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LOW.N - Q3 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 third 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 2024.

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. 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. Before discussing our third quarter results, I'd like to take a moment to offer my sympathy to the Marcus family on the passing of Bernie Marcus. Bernie and his partners Arthur Blank, Ken Langone, and Pat Farrah invented the modern home improvement business model.

And many years ago, Bernie took me under his wing to teach me the home improvement business. As a young executive eager to learn about merchandising, marketing, and business strategy for one of the icons of the industry, I was surprised to do my first meeting, the only thing that Bernie talked about was the importance of people, both customers and associates.

Bernie provided me with a lot of coaching, wisdom, and advice during my early years in home improvement. He was a true original in every sense of the word. And because of his generosity and philanthropy, he leaves a legacy far beyond the home improvement industry. From me personally and from all of us at Lowe's, our thoughts and our prayers go out to his family and to his loved ones.

Now allow me to transition to our third quarter results. Third quarter sales were \$20.2 billion and comparable sales were down 1.1%. Our results were modestly better than expected, even excluding storm-related activity driven by strong Pro and online sales and smaller ticket outdoor DIY projects.

While demand for DIY discretionary bigger ticket projects remain soft, we're tightly managing our operating expenses and continuing to invest in our Total Home strategy. We're particularly pleased with the sustained strength we're delivering in two key areas, Pro and online sales. Our Pro sales were up again in Q3 with high single-digit positive comps.

This growth is being driven by the investments we've made to better serve the small to medium-sized Pro, which is our core Pro customer. Our efforts to transform the Pro shopping experience continue to pay dividends.

We have the inventory depth and the brands that are the most important to these customers, and we're making it easy for them to shop in our stores and online, and through our Pro loyalty program, we're giving them reasons to keep coming back. Later in the call, Joe will provide more detail on our efforts to continue our momentum in Pro. We also continue to grow our online sales with 6% comparable sales growth.

We've increased both online conversion and traffic, including a double-digit increase in traffic on our Lowe's mobile app. And we're making it easier and more convenient for customers to order paint and paint supplies online by expanding our free same-day paint delivery program via our gig network. And as a reminder, paint remains the number one home improvement project.

So we've added more brands and products to our same-day delivery options so customers can get what they need to finish their projects faster, delivered right to their home or job site. Customers are also leveraging our new in-store mode in the Lowe's app, which gives them product information at their fingertips.

Through the app, they are able to quickly access product details, reviews, and in-stock information and they can more easily navigate the store to find what they're looking for. And if they don't see the exact product they need on the shelf, they can shop on the app right within the aisles of our stores, or a larger selection of products and finishes from our extended aisle on lowes.com.

Another way we're driving traffic, both online and in-store is through our MyLowe's Rewards loyalty program, which we just launched in March. This free program is designed to reward DIY customers for choosing Lowe's over other retail competitors for their home improvement needs. Customers are engaging in the program to take advantage of new member-only offers, earn MyLowe's money, and use their rewards. You'll hear more about our loyalty program from Bill later in the call.

Now allow me to transition to the economy. When it comes to the macro environment, this remains a challenging home improvement market. While interest rates are beginning to drop, consumers continue to face affordability challenges as both inflation and interest rates are putting pressures on their wallet. Mortgage rates also remained stubbornly high and there's still a meaningful gap between current mortgage rates to purchase a home and the homeowners existing rates with over half of current rates below 4%.

Combined with the lack of available homes for sale, housing turnover remains near 30-year lows. Looking ahead, it's unclear when lower rates and improved consumer sentiment will translate into improved home improvement demand. However, the three primary drivers of our business continue to work in our favor.

One, strong home price appreciation; two, disposable personal income is outpacing inflation; and three, the medium age of homes is the oldest it's been in US history currently sitting at 41 years old. These drivers will support demand over the long term, which means existing homeowners are likely to continue investing in repairs and upgrades to their homes.

Especially as interest rate pressures ease, we expect that homeowners will start to tap into the record \$35 trillion in home equity to finance larger home improvement projects. These factors along with long-term demand drivers like millennial household formation, Baby Boomers aging in place, and continued remote work reinforce our optimism around the medium to long-term outlook for the home improvement industry.

In the meantime, we're investing in our Total Home Strategy to position the company for long-term growth and sustainable market share gains in preparation for the anticipated home improvement market recovery. We're looking forward to telling you more about our plans at our Analyst and Investor Conference next month.

Before I wrap up, I'd like to extend our thoughts and prayers to everyone who was impacted by Hurricanes Helene and Milton. And I want to express my gratitude to our associates, suppliers and first responders for their efforts to support those in the storm's path. Working together, the teams provided round-the-clock support ahead of both hurricanes and immediately mobilize in their wake to help address urgent needs and impact the communities across the Southeast.

As part of the larger storm recovery efforts in our company's history, Lowe's has pledged \$12 million to support disaster relief assistance through several nonprofit organizations with boots on the ground. As part of this commitment, we recently announced plans to provide \$2.5 million in grants and support to how small businesses in Western North Carolina, recover and to rebuild.

Joe, Bill, and Brandon will each share more detail on Lowe's response efforts and provide more context on how these storms impacted our results. In closing, I'd like to thank all of our frontline associates for their dedication to serving our customers and supporting our communities.

