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LOW.N - Q2 2026 Lowe's Companies Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

(video playing)

Good morning, everyone, and welcome to Lowe's Companies second quarter 2026 earnings conference call. My name is Rob and I'll be your operator for today's call. As a reminder, this conference is being recorded.

I'll now turn the call over to Shelly Hubbard, Vice President of Investor Relations.

Shelly Hubbard - *Lowe's Companies Inc - Vice President, Investor Relations*

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

I would like to remind you that our notice regarding forward-looking statements is included in our press release this morning, which can be found on Lowe's Investor Relations website.

During this call, we will be making comments that are forward-looking, including our expectations for fiscal 2026. Actual results may differ materially from those expressed or implied as a result of various risks, uncertainties, and important factors, including those discussed in the risk factors, MD&A, and other sections of our annual report on Form 10-K and our other SEC filings.

Additionally, we'll be discussing certain non-GAAP financial measures. A reconciliation of these items to US GAAP can be found 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, Shelly. Good morning, everyone. In the second quarter, we delivered sales of $26 billion with comparable sales increasing 0.2%. Despite the heightened competitive landscape as competitors use tariff refunds to lower prices later in the quarter, we're encouraged by the continued momentum in our total home strategy.

Strong performance in Pro, Online, and Home Services help to offset persistent macro pressures, softer DIY discretionary spend, and the challenging weather during Memorial Day weekend. And I'm pleased with our entire team's ability to effectively manage the business and remain agile in this environment.

Our teams executed at a high level throughout the quarter with compelling value, strong in-stock position, and outstanding customer service across stores and digital channels, while maintaining a disciplined focus on expense management. This operational discipline enables us to deliver better-than-expected flow-through while absorbing elevated fuel, transportation, energy, and other input costs, even when excluding the impact of tariff refunds.

Later in the call, Bill will provide more detail on our category performance and the customers' response to our assortment, value, and seasonal execution.

So let me begin with Pro, where we delivered another quarter of growth. Pros continued to respond to our differentiated assortment, strong inventory position, dedicated service levels, fulfillment capabilities, and tailored digital experience. Later in the call, Joe will provide additional perspective on the initiatives that continue to drive this momentum.

Additionally, we're pleased with the integration progress of Foundation Building Materials or FBM and Artisan Design Group or ADG. Our teams continue to work closely together to share best practices and build solutions for our customers. We believe these acquisitions position us to grow share with our larger Pro customers long-term while capturing more planned Pro spend.

Turning to Online. We delivered online sales growth of 15.7% this quarter, reflecting the continued benefits of our investments in the digital experience. These investments include tailored experiences on Lowes.com and our mobile app, as well as expanded visualization capabilities and the ongoing growth of our online Marketplace.

The improved user experience along with the compelling value offered by our loyalty programs are driving increased conversion and enabling us to respond to dynamic customer preferences. And our online AI agent, MyLow, continues to add value to digitally engaged customers as they asked the tool for help with home improvement projects, product specifications, and solutions to fit their needs.

Since its inception, MyLow, which also powers our associate AI companion application, has supported over 25 million questions from customers and associates, demonstrating the strong adoption and resonance of the tool. In fact, the conversion rate for online customers who use MyLow is triple that of customers who do not use the tool. Reinforcing that a well-designed agentic AI experience can be a clear driver in the purchasing decision.

Now to Home Services. We delivered another quarter of growth as Do-It-For-Me customers continue to engage with the simpler and more convenient experience we've created, especially in replacement projects. The enhancements have improved conversion, cycle time, and customer satisfaction, giving us confidence in our position to capture more of these larger projects when homeowners are ready to take them on.

Now let me transition to the macro environment. While the long-term fundamentals supporting home improvement remain intact, the near-term environment continues to be dynamic. Elevated fuel prices combined with broader economic uncertainty have influenced household budgets.

Customers continue to tell us that they're being cautious about their spending and prioritizing where and when they invest in their homes. As a result, discretionary DIY demand remains under pressure. Despite this, we continue to see solid performance from our Pro customers and our Do-It-For-Me businesses reflecting the success of our Total Home strategy. Given Lowe's' customer mix, the pace and health of DIY demand remains an important driver of our overall performance.

While these external conditions remain uncertain, we remain committed to being a workplace of choice for our Associates, providing our customers with a great shopping experience, and advancing our strategic investments. This approach has enabled us to deliver five consecutive quarters of positive comps, demonstrating the resilience of our strategy across changing economic conditions.

Equally important, our perpetual productivity improvement initiatives, or PPI, continue to advance. This disciplined expense control and focus on optimizing our resources gives us the flexibility to continue investing in our strategic priorities, positioning the company to outperform as market conditions improve.

