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LOW.N - Q2 2025 Lowe's Companies Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, everyone. Welcome to today's conference call to discuss Lowe's Companies second quarter 2025 earning results, and Lowe's agreement to acquire Foundation Building Materials or FBM.

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.

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 of Stores; and Brandon Sink, our Executive Vice President and Chief Financial Officer.

As noted in our press release this morning, announcing the definitive agreement to acquire FBM, there are accompanying slides to today's comments, which will be referenced on today's call. I would like to remind you that our notices regarding forward-looking statements are included in our press releases and presentation that can be found on Lowe's Investor Relations website. During this call, we will be making comments that are forward-looking, including our expectations for fiscal 2025. Actual results may differ materially from those expressed or implied as a result of various risks, uncertainties, and important factors, including those discussed in the risk factors, MD&A, and other sections of our annual report on Form

10-K and our other SEC filings. Additionally, we'll be discussing certain non-GAAP financial measures. A reconciliation of these items to US GAAP can be found on the Quarterly Earnings section of our Investor Relations website.

Now, I'll turn the call over to Marvin.

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

Thank you, Kate and good morning, everyone.

This morning, we announced the acquisition of Foundation Building Materials or FBM, a premier distributor of interior building products including drywall, metal framing, ceiling systems, insulation, commercial doors and hardware, and other complementary products.

This acquisition represents a transformational move when it comes to advancing our Total Home strategy and enhancing long-term shareholder value. With the acquisition of FBM, we are strategically expanding our Pro offering to serve the Large Pro, especially their planned spend.

We're now well positioned to not only continue driving growth with our core DIY and small-to-medium Pro customers, but this acquisition also unlocks our ability to serve the Larger Pro within a $250 billion total addressable market.

The acquisition of FBM strengthens our portfolio, diversifies our revenue streams, and allow us to capture a larger portion of Pro sales, all of which is expected to deliver significant long-term value to our shareholders.

Brandon and I will discuss this acquisition in more detail later in the call. But first, I'll turn to our results for the quarter. In the second quarter of 2025, we delivered sales of $24.0 billion with comparable sales up 1.1%. We drove solid performance in both Pro and DIY and strength seasonal sales as weather improved throughout the quarter.

In addition to sales growth, our persistent focus on productivity drove better-than-expected operating performance, leading to adjusted diluted earnings per share of $4.33, an increase of 5.6% over last year. And our Perpetual Productivity Improvement or PPI initiatives continue to deliver results we set out to achieve.

This is a testament to the culture we’ve built prioritizing continuous improvement throughout the business. Later in the call, Bill and Joe will share specific examples of these initiatives. Across the board, we're pleased with the results we delivered as we continue to execute against our long-term strategy and invest in areas that position us for sustainable growth.

Through our Total Home Strategy, we were able to deliver continued Pro growth this quarter, stacking on top of strong mid-single-digit growth in Q2 of last year. Additionally, we grew our online sales by 7.5%, partly driven by a more immersive shopping experience and increased traction for My Lowe's Rewards, which is helping us increase customer loyalty and drive repeat purchases.

We also launched the first Home Improvement creator Network with MrBeast, the world's most-followed creator among the first to join. This network is aimed at partnering with influencers across social media as trusted voices to drive brand engagement for our products and services.

We're excited to see how our new creator network will enhance our connection with Gen Z and Millennial customers. We're also continuing our marketing partnership with Lionel Messi, widely recognized as the best soccer player in the world, as well as our sponsorship of the NFL as the official home improvement partner.

Turning to the macro environment homeowners remain financially healthy, supported by strong balance sheets, wage growth, and low unemployment. The medium to long-term outlook for the home improvement industry remains positive, driven by an aging housing stock which is at a record high, substantial homeowner equity, and the pent-up demand from delayed projects.

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In fact, industry analysts estimate that there's roughly $50 billion of deferred project demand as many homeowners have delayed larger discretionary projects over the past few years. At the same time, an estimated 18 million new homes are needed by 2033.

Together, these trends point to a healthy pipeline of demand for home improvement and new home construction ahead. That's why we're confident that our most recent investments and acquisitions will uniquely position us to accelerate sales growth when the market turns.

Before closing, I would like to officially welcome the Artisan Design Group or ADG team to Lowe's. We closed on this acquisition in June, and we believe the future combination of ADG and FBM under the same umbrella will position Lowe's to offer large Pro customers a full complement of interior finishes to meet their needs.

I also want to thank our Lowe's frontline associates for their commitment to serving our customers day in and day out. I love spending time in the stores with our frontline associates who remain the driving force behind our company.

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

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

Thanks, Marvin, and good morning, everyone.

This quarter, we delivered positive comps in 9 of our 14 Merchandise Divisions, driven by continued growth in Pro and online and a solid recovery in our spring seasonal categories. Starting in Hardlines, we delivered positive comps in Hardware, Lawn & Garden and Tools with widespread strength in key seasonal categories, especially as weather improved.

We drove positive comps in Lawn & Garden, partly driven by a solid performance in live goods and the support of our growers as we navigated weather challenges early in the quarter. We also saw strength in Scott's soils and fertilizers as customers responded to their great offers.

Turning to Tools. We delivered strong performance in Power Tools and Tool Storage. Customers gravitated toward our robust assortment and compelling offers, including buy one, get one free deals from brands like DeWalt, Craftsman, and Kobalt.

Offers like these demonstrate our commitment to highlighting and delivering value for customers both online and in store.