I especially would like to salute our frontline associates in Florida and North Carolina for their commitment to their neighbors and for their resiliency. Now I'd like to turn the call over to Joe to talk more about our storm recovery efforts and our store operations.

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

Thank you, Marvin, and good morning, everyone. Hundreds of stores felt the impact of Hurricanes Helene and Milton and our operations team worked tirelessly to get them up and running quickly, leveraging our improved disaster response capabilities that we have continued to enhance over the years.

Investments in our supply chain network helped us mobilize essential supplies, staging inventory in nearby distribution center facilities more efficiently ahead of the storms and flowing products to impacted stores more quickly afterward.

Recent investments in Pro job site delivery, especially in hurricane prone areas, also helped with our relief efforts, so we can more quickly flow larger orders to our Pro customers to support their work helping homeowners recover. In the largest activation of its history, our command center team coordinated these efforts across the company, while district and store managers responded to the needs of their communities by ensuring that critical supplies were positioned for convenient access for our customers.

Additionally, hundreds of associates have volunteered in Western North Carolina to clean houses, clear debris, and serve warm meals. And I'm particularly grateful to the over 1,000 emergency response team members who voluntarily left their homes to support stores in the impacted areas. These teams quickly mobilized to serve customers reeling from storm impacts and to relieve local associates, so they could focus on their own recovery efforts.

Despite the challenges posed by the storms, I'm pleased that we maintained our recent gains in customer satisfaction. This is a reflection of the investments we've made in tech-driven enhancements to the customer experience as well as the ongoing commitment of our associates to deliver outstanding customer service.

Shifting gears to our performance in Pro. As Marvin mentioned, we delivered positive high single-digit Pro comp sales in the quarter, with broad-based growth across regions and merchandising categories. And we continue to deliver outsized growth in Pro online sales, driven by our enhanced digital offering for the Pro.

We recently launched Shop the Job, a digital shopping experience that helps our Pro loyalty customers purchase everything they need for specific jobs more quickly and efficiently, cutting down in the time spent sending runners from job site to buy forgotten items. We launched this program with a focus on kitchens, bath, and flooring projects and look forward to expanding to additional project types as we incorporate our Pro customers' feedback on this initial rollout.

Looking ahead, Pros in our recent survey indicated that their backlogs remain strong and consistent with prior year. They also remain confident about their access to financing, labor, and materials. All key factors drive the success of their business. Turning to our efforts to become the employer of choice in retail. A few weeks ago, we concluded our annual engagement survey, a critical component of our proactive associate listening strategy.

Our 90%-plus response rate is industry-leading and we're pleased that our preliminary scores across the key measures of engagement and leadership effectiveness continued to improve as past surveys show a correlation between more engaged associates and stronger business results driven by better customer service.

As Marvin mentioned, we continue to see increased engagement in our MyLowe's Rewards programs, and we're pleased this quarter to recognize first responders by upgrading them automatically to silver key status. This is part of our Fourth Annual First Responders appreciation event held last month.

This is just another way we're working to show our gratitude for the mission-critical work they do for our communities. Finally, I'm looking forward to discussing what's next on our perpetual productivity improvement, or PPI road map, next month at the Analyst and Investor Conference.

We'll discuss our continuing efforts to elevate the customer experience, while at the same time, enhancing labor productivity through tech-driven solutions. I would like to close by thanking all of our associates for their hard work and commitment to our customers. And now let me turn it over to Bill.

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

Thank you, Joe, and good morning, everyone. We're pleased with the strong performance we delivered in Pro and online again this quarter. And while DIY bigger ticket discretionary demand remains pressured, we saw improved results in outdoor categories.

Now turning to our results in hardlines, where we delivered positive comps driven in part by hurricane-related sales of products like generators, chainsaws, cleaning supplies, water, gas cans, tarps, and flashlights. We also saw customers engage in projects to help their lawns recover from a summer of intense heat, which drove strength in outdoor categories like lawn care, landscape products, and fall cleanup supplies.

Taking all of this into account, we delivered positive comps for the quarter in both seasonal and outdoor living and hardware. Next, we're getting ready for the upcoming holiday season. We're offering customers innovative products at great values all season long, starting with our new Black Friday buildup event. We're encouraging customers who are gearing up for the holidays to shop early with deals on top-rated CRAFTSMAN, DeWalt, and Kobalt tools.

And next week, we're excited to welcome customers to our Black Friday event where they can continue to save with online exclusive deals and special in-store offers that will be too good to pass up. During the event, MyLowe's Rewards loyalty members will also have early access to more exclusive doorbusters on Thanksgiving Day on [lowes.com](https://www.lowes.com).

In fact, since tools are perfect holiday gifts for both the do-it-yourselfer and the Pro and your family, we'll have compelling offers from brands like Klein and DeWalt and DeWalt will take over the Pro drop zone in a big way throughout the holiday season.

We're featuring a great selection of DeWalt's best-performing 20-Volt Max XR batteries and power tools, which have more power, longer run times, and increased durability compared to a typical 20-volt battery. Turning to building products, where we delivered comps above the company average, driven by positive comps in building materials with the continued strength in Pro as well as hurricane-related sales.