Before I close, I'd like to thank our frontline associates for everything they do to serve our customers every day. Spending time in stores each week remains one of the most rewarding parts of my job, and every visit reinforces the passion, expertise, and commitment that our associates bring to Lowe's. Their insights continue to help us improve the customer experience and their dedication remains one of our greatest competitive advantages.

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

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

Thanks, Marvin, and good morning, everyone. This quarter, we delivered positive comp sales in 9 of our 13 merchandise divisions, demonstrating continued strong execution, a commitment to value, and disciplined approach to managing through the current challenging environment.

In Building Products, we generated broad-based growth with positive comps in Rough Plumbing, Millwork, Electrical, and Lumber. These results reflect our strategic investments in Pro and ongoing strength in repair and maintenance projects.

Within Rough Plumbing, we drove sales in HVAC, water heaters, and air circulation, supported by trusted brands like AO Smith and SharkBite, whose solutions make installation fast and simple. We also delivered positive comps in Lumber, specifically in treated lumber, siding and composite decking with leading brands like Trex, TimberTech and Deckorators.

In Electrical, we delivered growth in electrical cable, landscape lighting, and fire safety. This quarter, we completed the rollout of Cree within our light bulb assortment, bringing this innovative brand exclusively to Lowe's in the home center channel. One standout product is Cree's new 6-way bulb, which lets customers easily adjust the color temperature either on the bulb or from the wall switch.

Turning to Home Décor. We delivered strong performance across our interior categories, including positive comps in Appliances, Paint, and Kitchen and Bath.

Starting with Appliances, where we delivered our 7th consecutive quarter of positive comp sales growth as we continue to reinforce our leadership position as the destination for both planned purchases and urgent replacement needs through a best-in-class omnichannel experience, fast reliable fulfillment, and the broadest assortment of leading brands, including LG, GE, Bosch and Whirlpool.

We're also bringing consumers the latest innovations to make life easier, like the new GE Profile refrigerator with Kitchen Assistant that features the first of its kind built-in barcode scanning technology. This refrigerator can scan everyday grocery items and automatically add them to a shared digital shopping list that then can be synced to Instacart for quick delivery.

And because speed of Appliance delivery is so important during a duress occasion, Lowe's can deliver and install the broadest selection of major appliances next day in virtually every U.S ZIP Code. This is truly the fastest fulfillment in home improvement.

Beyond Appliances, we saw demand for repair and refresh projects in Kitchen and Bath across categories like vanities, bathing, and toilets. And Paint also remained a bright spot with growth in interior paint, sundries and buckets.

Now let's shift to Hardlines, where we grew comp sales in Lawn and Garden and Tools and Hardware. Our spring seasonal categories performed well throughout the first half of the year as customers responded to compelling value in Live Goods, Hardscapes, and landscape products. And our attractive credit offers help support demand in Outdoor Power Equipment as our broad assortment and key brands like John Deere, Toro, Ariens and EGO remained key points of differentiation.

Tools and Hardware also performed well, particularly in metal storage and fastening, where we have one of the strongest brand lineups in home improvement, offering customers both trusted national brands and our own private brands. Craftsman continued to deliver value and innovation with products made in the USA, including a limited-edition workbench with a magnetic flag designed to celebrate America's 250th birthday. And customers responded to Kobalt's wide range of colors in metal storage, helping them personalize their workspace.

Looking ahead, while discretionary DIY spending remains under pressure and the K-shaped economy continues to shape consumer spending, we're encouraged by the plans that we have in place to drive demand for both our price conscious and premium customers in the second half of the year.

For example, we're expanding our assortment of premium appliances on Lowes.com, giving customers more choices across a wider range of price points and allowing us to unlock additional sales in our largest category. We're bringing that same approach to Patio by expanding our assortment of premium outdoor furniture, both online and in our year-round markets. Together, these expanded assortments position us well to capture more demand from more customers by offering luxury design and innovation to serve customers across a broad range of price points.

We're also continuing to strengthen our brand assortment and maintain strong in-stock positions across key destination categories. And we're expanding our selection of power tools, hand tools, and storage with hundreds of new products that will appeal to both DIY and Pro customers, including over 150 new DeWalt items, the number one Pro preferred brand.

And in Bosch and Kobalt, we are adding new 4-volt lifestyle products that help our DIY customers complete household tasks more efficiently. To help customers with landscape projects this fall, we're leaning into our outdoor strengths by offering compelling values and a great assortment to support lawn restoration, fall planning, and seasonal cleanup projects, particularly in markets affected by droughts this summer.