Turning to Building Products, we drove positive comps across Building Materials, Rough Plumbing, and Lumber, as we're seeing continued momentum in repair and maintenance projects. We saw broad-based strength in interior categories like Plumbing Repair, Water Heaters, and Drywall, as well as in exterior categories like Roofing, Siding, and Composite Decking, where we offer the top three brands in Trex, Timber Tech, and Deckorators.

In Home Decor, we delivered positive comps in Paint, Flooring, and Appliances, where we continue to build on our momentum with both positive sales dollars and unit comps this quarter along with driving sales growth in all major appliance categories.

Lowe's continues to offer unmatched value in Appliances with the broadest assortment and next day delivery available in virtually every ZIP code in the US. We're also pleased with our ongoing efforts to build out our powerful Pro brand lineup, making sure that we have the brands and products that are most important to these customers.

Over the last few years, we've added brands like Klein Tools, Hubbell, Wal-Board Tools, and more. And today, we're excited to welcome Daltile to Lowe's, which is the best-selling tile brand in the country and the Pro preferred choice for tile across residential and commercial projects.

Daltile offers direct-to-home and job site delivery, ensuring materials arrive when and where they're needed. As Marvin mentioned, we remain focused on driving our Perpetual Productivity Improvement, or PPI initiatives throughout the business.

One example, we have enhanced our assortment planning tools for seasonal buys over the last few years, which is allowing us to better anticipate demand and optimize our inventory allocation. These enhancements have led to improved sell-through and less end-of-season clearance and ultimately improvement in gross margin.

This brings me to our approach to managing the global sourcing environment. I'm pleased that the teams are executing our playbook well and ensuring that we maintain strong assortments and excellent value for our customers with the goal of remaining price competitive.

Our merchants are making great progress working closely with our suppliers to help mitigate cost pressures while ensuring a stable supply for our shared customers and accelerating our country-of-origin diversification to reduce our single-country dependency in any given product category.

So as I wrap up, I want to thank our merchant team as well as our MST associates and our vendor partners for their continued efforts to deliver the results.

And now, I'd like to turn the call over to Joe.

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

Thanks, Bill and good morning, everyone.

I want to start by thanking our frontline associates for their hard work and dedication. Their extensive knowledge of home improvement, relentless customer focus, and willingness to adopt new technology are driving measurable impact across the business.

We're seeing that impact in higher customer satisfaction scores with significant improvements in the areas of associate helpfulness and knowledge. These increases coincide with the rollout of Mylow Companion, our AI powered app designed specifically to support associates on the sales floor.

The app is helping new associates build confidence early while enabling experienced associates to expand knowledge across departments. For example, a Paint department associate in the Garden Center can use the app to instantly calculate how much mulch a customer needs and recommend the right tools for spreading it, and a Hardware associate can help a customer in the Appliance department quickly identify the most energy efficient washer and dryer repair available under $1,500.

We're pleased with the strong adoption rate, which has already surpassed our targets and because the app is powered by AI, it has the capacity to learn from feedback and deliver even more helpful responses over time.

Likewise, our customer satisfaction scores remain strong with the Pro, and as Marvin mentioned, we continue to see year over year growth in this segment, building on mid-single-digit gains in the second quarter of last year. In a recent Pro survey, Pros indicated they are confident in their near-term prospects with stable backlogs.

Turning now to our Perpetual Productivity Improvement initiatives or PPI. Let me provide an update on one of this year's key initiatives, streamlining our Freight Flow Process. We're using smarter truck organization, improved labeling, and redesigned carts, creating a more direct path from truck to shelf.

These enhancements reduce unnecessary touchpoints and footsteps, reducing the overall time to complete these processes, which in turn creates payroll productivity. Finally, I'm excited to share that we opened three new stores this quarter in key growth markets, North Fort Worth, Texas; Georgetown, Texas; and Maricopa, Arizona.

And later this week, we are set to open a location in Braselton, Georgia. New stores are outfitted with our latest enhancements, including an updated front-end experience, optimized assortment, and upgraded technology.

To drive awareness and engagement in these new communities, we host MyLowe's Rewards grand opening events where we offer members exclusives to accelerate enrollment.

I'd like to personally welcome the new teams from each of these stores.

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

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

Thank you, Joe, and good morning.

Beginning with our Q2 results, we generate a GAAP diluted earnings per share of $4.27. In the quarter, we closed on our acquisition of ADG and recognized $43 million in pre-tax, transaction costs and purchase accounting adjustments.

Excluding these impacts, we delivered adjusted diluted earnings per share of $4.33, an increase of 5.6% compared to adjusted diluted earnings per share in the prior year quarter. Additionally, in the second quarter of last year, we recorded a pre-tax gain of $43 million associated with the 2022 sale of our Canadian retail business.

My comments from this point forward will include certain non-GAAP comparisons that exclude these impacts, where applicable. Q2 sales were $24 billion with comparable sales up 1.1% in the quarter, driven by recovery in seasonal categories as weather improved, as well as continued strength in Pro, Online, and Appliances.

Monthly comps were down 1.0% in May, up 0.3% in June, and in July, we delivered positive transactions and comps up 4.7%. For the quarter, comparable average ticket increased 2.9% and comparable transactions declined 1.8%.

Adjusted Gross Margin was 33.8% in the quarter, up 37 basis points from last year with improvements in both Shrink and Credit revenue, as well as continued benefits from our Perpetual Productivity Improvement or PPI initiatives. And adjusted SG&A of 17.3% of sales de-leveraged 6 basis points, in line with our expectations.

Adjusted operating margin rate of 14.7% was up 23 basis points versus prior year, and the adjusted effective tax rate of 24.1% was in-line with prior year results. Inventory ended Q2 at $16.3 billion, down $499 million versus prior year.