And we're continuing to add to our powerful Pro brand arsenal by welcoming to Lowe's, the world leader in drywall tools, wal-board tools. This new assortment will include a comprehensive range of the best and most innovative products in the industry that caters to both seasoned drywall professionals and DIYers.

With tools for every step of the drywall process, from taping knives and trowels to texturing and repair patches. We're also pleased to introduce the Pella Steady Set interior installation system, an innovative way for Pros to install windows from the inside. It's faster and safer than exterior installation because installers now won't have to carry a window up a ladder.

This innovative solution turns a three-day installation into a one-day job and reduces latter time by 70%. This will be a game changer for Pros, making it easier than ever for them to provide high-quality window installation while cutting down on labor expense.

Shifting now to home decor. We continue to see ongoing pressure in DIY bigger ticket discretionary projects in categories like flooring, kitchen and bath, and decor. In appliances, third quarter comps improved slightly from our Q2 trends driven by growth in average ticket size.

We delivered positive comps in laundry, partly driven by the expansion of the new all-in-one washer and dryer units and integrated wash towers. These new and exciting products are driving growth in laundry and reflect the customers' willingness to trade up for innovation and new products.

Another example of consumers responding to innovation is in refrigeration with LG's new Zero Clearance line, which has a hinge system that allows homeowners to install the refrigerator in tight spaces and still fully open both doors with virtually no extra clearance needed.

Finally, we're pleased to see continued momentum in our MyLowe's Rewards loyalty program with promising results in key performance metrics like repeat purchases, average order value, and penetration of loyalty member purchases. And we're now leveraging the insights we gain from our loyalty program to transform our marketing with tailored offers by anticipating what customers need next.

And we're reminding them to take advantage of their MyLowe's money sending them tailored offers to entice them to return and shop categories we know they've shopped before. We're also giving members exclusive access to new product launches like best customer events and doorbusters.

In October, we launched our first ever member week with offers across categories like appliances, kitchens and bath, paint and more. For the first time, we now have the ability to drive our own event schedule for our DIY customers. Instead of being tied to the calendar, we can now create events when we see an opportunity to drive excitement, traffic, and sales.

In closing, I'd like to thank our supplier partners and merchants for their hard work and shared commitment to ensuring we have the right brands and the right assortment for our DIY and Pro customers. And I'd like to recognize two of our suppliers for their support of our storm recovery efforts.

Starting with Niagara Water. This team sent more than 700 truckloads of additional bottled water from their plants outside of our typical network, in many cases, turning around our orders in less than 24 hours to help us serve our customers in need.

And also FIRMAN Power Equipment. They source generators from all around North America to get them to our stores and our customers in the hardest hit areas where their warehouse crews work literally overnight and through the weekends to ensure our emergency orders arrived in less than 24 hours.

They also deployed two storm trailers with dedicated staff to Lowe's stores across Georgia, North Carolina, and South Carolina, to help our customers start their generators, find the right product for their needs and even repair old units regardless of the brand. I want to thank them and all of our suppliers who stepped up to help during this difficult time. And now I'd like to turn the call over to Brandon.

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

Thank you, Bill, and good morning. Beginning with our Q3 results, we generated GAAP diluted earnings per share of \$2.99. In the quarter, we recognized a pretax gain of \$54 million on deferred consideration associated with the 2022 sale of our Canadian retail business. Excluding this benefit, we delivered adjusted diluted earnings per share of \$2.89. My comments from this point forward will include certain non-GAAP comparisons that exclude this benefit were applicable.

Third quarter sales were \$20.2 billion with comparable sales down 1.1%. We estimate the demand generated by hurricanes, Helene and Milton positively impacted comp sales by roughly 100 basis points. Excluding the storm-related lift, sales came in modestly better than expected, driven by continued strength in Pro and online, as well as smaller outdoor projects as customers work to address the impact of intense summer heat on their outdoor living spaces.

Comparable average ticket was up 0.2%, driven by strength in Pro, an increase in average ticket for appliances and sales of storm-related products. Comparable transactions declined 1.3% as continued softness in DIY discretionary projects was partly offset by growth in Pro transactions.

Our monthly comps were down 3.3% in August, down 1.2% in September, and up 1.3% in October as hurricane-related sales positively impacted the second half of the quarter. Gross margin was 33.7% of sales in the third quarter, up slightly from prior year.

Gross margin benefited from ongoing PPI initiatives, which were largely offset by continuing supply chain investments and storm-related pressures, which included mix pressure from lower-margin products, like generators, chainsaws and lumber, incremental transportation costs to expedite product into affected areas and inventory losses from damages in multiple locations.

Adjusted SG&A of 19.2% of sales delevered 86 basis points versus prior year. Adjusted SG&A was largely in line with our expectations except for direct storm-related expenses, which included philanthropic support for our communities and associates, repair and impairment costs for damaged stores and facilities, and incremental labor and other operating expenses like using diesel generators to power buildings during extended electrical outages.

