned in my prepared remarks, across our sports marketing, connected TV and online video.

We're also looking at how we provide visibility and measurable results to our suppliers leveraging the value creation that we can drive here because we think with our media network, we open up a number of different avenues for these guys to be able to tap into. So we're excited about kind of where we're going and the early results of it, and we're in the early innings, but we're off and running.

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

And Jonathan, this is Brandon. The last thing I'll say, just the benefits of Media Network, the advertising revenue, the growth is reflected in our expectation of \$1 billion of productivity into 2026. That's roughly split evenly into gross margin, which would include the benefits from

the media network and then the other half in expense. And again, factored in the growth, it's scaling in line with our expectations and going to be a big part of what we expect to deliver for 2026.

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**Operator**

Brian Nagel, Oppenheimer.

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

So first question I have, I guess, is more macro standpoint, a lot of thoughts lately (corrected by company after the call) call about the ongoing stagnation in the US housing market and the headwind of higher rates. The question I want to ask, we started to maybe see rates move lower in the data as you're watching your data, are you seeing -- again, recognizing it's early -- are you seeing some type of benefit as rates have started to move lower? And then if not, is there -- are you starting to see -- I guess the other question, would you be seeing some type of break what would that normally be that relationship between rate and your business?

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

Brian, this is Marvin. I'll take the first part of that. Look, I would say that we are obviously watching this really close, but you said it, it's just a little too early to have any definitive point of view that there's a correlation between rates going down of late and any type of demand changes in the marketplace.

Look, we think intuitively that when you get rates down on a sustainable basis below 6%. We think that that's going to be as much of a psychological unlock as anything else, but it's just too early for me to sit here today and give you a definitive financial point of view on it, and I'll let Brandon provide some --

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

Yeah. Brian, I'll just add. We've looked at the Fed cut 175 basis points in the last 18 months, there's a consensus of a couple of more cuts, 50 basis points this coming year in 2026. The near-term impact that is easing the burden for consumers in areas like credit cards, auto loans, HELOCs. Watching the long end of the curve, more particularly, which is as you know, pegged to the 10-year, which has been hovering somewhere around 4% to 4.5%. We do look at sub-6% rates as potentially stimulating demand. We saw that this week for the first time, dip just below 6%.

Translating all of that into the guide, there is a delay. As Marvin referenced, we don't know exactly when that's going to start to take shape and how that's going to impact consumer spending. And again, for us, that's what's resulted in us having a little bit wider range, just given the opportunity and some of the uncertainty that continues to be out there.

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

That's helpful. I appreciate it. And then my follow-up question, I guess, also a bigger picture. But just with respect to tariffs, you and your sector have done a very good job of managing the tariffs we've seen. So we've gotten, I guess, new news, maybe some further shifts in tariff rates, again, recognizing this is also early. But any thoughts on what we're seeing now and the adjustments that could spur within your business?

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

So Brian, I'll state the obvious. The tariff policy is fluid. We're currently reviewing all the new rules like everyone else. What I will tell you is that we remain confident in our full year guide regarding the top and bottom line. And in the meantime, we're just going to continue to execute our global sourcing playbook, and we're going to just be in tune to everything that is changing and adjusting and again, it's just such a fluid situation.

It's just too early, again, to have a really specific point of view other than we have a very, very effective playbook. We're going to manage their playbook, and we're going to be very, very alert to any other changes that happen.

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

Appreciate it. Thanks, Marvin.

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

Great. So everyone that's our final question, and I'd like to close with a couple of comments. First, I'd like to take a moment to recognize Kate Pearlman, our VP of Investor Relations and Treasurer, after a distinguished tenure with Lowe's, Kate has decided it's the right time to embark on a new chapter of her professional journey.

While we are sad to see her go, she leaves us on the highest note having built a world-class IR and Treasury function. So we want you to join us in thanking Kate for her years of dedication to Lowe's, wishing her nothing but grace, favor and blessings in her future endeavors. And we now look forward to speaking with you again on our May 20 earnings call.

So Rob, that's all we have.

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**Operator**

Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for joining us for the Lowe's fourth quarter 2025 earnings call. Thank you.

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