We continue to manage our inventory replenishment in line with demand trends while also driving strong in-stocks across both Pro and DIY categories. ADG operations did not have a material impact to our Q2 operating results.

We are pleased with our performance this quarter as the organization continued to navigate this uncertain environment while offering compelling value for our customers across our product assortments. The teams leaned into our best-in-class tools and processes to rapidly adjust to changing demand trends through the quarter and deliver on our operating commitments.

Turning now to capital allocation. In Q2, we generated $3.7 billion in free cash flow, inclusive of $495 million in capital expenditures, and we invested $1.3 billion for the acquisition of ADG. We paid $645 million in dividends at $1.15 per share and announced a $0.05 per share increase to $1.20 per share for the dividend paid on August 6.

And we ended the quarter with adjusted debt to EBITDAR of 2.96 times with $4.9 billion of cash and cash equivalents, and delivered a return on invested capital of 29.5%.

Now turning to our financial outlook. Our first half results actualized within our expected range of outcomes, and looking ahead, our expectations for a roughly flat home improvement market and the performance of our core business remain unchanged.

The outlook assumes current consumer and home improvement trends persist, and our strategic initiatives continue to drive momentum, especially in Pro and online. Today, we are updating our full year 2025 outlook only to reflect the inclusion of ADG.

Taking this into account, we are now expecting sales in the range of $84.5 billion to $85.5 billion, with comparable sales in a range of flat to up 1%. We also now expect full year adjusted operating margin in a range of 12.2% to 12.3%, and adjusted diluted earnings per share of approximately $12.20 to $12.45. And we continue to expect capital expenditures of approximately $2.5 billion as we invest in the business and open new stores.

Please note that this outlook does not include any potential impacts related to the acquisition of FBM. On an annualized basis, we expect ADG to negatively impact consolidated adjusted operating margin by approximately 15 basis points.

Now to assist you with your modeling, here are a few points to consider for the third quarter. We expect third quarter comp sales to be approximately 125 basis points, above the bottom end of our full year guide, and we also expect third quarter adjusted operating margin rate to be down approximately 20 basis points from prior year adjusted operating margin rate driven by ADG operating mix.

In closing, we are confident our Total Home strategic initiatives are resonating with customers and that we are making the right investments, both organic and inorganic, to position the company for sustainable long-term sales growth and shareholder value creation.

And with that, I will hand the call back over to Marvin to discuss this morning's announcement regarding the acquisition of FBM.

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

Thank you, Brandon.

Over the last couple of years, we've been assessing potential new opportunities for growth within our industry. We evaluated a number of options, including FBM. Since the beginning of this year, we met with the FBM management team many times and visited several of their sites across the country.

We continue to be impressed not only with their industry expertise, but also their strong focus on revenue growth which allowed them to seamlessly integrate multiple product verticals. We have now identified FBM as the right strategic fit for Lowe's to best complement our Total Home strategy and continue to position the company for long-term sustainable growth.

I'd like to start by highlighting their core strength and then I'll walk through the strategic rationale for this acquisition. As you can see on slides 6 and 7, FBM has a proven 14-year track record of growth and a strong reputation with both the residential homebuilder and with commercial Pros across new construction and repair and remodel applications.

FBM has a diversified customer base in its commercial business, including hospitals, data centers, and office buildings. This mix creates more stability and better insulates the company from the ups and downs of the housing cycle.

FBM also achieved scale the right way, both as a disciplined buyer and builder. And since its inception in 2011, the company has successfully integrated more than 60 acquisitions across multiple product verticals and opened more than 50 greenfield locations. The result, a purpose-built, highly scalable, multi-trade distribution platform.

And today, FBM is a leader in Drywall, Ceiling Systems, and Metal Framing with an established presence, loyal customer base, and a highly effective sales force that optimizes advanced selling tools to drive engagement and conversion.

One of the most compelling aspects of the FBM acquisition is the strategic presence in key geographies such as California, the Northeast, and the Midwest, regions where we currently have less of a presence. This provides us with significant growth opportunities to expand our Pro footprint and capture sales in these areas of dense population.

With over 370 branches across the US and Canada, FBM's extensive network is both expansive and highly complementary to our existing operations, further enhancing our ability to scale and drive long-term growth. Over the years, FBM has built a strong financial profile with consistent profitable growth.

And from 2019 to 2024, FBM drove revenue CAGR of approximately 25% and adjusted EBITDA CAGR of 30% through a combination of acquisitions, organic growth, and greenfield expansions. This impressive track record outperformed their public peers in Pro distribution over this timeframe.

Now moving to slide 8. FBM is led by talented industry veterans at every level of the organization. Founder and CEO, Ruben Mendoza started with a single branch 14 years ago and built an industry-leading platform. He has a proven history of attracting and retaining top talent and a leadership team that's been with FBM for roughly a decade on average.

This leadership team brings a disciplined approach to execution and an extensive base of 40,000 Pro customers. And like us, they focus on continuous improvement while always putting the customer first. And we're excited to welcome them to Lowe's and look forward to working with them as they continue to lead this business.

Now I'd like to spend a moment on the strategic rationale for this acquisition. On slide 9, you can see how this deal strengthens Lowe's position and why we're so enthusiastic about the opportunity ahead. First, this acquisition enhances our offering for Pro customers and expands our capabilities in a number of ways.

We'll have faster fulfillment for larger deliveries as we use FBM's capabilities to expand job site delivery for Lowe's. And we'll also expand our combined product offerings to both FBM and Lowe's Pro customers as we build on strong vendor relationships across both companies.