Adjusted operating margin rate of 12.3% declined 86 basis points and the adjusted effective tax rate of 24.2% was in line with prior year. Inventory ended Q3 at \$17.6 billion, which was roughly flat to prior year as we continue to manage our purchases in line with sales trends and invest in key Pro items. Now turning to capital allocation. In the third quarter, we generated \$728 million of free cash flow. Capital expenditures totaled \$571 million as we continue to invest in our key growth initiatives.

We repurchased 2.9 million shares for \$758 million and paid \$654 million in dividends, returning over \$1.4 billion to our shareholders. In September, we repaid a \$450 million bond maturity and ended Q3 at adjusted debt-to-EBITDAR of 3.04 times.

And we delivered a return on invested capital of over 31%. Now turning to our outlook. We are updating our full year 2024 financial outlook to reflect better-than-expected third quarter results and anticipated modest storm-related demand in the fourth quarter.

While our third quarter results came in ahead of expectations, much of it was driven by hurricane-related sales, while underlying DIY demand remains pressured, especially for discretionary projects. Taking these factors into account, we are now expecting 2024 sales in the range of \$83 billion to \$83.5 billion, with comparable sales in a range of down 3% to down 3.5%.

We also now expect adjusted operating margin of between 12.3% and 12.4%, reflecting the benefits of our ongoing PPI initiatives as well as the incremental direct costs and a lower gross margin rate profile for storm-related activities.

Additionally, we expect full year net interest expense of approximately \$1.3 billion, capital expenditures of approximately \$2 billion, and adjusted effective income tax rate of approximately 24.5%. This results in an updated outlook for adjusted diluted earnings per share of approximately \$11.80 to \$11.90.

I'm confident that our continued investments in our Total Home Strategy and our ability to effectively manage our business in any environment will allow us to navigate any near-term market uncertainty while continuing to deliver long-term shareholder value. And with that, we will open it up for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Peter Benedict, Baird.

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

First, just on the DIY loyalty program, you mentioned better penetration levels and renewal rates or repeat rates, I should say, and AOV, any more color you can add on that? I'm curious where those maybe sit. And curious on the year two playbook for DIY loyalty, I imagine a lot has been focused on kind of gathering the membership at this point. But just curious kind of what the year two playbook looks like for the DIY loyalty program. That's my first question.

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

Peter, this is Marvin. I'll take your question. I would say we're really pleased with the entire program. As a reminder, we launched it in March, and we're continuing to see the membership build. This past October, we launched our first ever member week, which really allowed us to hit a record enrollment week based on that event.

So all in all, we're extremely pleased. We're seeing the key metrics that really matter for loyalty program, things like repeat purchases, average order value for loyalty members. And we're also seeing a higher penetration of our loyalty members making larger purchases. Now the caveat is that we're going to provide a lot more detail on this program, not only kind of where we are, but where we're headed at the Analyst and Investor Conference next month.

As a matter of fact, it's going to be one of our key discussion topics. So we'll kind of hold off on talking about the future of the program until that time. Obviously if Bill has any other specifics on the program just to share our degree of confidence and excitement around kind of what we're seeing thus far.

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

Peter, the only thing I would add is that in my prepared remarks, I talked about being able to offer some tailored events. And so next week, as we head into Black Friday on Thanksgiving Day, we'll give our members early access to some MyLowe's Rewards offers, and so we're excited about that.

And as Marvin mentioned, we did our first ever October member-only week. And so I think that allows us to learn a lot and we can work within our own calendar to create these exclusive events for our members and do some special things as we go forward.

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

Okay. Great. That's helpful. My follow-up would just be around tariffs. Any way you want to frame kind of the exposure? And actually, even more interested in just what the playbook looks this time in the event some of the increases being tossed around come to fruition, everybody went through this a handful of years ago. Just curious, your kind of approach, your level of exposure and your thoughts on tariffs if they are to increase here.

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

Yeah. So Peter, this is Marvin. I'll start it off by saying a statement of the obvious, and that is it's very early. And like everyone, we're waiting to see what happens when the Trump administration actually takes office in January. Having said that, we feel good about the processes and the systems we put in place since the first Trump administration to manage tariffs or other challenges.

I'll hand it over to Bill to talk about some of the work we've done to diversify our sourcing over the past few years and then I'll see if Brandon after that has any additional comments.

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

Yeah. Thanks, Marvin. We've built out what I think is probably one of the strongest teams in retail. And so as far as from a playbook perspective, we've got enhanced tools, a really strong process in order to deliver whatever gets thrown at us.

In addition to Marvin's comment, we've been working over the last few years with our supplier partners and our private brand partners to diversify our products, and we'll continue to do that. And a big part of our playbook is to work closely with our suppliers to manage whatever comes our way. And so we feel really comfortable and confident that we can address whatever is that gets thrown at us.

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

Yeah. And Peter, this is Brandon. Just as Marvin said, definitely staying very close to this. We're preparing internally for what may be coming from the new administration. I'll just mention roughly 40% of our cost of goods sold are sourced outside of the US and that includes both direct imports and national brands through our vendor partners.

And as we look at potential impact, certainly would add product costs, but timing and details remain uncertain at this point. But just as Bill said, we believe we're well prepared to respond when and if it does happen.

Operator

Steven Forbes, Guggenheim Securities.