We're also pleased to welcome Traeger to our already strong grilling lineup. As one of the leading brands in outdoor grilling, Traeger will begin rolling out in select stores and online nationwide later this year, further strengthening our assortment of grills, pellets, and accessories and giving our customers even more reasons to choose Lowe's for their outdoor projects.

And as those customers engage with Lowe's, we'll continue to build on the momentum from our My Lowe’s Rewards Loyalty program. We have more than 30 million members who shop more frequently and spend more per visit than non-members. We'll continue to reward that loyalty with exclusive member offers, special events, and enhanced sameday fulfillment options, making it even more valuable to choose Lowe's.

Before I wrap up, let me touch on another important driver behind our performance, our Perpetual Productivity Improvement or PPI initiatives. Our teams continue to make meaningful progress supporting our Total Home strategy by simplifying processes, improving execution and helping our associates spend more time serving customers.

One example is the rollout of self-watering plant tables in more than 700 stores. This solution removes the routine watering work from our garden centers, reduces plant damage, and frees up our MST associates to focus on keeping shelf stock and servicing bays.

In addition, we're also investing in new digital tools for our MST team to help them prioritize the highest impact bays, improve sales per square foot productivity, and create a better shopping experience for our customers. And we are on track with our expansion of pet and workwear to all stores by year-end as part of our space productivity initiative. These investments make our stores easier to shop and easier to operate.

As I close, we remain focused on doing what we do best, bringing customers compelling values, innovative products and brands along with an outstanding shopping experience. I'd like to thank our merchants, our MST associates, and our supplier partners for their collaboration, commitment, hard work, and outstanding execution. Their work is invaluable to delivering an experience that sets Lowe's apart.

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

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

Thank you, Bill. Good morning, everyone. Let me start by thanking Frontline Associates for their hard work throughout the key spring and summer selling season. During one of the busiest times of the year for home improvement, they remain focused on one thing: making it easier for our customers to complete their projects. Their commitment continues to make a meaningful difference across our stores.

We drove steady momentum in our same-day fulfillment offering during the quarter as more and more customers take advantage of our delivery options to keep their projects moving. By giving customers another fast and convenient way to access our broad assortment, same-day fulfillment is becoming an increasingly important part of the Lowe's omnichannel experience.

Another way we're delivering a better experience for the customer is through the continued associate adoption of Mylow Companion. As Marvin mentioned, this AI-powered resource is being leveraged in a big way by our teams. More associates are engaging with the tool every day as it gives them greater confidence to help customers across departments and enables them to answer questions more quickly and spend more time doing what matters most, serving customers.

Turning now to our second quarter performance, I'll start with Pro, where we delivered another quarter of growth driven by our small and medium-sized Pro customers. We know our Pros value three things above all else: time, availability and value, and that's exactly where we focused our investments.

Through advancement of initiatives and technology, we're giving Pros even more access to what they need for their jobs and businesses in one seamless shopping experience. Additionally, our digital Pro Business tools, along with the My Lowe's Pro Rewards loyalty offering, continue to strengthen the value we offer to the Pros.

These expanded tools support Pros by enabling them to plan, quote, manage, and grow their business all within the Lowe's platform. In our recent survey, our core Pro customers shared that their backlogs are steady. However, they are seeing a homeowner that is more cautious about their spending. This is leading to consistently smaller projects focused on repair and maintenance needs rather than larger remodeling jobs.

Shifting to productivity, we are pleased with the advancement of our PPI initiatives in Q2. The impact of our Perpetual Productivity Improvement effort is evident in our successful transition of all store and field Associates to a new centralized communications portal that consolidates several previously separate channels into one efficient platform. This new tool helps to reduce complexity, enhances clarity, and prioritization and results in real payroll productivity.

Looking ahead to the second half of the year, we will continue our focus on productivity as we continue to roll out and adoption of Freight Flow 3.0 and Full Shelf replenishment. Both of these projects are aimed at improving in-stocks and inventory accuracy by identifying and prioritizing the highest stocking needs and simplifying the product flow process from truck to shelf.

Not only do these efforts drive labor productivity and customer service, they also ensure that customers can find the products they need where and when they need them.

As I close, I want to thank all of our associates for their professionalism, care, and commitment they demonstrate every day. Their ability to embrace new technology while staying focused on serving customers is what continues to set Lowe's apart. I'm deeply grateful for all they do to support our customers, one another and the communities they serve.

With that, let me turn the call over to Brandon.

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

Thank you, Joe, and good morning. In Q2, we generated sales growth and significant free cash flow, reflecting the resilience and flexibility of our operating model as continued productivity progress and an enterprise-wide focus on execution and cost management enabled us to effectively navigate the quarter and deliver our earnings expectations.