In the short run, we plan to add key FBM products along with their fulfillment capabilities to the Pro Extended Aisle in our Lowe's stores. And we'll bring the catalog of Lowe's key Pro SKUs to FBM's Pro customers to drive greater attachment of Lowe's complementary products.

And further, we'll strengthen our Pro digital tools by using the myFBM mobile app, which offers real-time pricing, ordering, and delivery tracking for complex orders and is available in both English and Spanish. In addition, we plan to use FBM's AI Blueprint Takeoff technology to enhance our offering at our Lowe's store Pro desk, which will automatically extract material quantities and measurements from digital construction plans, significantly accelerating the speed and accuracy of the estimating process.

And we'll enhance our trade credit offering which will be helpful for Pros shopping our stores for larger projects. Second, this acquisition gives us the opportunity to create a platform for ongoing growth in Pro distribution.

Over the long-term, we plan to utilize FBM's successful integration playbook, including a rapid transition to a single ERP platform. This will position Lowe's for continued growth across key product categories. Also as I mentioned earlier, with our recent acquisition of ADG, we're excited to see how quickly both FBM and ADG will allow us to offer our customers a best-in-class comprehensive interior solutions platform as outlined on slide 10.

With an estimated 18 million new homes needed by 2033, we envision incorporating the products and services from each company to provide large Pro customers with everything from drywall to ceiling systems, insulation to doors, as well as flooring, cabinets, and countertops.

While we continue to serve our DIY and small-to-medium Pro customers through our stores and online, we are confident that operating both FBM and ADG under the same umbrella will help us offer differentiated products and services for the Large Pro’s planned spend.

And finally, this acquisition marks the next step in our multi-year strategy to transform our Pro offering, and it helps us deepen our reach with Pro customers, and it unlocks our ability to serve larger Pros within this $250 billion total addressable market.

It will increase our Pro penetration while allowing us to better balance our DIY and Pro revenue streams, resulting in sustainable long-term sales growth. Taken together, these moves will allow us to serve Pros more comprehensively, achieving greater scale through our distribution network and move with greater speed and flexibility than ever before.

In closing, we couldn't be more excited about what's ahead for Lowe's as we combined forces with FBM. This acquisition will diversify our revenue streams and allow us to deliver long-term value to our shareholders.

And with that, I'd like to turn it over to Brandon, who will tell you more about the transaction details.

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

Thanks, Marvin.

This is a great day at Lowe's as we announced this exciting transaction that will not only enhance our Pro offering but also better position the company for long-term sustainable sales and profit expansion. The transaction details are outlined on slide 11 and include a purchase price of $8.8 billion which reflects an adjusted EBITDA multiple of 13.4 times.

The acquisition is expected to close in the fourth quarter of 2025, subject to customary closing conditions, including regulatory approvals. It's expected to be accretive to adjusted diluted earnings per share in the first full year after closing, excluding synergies.

We intend to fund the acquisition through a combination of short-term and long-term debt. We expect that the robust cash flow generation of our core business, combined with FBM's track record of strong cash flows will allow us to de-lever quickly down to our target ratio by the end of the second quarter of 2027.

We also plan to pause share repurchases until that time. We intend to maintain our solid investment grade credit ratings of BBB+ and Baa1. Our capital allocation priorities remain unchanged. We will continue to invest first in growth, to support our 35% dividend payout target and return excess capital to shareholders through share repurchases.

As Marvin mentioned, the FBM team has delivered consistent profitable growth since its founding. In 2024, on a pro forma basis, FBM generated approximately $6.5 billion in revenue and $635 million in EBITDA. And looking ahead, we expect that FBM will continue to grow organically and through greenfield expansion in the near term.

We also expect to drive incremental revenue in EBITDA with the cross-selling opportunities that Marvin outlined through our combined product offering. And we expect to deliver cost savings primarily by optimizing procurement, administrative and logistics spend.

In closing, this transaction will strengthen our competitive position, accelerate the execution of our long-term strategy, and further position the company for the expected market recovery. This in turn will create meaningful, lasting value for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Steven Forbes, Guggenheim Securities.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

Marvin, curious if you can expand on Foundation's year-to-date performance in 2025 given its pretty impressive growth track record for both sales and EBITDA and then comment on what percentage of the 33,000 SKUs will be net new to the broader Lowe's offering.

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

Those are good questions. On their year to date performance, we're not going to get into that level of detail until after we close the transaction. I can tell you we're very excited. And we're excited about the historical trends in their performance from a sales EBITDA and profit performance.

Again, we think they're the best player in the sector and it's one of the reasons why we were attracted to them. Relative to the SKUs, again, a little too early for us to get into that level of detail, but as Brandon and I both outlined in our prepared comments, we see an immediate benefit of Lowe's providing complementary attachment products to their large Pro customers and through our Pro desk, we just feel like that we have significant opportunities to get their products, their fulfillment capabilities connected to our customers and we think that's going to give us short-term benefits as we work through this entire process.

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

Steve, and I would just add, on the revenue side, we do believe meaningful synergy opportunities here. We think there's significant cross-selling opportunities. Marvin mentioned FBM's got a broader product offering, certain core categories that they carry drywall, ceilings, metal framing, insulation.

Our Pro extended aisle infrastructure that we've been building should allow us to quickly plug that in and access that across our stores, our MSAs, and then on the flip side, Lowe's has -- our broader product offering and complementary categories that we believe can help FBM drive greater attachment. Examples there, tools, safety equipment, fasteners. That's a very small percentage of what FBM's revenue mix is today.