Steven Forbes - *Guggenheim Securities, LLC - Analyst*

Marvin, maybe a follow-up to Peter's question on DIY. And really just wanted to get your higher-level thoughts on how you guys are thinking about planning the business for next year as we look at DIY trends, sort of this quarter, may be showing signs of stability on a multiyear basis?

Or really just wanted to dig into how you guys are thinking about predicting or forecasting the DIY performance of the business, just given some of the challenging comps you've had over the past couple of years here? And if there's any sort of path or a visible path to a return to sort of stability in comp as it pertains to DIY.

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

No, Steve, thanks for the question. And look, I state all the time with the team that we have to accept our reality as a company. And the reality is we are a DIY dominant business, which means that this is very important to us.

Our loyalty program that we launched this year was specifically designed around putting more control of the DIY business under our stewardship versus being victims to the macro or really victims to weather patterns. And so we're excited next month to give some level of detail around the loyalty program and how we believe that, that's going to give us the ability to be more on offense, so to speak, when you think about the DIY customer.

Now the reality is that the macro environment puts a lot of pressure on our DIY business because we kind of skew more to that big-ticket DIY discretionary. Think of appliances, think of flooring, kitchen and bath, et cetera.

And so we are requiring some positive response in the macro environment before we can change these trends the way that we would like. But our business thesis is really simple. We're going to continue to invest in Pro and online, and we're incredibly pleased with what we've seen thus far.

Anytime you can deliver high single-digit positive comps in any category in this environment, you have to feel good about it. And as we've mentioned, we grew our online sales by 6%. So our business thesis is if we can continue to grow Pro at 2x the market, we can continue to grow online, and we can get this DIY business just growing at market based on some macro support, we're going to have a really good financial outcome.

And so we're going to provide a lot of detail at the upcoming Analyst and Investor Conference, specifically around our thoughts on the DIY and more importantly, the initiatives that we're going to be either executing at a higher level or implementing that we believe is going to give us a lot more ability to drive this customer segment in the future.

Steven Forbes - *Guggenheim Securities, LLC - Analyst*

Appreciate the color there, Marvin. And just a quick follow-up for Brandon. Two parts on the storm-related impacts. I guess first, can you quantify the comp contribution in the latter two months of the period? And then as it specifically pertains to gross margin, what were the storm-related pressures on gross margin during the quarter?

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

Yeah, Steven, this is Brandon. Just as I said in the prepared remarks, 100 basis points impact to comps in Q3, That was weighted to the back half of the quarter. And again, that's largely related to prep cleanup activities. We saw strength in categories like generators, chainsaws, cleaning supplies, and lumber. But again, the majority of that back half weighted.

As it relates to our margins and pressure from the storms, really what we saw in terms of impacting gross margins, it's reflective of product mix. Again, categories like generators, OPE, we had incremental transportation, damaged inventory in multiple locations.

And then from an SG&A standpoint, just a number of one-timers there as it relates to community support, facility repairs, store impairments, and then just some incremental OpEx to support our stores, so definitely a bit of a drag on the incremental sales, mostly isolated to Q3.

Operator

Simeon Gutman, Morgan Stanley.

Simeon Gutman - *Morgan Stanley - Analyst*

Can I just ask follow-up on maybe the hurricane and related to Q4. It looks like comps will be a little bit better because of hurricane but EBIT dollars doesn't look like it will be. So is there anything unique on margin that's holding back Q4? And I apologize if you said it earlier and I missed it.

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

Simeon, this is Brandon. We are adding some modest storm-related benefit to Q4 in the top line. But from an operating margin standpoint, in Q4, excluding storm-related impacts as it relates to the full year roughly in line with the prior year outlook. So as I mentioned, most of that is isolated to Q3, slight impact on top line for Q4, but we're not expecting any sort of significant drags from a gross margin or operating margin standpoint in Q4.

Simeon Gutman - *Morgan Stanley - Analyst*

Okay. And a follow-up on the Pro. It picked up on at least a single year basis. I think it's high single digits. So can we talk about what's driving it? And I guess this may be difficult to answer, but when the cycle turns, curious, does traditionally DIY or DIFM accelerate more? And I get DIY is a bit depressed relative to where you'd like it to be. But does that mean it necessarily comes up first? Or does the Pro strength continue given where it is?

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

So Simeon, I'll take the first part of that, and I'll let Joe just give some specifics on some of the initiatives that we're seeing that's really driving the business. So if I could take you back, I mean, when we started this journey back in 2018. I mean our Pro penetration was less than 20%, and we didn't really have a true strategy to speak of.

And our Total Home Strategy is really starting to pay some benefits, and that's really driving the outperformance. The things that I can be very specific on that we're seeing this really resonating with our Pro customers, and let me remind you, this is the small to medium Pro customer, which has a total addressable market of about [\$250 billion], just that small to medium Pro.

And so our focus has been on expanding Pro brands, which Bill and his team have done just an incredible job of getting those brands that literally had walked away, or brands that we had to reintroduce to our company.

We've improved service levels in the stores, and I'll let Joe speak specifically on that, and we've made just aggressive investments in what we call never out key SKUs to make sure that the Pro is always service when they come in to buy those items.

And our loyalty program is providing some level of stickiness even though we're going to talk next month at the Investor Conference, some unique tweaks we're going to make to that. And digital online for Pro, grew double digits as well, and we're just really pleased with the fulfillment capabilities. So that's the snapshot of kind of how we performed as well as we did in Q3.

Now as we think about the recovery, obviously, we don't have a crystal ball, but the way we look at it is what I said earlier. We're committed to growing Pro at 2x the market because we think that there's market share we can continue to gain. In the small to medium-sized Pro, we believe is up for grabs and also it's a very fragmented marketplace.

So we believe that what we designed can allow us to continue to grow that at 2x the market. But when the market recovers, we believe that recovery is going to come in earnest in that DIY big ticket and also for the do-it-for-me customer. And those are going to be two specific topics that we're going to be very purposeful in discussing at the upcoming conference around initiatives to drive that.

So when the inflection happens, we're going to be in a really good position as a company to take advantage of that inflation and have exactly what the customers need from technology and capabilities to serve them. Now let me just transition to Joe and he can talk specifically about some of the service initiatives in the store that's really helping us drive this Pro customer.

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

Yeah. Thanks, Marvin. Simeon, as you know, we've been focused on the Pro for the last six years. And it's all part of the Total Home Strategy. And when I think about what is driving the Pros to choose Lowe's today, we talked a lot about the tools we continue to provide to the Pro.

The easy in and out, the investments we're making in our outside sales teams, and more specifically, as you think about our Pro fulfillment centers that we've been focused on across the country. And so these allow us to use these facilities in a dual purpose. And we're very pleased about the survey from Q3. The Pros backlogs continue to have a lot of strength. They continue to remain healthy, really focused on smaller projects, and we feel that our ability to service this Pro is taking share.

Operator

Christopher Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Securities LLC - Analyst*

So I'm going to try to go after the DIY question a little bit of a different way. It looks like DIY was maybe down 4%, the first half was down about 7%. Was this in line with your expectation? And then thinking forward, if you went back to post the financial crisis, there's a lot of small update projects like paint, some appliance replacement maybe some decor items and needs. So as you look ahead, how does the progression of DIY over the year influence your view on not only like when DIY flips, but how it flips?

And do you think that this next cycle, especially considering where rates are, looks like that past period of like 2010 to 2013?

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

Yeah. Chris, this is Brandon. I'll just speak to high-level DIY performance and this kind of ex hurricane for the quarter. I would say our trends that we saw largely were in line with our expectations. As you mentioned, we continue to see strength in some of the smaller project activity.

We called out outdoor projects. When we look at the DIY customer, they remain engaged across key events and continue to look for value. We saw that over Labor Day and the MyLowe's Rewards week. But certainly continued underlying pressure in big-ticket discretionary, so categories like kitchen and bath, flooring and decor, and really continue to just see that tied to the macro. We look at mortgage rates that continue to remain elevated, consumer sentiment, housing turnover, affordability continue to create pressure here in the near term.

So we do see that pressure sort of continuing as we transition from '24 and into '25. We are expecting some level of additional engagement and some acceleration as we move from smaller repairs into some of the larger projects, but really the timing of that and into '25 and when that happens is still continues to be uncertain. So that's what we're looking for as we look for an inflection point, but as it relates to the near term, more in line with expectations at this point.

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

And Chris, this is Marvin. So we've been very specific over the last few years on where we placed our capital investments, and we spent a lot on IT infrastructure on digital, and we spend a lot on store improvement. So if you think about kitchen and bath showrooms, we have a best-in-class presentation in our stores and we have a best-in-class experience online.

When you think about appliances, we have a best-in-class appearance in our stores and presentation. We have the best assortment in retail, and we have the best experience online, where we're the only retailer that can ship almost virtually any ZIP code in the country next day and today.

And so my point is, is we don't know when the inflection is going to occur, but we think it will occur in a DIY, do-it-for-me category. And we made investments to position ourselves to be able to take market share and take our unfair share of the demand that will show up based on this \$35 trillion in equity that's out there in these homes that are aging on average of 41 years old in US history.

So we don't know when the inflection happens, but when it happens, we've been building our playbook to be prepared and positioned to get our fair share and get our unfair share of that market demand, and that's what the intent is for us and we'll again provide more specifics on that when we update on our long-term strategy next month.

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

And more specifically to your smaller projects, things that we've been focused on, our same-day delivery options for paint samples, expanding our gig delivery network, and then the infrastructure we've been building around our do-it-for-me business. We've been laser-focused on things like central selling to complement. And so again, is we don't know when the inflection point will happen. We're certainly confident in the investments we're making.

Christopher Horvers - *JPMorgan Securities LLC - Analyst*

Got it. And then my follow-up is a margin question. So, one, was the hurricane actually a net drag to earnings? It seems like that's what your point is too. Can you share any detail there? And then I know you changed your operating margin for the storm impact. As you think about the gross margin, you had previously guided gross margin up in the third and fourth quarter. I think it would have been ex the storm impact. Do you still expect gross margin up in the fourth quarter?

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

Yeah, Chris, to the first part of your question, from an earnings standpoint, it was slightly accretive. So carried a lower margin profile, but still accretive to earnings when we look at the incrementality on the sales. And then your second part of your question on the gross margin profile, and I'm speaking for the year.