We think we can expand that further and more meaningfully.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

And then as a follow up, as we sort of explore Foundation's sort of solutions on their website, it looks like order management right trade credit offering are some of their highlights. Curious, Marvin to just get your initial thoughts on what those sort of solutions or offerings can mean for the broader Lowe's experience among the current Pro customer base.

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

That's one of the reasons why we selected them as the acquisition target. They have a very effective transformation process relative to how quickly they can convert their own roll-ups on their ERP platforms. So, they have a consistent companywide ERP which makes it a lot easier for us from an synergistic and integration perspective.

In addition to that, we talked about their AI-driven blueprint takeoff technology, which is the best I've ever seen. And we think we can immediately plug that into every Pro desk in our 1,750 plus stores. And as Brandon mentioned, the ability to get them connected to our endless aisle at our Pro desk from a product and fulfillment standpoint we think will immediately benefit some of our medium Pro customers and some of the large customers that come in and we can't service at a high level.

And their MyFBM mobile app is best in class. It provides real-time view of pricing, inventory availability, order deliveries, and that's also something we believe we can quickly plug in to our Pro desk. And so the key for us was we really believe that FBM could complement us from a large complex pre planned Pro, which is where we have capability needs, but we were even more attracted that FBM can help us in our 1,750 store Pro desk with our small to medium Pro with some of the capabilities that they have.

Not to mention, as I stated in my prepared comments, when you look at their geographic footprint, they have a dominant presence in California, which is their home base. They have a dominant presence in the Northeast and in the key metro markets in the Midwest, and these are areas that we have the least amount of store density and being able to have a Pro presence in these densely populated urban areas is something that Lowe's has been trying to accomplish for a couple of decades.

And so we think this acquisition gives us the ability to start to build from there.

Operator

Peter Benedict, Baird.

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

I'm going to stay with the core Lowe's business for now. But the first question, I saw that, yeah, I mean, you guys do a Pro sentiment survey every quarter. You mentioned the stable backlogs, but I'm wondering if you can kind of expand on that. Anything else you've got from those surveys this time around? Anything around labor availability or anything else that you would call out? That's my first question.

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

Yeah. So Peter, I think at a high level of the Pros, again, they reinforce the stable backlogs and that their business and their backlogs are healthy. Over 75% of the Pros stated that they were confident in their job prospects, which again is consistent with what we've heard in past quarters.

But they're also advising us. That they continue to concentrate on smaller projects, especially repair, remodel, and maintenance, which again, is what we're seeing and then the small to medium Pro, which has been our sweet spot from a customer segment, that's been the pivot for them with this lock-in effect with very low housing turnover.

The only concern they gave us is labor costs are going up for them. And so one of the reasons why Lowe's is one of the champions in the business roundtable of trying to create the skilled trade jobs in the country. There's becoming more and more of a shortage of skilled trades and master plumbers, carpentry, electricians, and we're starting to see that pop up in different parts of the country.

But overall, our Pros feel really good about their prospects for the balance of the year and that bode well for us to continue to take share with the small and medium customer.

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

My follow up question is on the flooring category. It was called out as being a positive in the quarter. Maybe just talk about what's happening in flooring, which is something you're doing, something you're seeing more broadly, just maybe expand on that a little bit.

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

We saw strength in our flooring business really across a couple of key segments, across carpets, our soft surface business, as well as our tile business, adhesives, as we look at our strength with our Pro customer. And so a nice blend of both DIY and Pro business within our tile and flooring program as well as our carpet program.

And then we're also excited as we announced in my prepared remarks of bringing Daltile to Lowe's, and so that's a significant brand of tile for us to be able to get access to for both the do it yourself and a Pro customer, and we're excited with what they bring to our program as we continue to strengthen what we're doing in flooring.

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

And Peter, I'll just add we're also very pleased with our central selling. As you can remember, flooring was our first category that we centralized for selling. This has really freed up our Red Vest associates to really stay focused on the customer and in improving the LTR for installations, so we're making nice progress there as well.

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

Good luck.

Operator

David Bellinger, Mizuho Securities.

David Bellinger - *Mizuho Securities USA LLC - Director*

Just on this transformational deal, can you give us some of the customer numbers or maybe the makeup of those customers with what size they are in terms of annual revenues? And then also within that, is there one specific capability that you see the most opportunity from whether it's the delivery or trade credit? Where can that be most exciting for Lowe's especially porting over to the core business?

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

Yeah. David, I'll hit the customer piece first. Really a diverse and highly fragmented base. They have about 40,000 customers and that's across the US and Canada and just from a concentration account, no single customer accounts for more than 1% of the revenue.

So really, when we look at the base, little to no concentration risk and I would also mention, we really like the mix of the business overall. It's about 45% residential, so that serves both single family, multi-family, 55% commercial, which is split between new construction, repair, remodel, and we believe this balance lends itself to diversification, provides that balance to our overall portfolio.

And specifically on the commercial side, less cyclicality and more of a sub end market diversification. So like the mix of the business overall, and again, little to no concentration risk from a customer standpoint.

Marvin, I'll toss the second part of that over to you.

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

Yeah. And look, the only thing I'll add, we talked about the combination of FBM and ADG, our previous acquisition, and what's interesting is that in some cases, when it comes to single-family construction, they serve the same large customer but they provide totally different solutions.

And so we just have this vision that we can take ADG's core business model which focuses on countertops, cabinets, flooring, product and install and then you combine that with FBM and we just envisioned having the ability to provide drywall, ceiling systems, insulation, doors, flooring cabinets and countertops, all for one large customer and we think that's going to be incredibly beneficial to the large single-family, multi-family construction company and customer and we think this company is something that is one of the reasons why we're attracted to make this acquisition with the hopes that we could put these two companies together.