Now we still are roughly expecting flat for the full year. So that's inclusive of the hurricane-related pressure that we called out from Q3, ongoing headwinds as it relates to margin, our supply chain investments with market delivery and the early innings of Pro fulfillment network.

And then in terms of offsets, their merchant supply chain PPIs, so initiatives, including expanding private brands, pricing initiatives. And then we're seeing really nice progress on the cost clawback with our suppliers, and we've seen that benefit accelerate as we move through the year and turn through inventory. And then other items in gross margin, items like credit and shrink continue to be roughly flat for the full year, so really great job by the teams managing those pressures.

Operator

Eric Bosshard, Cleveland Research.

Eric Bosshard - *Cleveland Research Company - Analyst*

Two things. First of all, Bill, you talked about and Marvin, you talked about as well, affordability challenges is something that's pressuring the consumer. I'm curious how you're thinking now and even in '25, what you're doing in response to that.

I guess you talked about a couple of categories, appliances where maybe there was some trade up. But curious if as you think about promotions and price points, if you're doing anything in response to that, to better position the business for traffic with consumers or where you are now is where you want to stay?

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

Yeah, Eric, great question. We've continued to stay focused, really laser focused on value. And as we've said in past meetings, value can come in a number of different ways. Value can certainly come through price, can come through new and innovative products, and we've seen it really come all three ways.

And so some of the stuff that I referenced in my prepared remarks, being able to drive some of these smaller projects is really value-driven based on getting the consumer focused on different projects and products across the store.

And as we head into the holiday season, we're obviously excited about some of the new stuff that we're bringing. We've got great values across the board from Klein, DeWalt, CRAFTSMAN, Kobalt. We've got great innovation coming from appliances as well as new products that we're introducing, as I called out in my prepared remarks from LG in this -- laundry, this new innovation in laundry with the all-in-one is really a whole new segment.

And that's not a low price point, but it's a great value product when a consumer looks to combine both the washer and the dryer in one, and now it's a category of products where it had only been one item in the past. And then as we said about MyLowe's Rewards, that gives us the opportunity to differentiate to our members and offer them best customer offers as well as exposure to new stuff ahead of time.

So yes, to your question, we want to continue to do it through a number of different avenues, and we're going to be laser focused on it as we go forward just as we have been.

Eric Bosshard - *Cleveland Research Company - Analyst*

Okay. And then secondly, as you think about, again, related or considering the affordability challenges, when you think of -- as you commented, sustained pressure on DIY and especially DIY discretionary, as you think [about -- we don't know what's going to happen with tariffs, but we do know what's going to happen with tariffs] that there's going to be some incremental cost and certainly on your direct sourced business.

And then you think about managing expenses, I'm just curious how you think about managing expenses as it relates to margin in an environment with the sluggish demand with probably some incremental costs coming through.

You've done a good job in the past and taking cost out to manage margins through this environment. I don't know, in terms of what's going on now, is there anything incremental or any incremental opportunity on the horizon in the area of managing expenses to manage margin?

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

So Eric, this is Marvin. I'll take the first part, and then I'll hand it over to Brandon. I think relative to managing expenses, I would look at the reputation of this team and how well we have focus on, not only, just the fundamental management of the business and being really, really prudent on taking out costs and expenses, but also on our PPI initiatives and how that's permeated to every functional area of the company.

And so that's going to maintain irrespective of the macro environment, irrespective of our top line revenue, we're going to be laser-focused on taking our costs in managing expenses so we can get more of that flow through to the bottom line. I'll let Brandon add any additional --

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

Yeah, Marvin. Yeah, Eric, just to add on what Marvin said. SG&A, excluding the hurricane benefits for this year, largely in line with our expectations. We're super pleased as to how we've been managing the business over the last three years amidst significant top line pressures. We've continued to make investments in our strategic initiatives, continue to manage our margins.

We have great alignment across the organization to maintain disciplined expense management, effective cost controls. And then as Marvin mentioned, our PP&I initiatives where those have come into play, continue to flex the muscles to manage the P&L, really outrun our expectations for this year.

So we're going to continue with that. We have next inning of PPI initiatives we're going to talk through in December as we look ahead and continue to be pleased with the progress that we're making there on SG&A.

Operator

Karen Short, Melius Research.

Karen Short - *Melius Research - Analyst*

Just a few questions. The range in 4Q is very wide when I look at operating profit growth and margin expansion specifically. So maybe can you talk to that a little bit? And then I don't know where your philosophy is on breaking out storms just going forward, but can you give an impact of the storm specifically on October?

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

So Karen, I'll talk about your first question on the range. And really as it relates to operating margin and EPS, just a function of the 50 basis point range that we have for top line. Again, that assumes no improvement in underlying macro pressures.

We still expect big ticket DIY pressure kind of across both ends of the range. And then really, when we look at Q4, weather can be volatile, the timing kind of intensity of storms can impact demand, and we also have one less shopping week between Thanksgiving and Christmas, which this year could create some volatility and that could impact how kind of holiday demand plays out.