David Bellinger - *Mizuho Securities USA LLC - Director*

And I also wanted to pivot over to the guidance and what's implied in the back half, a bit of an acceleration and same store sales growth. So can you just help us understand how much of that is due to pricing? We have noticed some incremental price increases across the store.

So is that fully embedded within the back half or is that potential upside as we move through Q3 and Q4?

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

Yeah. David, let me -- I'll just say the overall second half kind of guidance assumptions overall. I'll start with the macro piece first and really I think expectations there are more of the same as we look at the second half of our year.

We're still working through some short-term challenges including elevated mortgage rates, cautious consumer, affordability remains a pressure point that results in the lock-in effect that we've been seeing and also a depressed housing market.

So similar to what we said at the beginning of the year and back in May, we expect the overall home improvement market to be flat for the full year. That expectation continues. When you look at the first half results, we landed roughly where we expected outside some tough weather early in Q2, where we started slower through Memorial Day holiday, but it accelerated as we moved through July.

Really nice, almost 5% exit rate there. A portion of July comp was driven by the seasonal shift, but we also saw a solid performance in both Pro and DIY in Q2. So as we turn the page to the second half, our outlook really is unchanged since the beginning of the year.

The range implies flat to 2.5% comp. We expect that to be split evenly across Q3 and Q4. And we expected gradual improvements in the underlying business as we move through the year, and that's both on a one and two-year comp basis.

And then we continue to expect to see benefits from our Total Home initiatives, Total Home strategy as that ramps across the back half of the year, and that's both in the Pro space and the DIY space.

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

And David, this is Marvin. Specific to pricing, we said in our previous earnings call that we would maintain a portfolio approach. We would be price competitive and that's exactly what we've done in Q2. That's what we're continuing to do in the back half of the year.

Prices in retail will always be dynamic. Prices will fluctuate up and down through various categories based on competitive responses, internal algorithms. It's not like the old days where you're manually changing prices.

A lot of this is systemic, and we feel like we have the best-in-class tools to manage that exceptionally well, and we've been very transparent about that, and that's how we're going to manage it. We feel good about our promotional strategy as well.

You look at some of the things that we were able to do with Bill's team for July 4. We were promotional. We drove great footsteps. Bill talked about the positive unit comps in appliances as well as positive sales. And again, you could look at that and say it was a great value-oriented environment and we think that's going to be more of the same for us for the back half of the year.

Operator

Christopher Horvers, JPMorgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

So I'll follow up a bit on the weather question. You talked about $400 million potentially shifting into the second quarter from the first quarter. Did all of that happen and is it fair to say that weather was net neutral or do you think it was maybe a tailwind or headwind in the second quarter, especially thinking about the strength in July?

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

Yeah. Chris, I would say we realized the large majority of that $400 million. If you go back to the beginning of the year, the way we cadenced out Q1, Q2, we planned for more normal weather Q2. We expected the seasonal shift of about $400 million.

I would say with the exception of the couple of weeks around Memorial Day where it was slower because of the wet, colder weather, as we got into to June and July, very much played out as expected. So really happy with engagement that we saw.

We had great traffic in the store. As Marvin mentioned, great performance across our seasonal categories, and very much in line with our expectations.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

And then on the acquisition side, my question is, is there sort of a secondary investment cycle that emerges in the core Lowe's supply chain as you build out larger Pro fulfillment operations to perhaps get ahead of the future revenues for the Pro plan purchase?

Asked another way, does these acquisitions do sort of like the investment and fulfillment and branches and warehouses grow with the business or do you see the need to take this $2.5 billion of CapEx and make a step up to become more aggressive and get ahead of future growth?

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

Chris, it's a really good question. As we look at it now, we're going to work on integrating and getting this deal closed. We do see in the future some smaller tuck-ins on specific verticals, but we don't have anything in our current site to do another large acquisition like this one, but we do see a continuous investment in this platform.

This is, in fact, a platform that we purchased. One of the reasons why we chose FBM is because we love their ERP system. We love the verticals that they're in. As I mentioned, we love their geographic presence. We love the fact that they were one of the best technology platforms for a small company that I've ever witnessed including -- how they embrace AI and how they're leveraging that in a way to simplify the job and drive some efficiency.

And so we believe that we can take this platform and we can leverage our annual CapEx spend and we can continue to build this out to create something that we think is going to be a very dominant long-term sustainable revenue driver for us.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Have a great Labor Day.

Operator

Simeon Gutman, Morgan Stanley.

Zachary Abraham - *Morgan Stanley - Associate*

This is Zach on for Simeon.

Does the comp inflection signal a turn in home improvement market overall or is it more of a weather and seasonal bounce at the end of the quarter?

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

Yeah. So again, Zach, we're not expecting any sort of inflection from a macro standpoint. I mentioned more of the same as we look in the second half of the year. Similar challenges to how we build our guide at the beginning of the year, what we reinforced in May.

That's still what we're seeing. Now again, second half, we always had a bit of a gradual improvement baked in and then we also expect to see momentum and expect to take share in the second half as we scale our Total Home strategy initiatives.

So that's really the difference in the expectation first half versus the second half.

Zachary Abraham - *Morgan Stanley - Associate*

And then just as a follow up, I appreciate all the color on some of the strategic commentary, maybe bigger picture, can you comment on how Lowe's strategy is changing? It seems you're making a more concerted pivot into building products distribution first with ADG and now with FBM.

What is the vision here and what makes this pivot so compelling in your view, especially now?

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

So Zach, this is Marvin.