So we try to be prudent in setting those expectations and allowed for a bit of that uncertainty as it relates to top line range, and that's reflected in the operating margin in EPS. And then I think to the second part of your question, we're comfortable given the guidance on the storm-related impact for the full quarter, the 100 basis points, and we're not going to get into the details of breaking that out by month.

Karen Short - *Melius Research - Analyst*

Okay. And then just my follow-up as it relates to your Analyst Day. Are you still thinking about a format that gives three scenarios? Or is that maybe too complicated?

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

Yeah, Karen. We're excited for Analyst Day. We will provide an update on financial expectations, one, for the home improvement market. And then as you mentioned, we're also looking forward to sharing some initial scenario planning views for 2025 and beyond. So we are preparing to have that discussion here in a few weeks.

Operator

Seth Sigman, Barclays.

Seth Sigman - *Barclays Corporate & Investment Bank - Analyst*

Just a couple of margin follow-up questions. So if you could just update us on the vendor clawbacks, just the progress with that. It'd be great if you could quantify the benefit this quarter? And if you could just remind us, is this a onetime step up by kind of building up through this year and then we should expect more gradual gains from here as part of some of the processes you've put in place or any other way to think about that?

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

So Seth, this is Bill. I'll take the first part, and I'll let Brandon have the second part of this. But I think it's important to remind everybody that cost management is an ongoing process that the teams are always involved in and we're obviously pleased with the progress that we've made this year to help reduce costs and claw some of those back.

And as we've talked about before, really appreciate the support of our supplier partners in order to do that. And then we're looking to invest some of those dollars to remain competitive in the market as it relates to price, using it to drive traffic and sales on seasonally relevant offers that make sense, as well as investing in marketing and in-store merchandising efforts, so that we can put that money to work, but ongoing efforts and will remain an ongoing effort as we go forward.

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

Yeah. And Seth, just as it relates to quantification of that, I would just say, meeting our expectations as we outlined at the beginning of the year. And we did know it was back half loaded. So as we've made progress with our suppliers, taking cost out, we expected that to flow through inventory and positively impact gross margin more significantly as we move through the back half of the year. But also, as Bill mentioned, we're continuing to invest in traffic driving initiatives that could be through better offers, reduce price, investments in advertising.

So it's going to kind of be sprinkled across different areas of the P&L at different times of the year. But just in terms of our overall goals that we set out at the beginning of the year, really nice progress against that.

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

And Seth, this is Marvin. I'll just add just one additional comment. When I arrived here, cost discussions with suppliers were emotional conversations with no internal data. And we've now built out a team, we built out systems, processes that are data-driven with component costs, with raw material costs, and with a very detailed analysis that gives Bill's team and Brandon's team the ability to sit down and have very data-driven conversations with suppliers relative to any cost increase or cost clawbacks.

And to Bill's point, this will be ongoing. It will be ongoing based on a much more robust process that we have in place. that we didn't have before. And that's one of the main reasons why as we get into this unpredictability of a tariff environment, We're going to be very positioned to manage that as well as any other retailer in the world.

Seth Sigman - *Barclays Corporate & Investment Bank - Analyst*

I guess even with the idea that you can continue to reinvest back in the business, you have put out an algorithm that points to operating margin expansion based on certain revenue targets. As you think about next year, you're going to be lapping a lower gross margin in the first quarter,

you'll be lapping some of these incremental hurricane costs, although I guess net, you've had a positive impact to EBIT. But I'm just curious, has your view changed at all about the operating leverage in the model, the type of comp you need to get that breakeven or operating leverage?

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

Yeah. This is Brandon. I would say you highlighted kind of our flow-through rule of thumb. And I would just say it's just that, right. Directional framework on how we expect to manage through different sales environments.

This team, as we've mentioned, has proven our ability to manage profitability well through the downturn that we've been experiencing, continue to deliver on PPI commitments. And as it relates to kind of reframing that and how we're thinking about specifically 2025 scenarios and even beyond, we're going to hold off really on that discussion. I look forward to sharing details plans next month at our AIC on that.

And Rob, with that, we have time for one more question.

Operator

Chuck Grom, Gordon Haskett.

Chuck Grom - *Gordon Haskett Research Advisors - Analyst*

Just a follow-up on Eric's question earlier. Your PPI efforts continue to be the gift that keeps on giving. Can you guys size up the opportunity set as we look ahead? Are there significant buckets to source from? Then my follow-up is you called out 5 of your 15 regions outperforming, are there any commonalities across those areas. One of your competitors called out the West as being a pretty strong region for them over the past few quarters. Just curious if you're seeing that, too.

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

So relative to PPI, we're going to give a really robust update at the December Analyst and Investor Meeting. But at a high level, we think we're in the early innings, this is a gift that keeps on giving because we keep on working to gift, so we can continue to keep on giving.

And a lot of it is technology driven and a lot of it is process driven, and we're really excited about the possibilities. And you will hear from almost every presenter at our upcoming conference in December on ways they are identifying PPI value within their functional areas.

And relative to regional breakouts I would say, relatively consistent with the exception of hurricane-impacted areas if you remove that, our overall performance was consistent relatively from coast to coast.

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 at our Analyst and Investor Conference on December 11.

Operator

Thank you. This concludes Lowe's third quarter 2024 earnings call. You may now disconnect.

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