I think specifically for us, we started out with a focus on what we call retail fundamentals. Seven years ago, this company had a great balance sheet and a bad strategy. And so we've been working really hard with a great leadership team and some really, really dedicated associates to get the foundation of this business shored up and to create efficiency.

And I would argue that we are now one of the best operating large retailers in the world. But as we look forward and we look at our Total Home strategy, which this acquisition and these two acquisitions totally support, the question was really simple. When housing recovers, where will the inflection happen and what categories and what parts of the business do we think we'll see the greatest growth from that inflection?

And as we researched this in great detail, we believe that we had some strategic deficits. And how we could take advantage of the inflection that we think will be coming in housing. We talked about these pent-up demand and projects. We talked about 18 million homes needed by 2033.

We were not positioned as a company to take advantage of that, and we didn't want to be sitting on the sidelines. And so the two acquisitions that we've made tie perfectly into what we are projecting will be the inflection point for housing, home improvement in this overall macro environment, and that is single-family, multi-family construction, in addition to repair, remodel, and having these capabilities to do this in a very efficient way.

And so it's not a change in strategy, it's an evolution in strategy and our Total Home strategy basically outlined that to a tee.

Zachary Abraham - *Morgan Stanley - Associate*

Good luck.

Operator

Michael Lasser, UBS.

Michael Lasser - *UBS AG - Analyst*

Marvin, it seems like this Pro plan purchase segment of the market is in the early stages of consolidation, and Lowe's is bringing together several assets combined with the power of its existing platform to gain its fair share of that market.

In your mind, is that sufficient enough to be able to harvest a very suitable return on these investments that you've been making, or do you think these assets combined with Lowe's need to have a differentiated strategy, a differentiated position in the market as this consolidation unfolds in order to earn a compelling return?

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

I think for us, we believe the combination of FBM and ADG does in fact create differentiation. We're excited about the possibility of leveraging both these platforms. When you combine them together, it gives us a real opportunity to go after this $250 billion total addressable market.

As I mentioned before, we have a vision that we'll be able to go to a customer and provide them everything from drywalls, ceiling systems, insulation, doors, flooring, cabinets, and countertops. There's no other player that can walk into a large single-family homebuilder, a large multi-family home builder and create that type of proposition and do it with advanced technology.

And so it is our expectation and our goal that we're going to build out an offering, and a solution and fulfillment capabilities that will allow us to have differentiation in the space I just outlined.

Michael Lasser - *UBS AG - Analyst*

And my follow up question is if we are on the precipice of this recovery in home improvement, how does Lowe's ensure that all of the heavy lifting associated with integrating these assets that are being brought together does not interfere with Lowe's ability to harvest the recovery or gain its fair share as the recovery unfolds?

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

No, look, Michael, it's another very fair question. I think it just comes down to organizational structure and commitment to execution. We have separate integration teams that will be working, that are working on ADG and FBM.

We have separate teams working on the strategic initiatives that will create the synergies that Brandon outlined. We're not going to get distracted in the core business. Everyone sitting at this table and everyone on the senior leadership team at Lowe's understands how we create shareholder value and so we're going to be really focused on those Total Home strategy initiatives that we talked so much about, on our PPI initiatives that you hear us update you on every quarter.

And so my commitment to the shareholders is that we're not going to get distracted. We have separate teams managing these two exciting acquisitions, but we also have the core team focused on the Lowe's business, which we know is the key to our success long term.

Michael Lasser - *UBS AG - Analyst*

Good luck.

Operator

Brian Nagel, Oppenheimer.

Brian Nagel - *Oppenheimer & Co Inc - Analyst*

Congratulations.

My first question, I guess is on the trend of business. So clearly, comp sales accelerated as the quarter progressed. We discussed that, but I guess the question I want to ask is was there anything notable geographically maybe to help us break out, break apart the benefits of normalizing or improving weather through the period versus maybe some true underlying improvements in underlying demand?

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

So Brian, I would say geographically, the only anomalies that we saw were hurricane overlaps which creates some degree of negative comps in certain geographies in addition to weather. Brandon mentioned and it's well noted that Memorial selling period was not great from a weather perspective, but it impacted certain geographies worse than others.

Other than that, as you can imagine, we're paying really, really close attention to all things macro, all things housing, all things governmental policies to determine if we're seeing any material impacts to certain geographies and today, there's nothing material that I can speak to.

Brian Nagel - *Oppenheimer & Co Inc - Analyst*

Then my second question, I guess, bigger picture or broader, just with respect to tariffs or trade. Yes, if I hear you correctly, I mean, you're saying that, Lowe's is managing the business. You take a portfolio approach to pricing, and you're doing what you have to do.

Are noticing -- is there anything changing competitively? I mean, and I guess the question I'm trying to ask is, the Lowe's is obviously one of the key skilled players within the space, but as these price adjustments are taking hold, these tariffs are taking hold, do you see an opportunity for Lowe's to be able to take even more market share than it had historically given its position as a skilled player?

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

Brian, it's a good question. As you can imagine, it's something we spend a lot of time talking about. I think if you look at this at a really high level, it comes down to the customer segment that you're serving and how you can best serve that customer segment in this current environment.

We have done, in my estimation, an excellent job of working cross functionally relative to looking for diversification. I mean, right now, roughly 60% of the goods we source are coming out of the US and it wasn't that way seven years ago.

And China's at 20%, but it was a lot higher than that seven years ago and Bill's team, they're taking methodical, really, really business savvy steps to just keep us from being so overly dependent on one country of origin.

Having said that, as I said earlier, pricing is incredibly dynamic, and it's driven a lot by a set of business rules that we have internally based on competitive pricing and based on our own internal data on elasticity. And so we understand what our customers want and what they don't want and we understand the break point on units when you start to price in a way that you see demand go down.

And so we're managing this literally real time because this is uncharted waters, but because we dealt with this before years back when we didn't have great data and systems, the team is really efficient at managing it now that we have superior systems.

So that's a long-winded answer that may not have given you a direct response to the question, but it's a dynamic environment. We're paying close attention to it and we are absolutely trying to take share. We think what we were able to do in the second quarter when the weather improved is an example that we are taking share and that we're making the smart decisions that can give customers a reason to shop us versus the competition.

Operator

Jonathan Matuszewski, Jefferies.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

My first one was on FBM. I wanted to double click on the faster fulfillment that could be realized here and just wanted to see if you could frame maybe the improvement in speed that Pro customers may potentially enjoy from FBM and Lowe's joining forces.

I wasn't sure if there's a way to understand time to serve today versus what could happen pro forma for this deal. That was my first question.

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

Yeah. So Jonathan, it's one of the things we're really excited about. As an example, one of FBM's core competency is drywall, and they sell a lot of it and they can deliver it to multiple floors. If a customer comes into one of our stores today and we sell just to keep it simple, a flatbed ofdrywall, getting that sale received and delivered is a really, really painful process.

And today, with this partnership with FBM, through our endless aisle technology, we literally can get that sale sent over to them electronically. They can pick it, fulfill it within 24 hours or less. And so it's all about the geography.

And as I mentioned earlier, one of the most compelling reasons for this acquisition is where their geographic footprint is are places where we don't have a dense population of stores, primarily California, the Northeast, and these urban areas in the Midwest.

This will be critical for us to not only drive Pro sales from the physical Lowe's stores in those locations, but to get salespeople on the ground in those locations to drive sales where we just don't have the density and scale right now, but the efficiency and fulfillment is going to be exponentially better.

Jonathan Matuszewski - *Jefferies LLC - Analyst*

And a quick follow up, you unveiled plans for the marketplace earlier this year. I think the initiative is still early days, but maybe Brandon, if you could dream the dream, how would you frame the working capital and inventory efficiencies that can materialize over time with the scaled 3P marketplace?

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

I would say as it relates to our marketplace, continue to be very excited about the progress we're making. We're seeing expanded breadth of product offering across various price points. We're able to offer value to premium.

We spoke back in May about the launch of the Mirakl platform. We're making really good progress, adding vendors to the platform and very much rolling this out in a pace that meets our expectations. I wouldn't say, right, at this point in time, we have specific expectations around working capital or anything like that, but expect over the long term beyond 2025 for this to be a meaningful contributor to our online offering and what we're able to do through our Total Home strategy.

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

Operator

Steven Zaccone, Citi.

Steven Zaccone - *Citibank Cameroon SA - Analyst*

Congrats on the acquisition.

First question was on the margin impact from buying this asset. So, given the difference in the business model, what should we expect as a preliminary view of kind of gross margin and EBIT margin rate by adding FBM?

And then bigger picture, how does this impact some of your longer term financial targets? In the past, you've talked about reaching an operating margin of kind of 14.5% with a line of sight to 15%. Does this signal that margin dollars kind of matter more than margin rate in the next couple of years?

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

I think as it relates to financial expectations, I'll say first and foremost, we expect the FBM acquisition to help us deliver more sustainable long-term sales growth, and that's going to come with deeper Pro penetration, especially in Pro planned spend.

Marvin talked at length about our ability to access the $250 billion large complex Pro TAM that we really don't get much access to today. That'll translate, we believe, to increased operating profit. It's going to continue to support EPS growth over time.

We're not going to specifically get into this point, dilution or expectations as it relates to 2026. We're going to provide an update after we close out FBM and the exact timing will depend on that but we expect to have more of an update there, November.

As it relates to the second part of the question on the long-term targets, right now, we're sticking with and focused on '25 and delivering on those commitments, showing our ability to do that, manage profitability really well, and any impacts from FBM on long-term targets, we're going to look forward to discussing that closer to the end of the year and as we start to look ahead to 2026.

Steven Zaccone - *Citibank Cameroon SA - Analyst*

And the follow up I had was on the capital allocation side. So, we saw that you paused the share of purchases to the second quarter of '27. Marvin, you alluded to the potential for more tuck in M&A in the future now that you've done this acquisition.

Should we expect share repurchases to kind of take a backseat for the next couple of years and even when you return, we'd see a lower level of share repurchase activity?

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

Yes, Steve, I'll take that. Very committed. As we've continued to reference to our 2.75 times target, and our existing credit rating, we are going to pay down debt aggressively here over the next couple of years to get back to that leverage target.

Over the next two years, '25, '26, we do expect to temporarily pause our share repurchases, and we expect that to resume in 2027 once we get back to that leverage target, but just more broadly as we look at trade-offs from this, again, our number one priority is to continue to invest in the business.

That's been stated through our capital allocation philosophy. We're going to invest in the business for growth. We believe the FBM acquisition is going to unlock operating leverage, cost synergies, cross-selling opportunities, and over time, we expect this will scale and ultimately, drive stronger returns in line with our target range.

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

And Steve, this is Marvin.

Last point, and any tuck-ins that we do will be within our capital allocation framework and within our CapEx commitment for whatever time period that we're in. To Brandon's point, we're excited about this acquisition. We're excited about building out the platform, but we're also committed to paying down debt and getting back to our leverage target.

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

Thank you, all for joining us today.

We look forward to speaking with you on our third quarter earnings call in November.

Operator

This concludes today's conference.

You may disconnect your lines at this time. We thank you for your participation.

Thanks, everyone. We're clear.