Beginning with our Q2 results, we generated GAAP diluted earnings per share of $4.27. In the quarter, we recognized $96 million in pre-tax non-GAAP charges from acquisitionrelated intangible asset amortization. Excluding these impacts, we delivered adjusted diluted earnings per share of $4.40. GAAP diluted earnings per share and adjusted diluted earnings per share both include an $0.11 benefit from IEEPA tariff refunds. Adjusted diluted earnings per share exceeded expectations, even excluding this benefit.

My comments from this point forward will include certain non-GAAP comparisons that exclude the impact of non-GAAP charges where applicable. Sales for the second quarter were $26 billion, up 8.3% from the second quarter of last year.

Comparable sales rose 0.2% with May down 0.4%. June up 1.7% and July down 1.2%. Please note the shift in timing of the July 4th holiday drove an approximately 75 basis points comp sales benefit to fiscal June, which was offset by a similar drag to fiscal July. While we continue to gain traction this quarter in Pro, Online and Home Services, we continue to manage through a challenging home improvement backdrop and soft DIY demand.

Comparable average ticket increased 2.3%, reflecting modest price inflation and continued strength in Pro, while comparable transactions declined 2.1%, driven by pressure from weather sensitive outdoor and seasonal categories. For the second quarter, gross margin was 33%, down 80 basis points versus prior year adjusted gross margin, including the diluted impact of the FBM and ADG acquisitions, partially offset by favorable credit revenue.

Gross margin also includes approximately $80 million or 30-basis-point benefit from tariff refunds, which were largely offset by elevated fuel and transportation costs during the quarter. SG&A was 17.2% of sales, leveraging 14 basis points versus prior year adjusted SG&A in line with our expectations. Adjusted operating margin rate of 14% was down 62 basis points versus prior year adjusted operating margin.

As Marvin, Bill and Joe mentioned earlier, our PPI initiatives continue to deliver meaningful results this quarter and our disciplined approach to cost management allowed us to manage profitability effectively despite softer-than-expected sales. The effective tax rate was 24.4%. Inventory ended the second quarter at $17.7 billion, up approximately $1.4 billion versus prior year. The increase is driven by the normalization of prior-year tariff related timing disruptions, investments to support in-stock levels, and approximately $500 million from last year's acquisition of FBM.

Moving to capital allocation. In Q2, we generated $3.1 billion in free cash flow and capital expenditures totaled $542 million, reflecting our continued commitment to invest in key Total Home strategy initiatives. We paid $673 million in dividends at $1.20 per share, reinforcing our commitment to returning capital to shareholders and our status as a Dividend Aristocrat.

And we finished the quarter with adjusted debt-to-EBITDAR of 3.0 times as we progressed toward our 2.75 times leverage ratio target, which we expect to achieve in mid-2027. And we ended Q2 with $3.2 billion of cash and cash equivalents and delivered Return on Invested

Capital of 25.5%. Today, we are updating our full year 2026 financial outlook to reflect first half results as well as current consumer demand and housing trends.

Across retail home improvement, macro pressure like interest rates, inflation and gas prices continue to influence DIY demand. And although elevated mortgage rates continue to suppress new home construction activity and pressure larger Pros and home builders, we remain committed to the investments we are making across our Total Home strategy and the growth platforms we are building through FBM and ADG.

We continue to believe these investments position us well to take share and capitalize on the medium- to long-term opportunity in both home improvement and residential construction. And at the same time, we are focused on taking actions that strengthen our performance regardless of the environment.

The second half sales driving initiatives outlined by Bill and Joe reflect our commitment to investing for future growth and offering our Pro and DIY customers compelling value. We are also committed to driving productivity and managing expenses with discipline and executing the integration actions that we expect will strengthen the business as the market recovers.

Based on this, we are updating our full-year outlook in line with the bottom end of the previous guidance range. We expect sales of approximately $92 billion with roughly flat comparable sales, and we expect adjusted operating margin of approximately 11.6% and full year adjusted diluted earnings per share of approximately $12.25. We also continue to expect capital expenditures of up to $2.5 billion.

The outlook includes the tariff benefits we recognized in Q2 but excludes any potential additional benefits in the second half of the year. We will provide an update on any future tariff refunds received and how those are used on future earnings calls. The outlook also reflects continued pressure in the residential construction end market for FBM and ADG, where softer for longer new home construction is creating heightened near-term pressure on demand.

And for the third quarter, we expect comp sales to be in line with our full year outlook and adjusted diluted earnings per share to be approximately 7% below prior year adjusted diluted earnings per share.

In closing, we remain focused on serving the customer, driving productivity, and continuing our investments to build a stronger business that unlocks long-term growth and shareholder value.

And with that, we are now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Steven Forbes, Guggenheim Securities.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

Good morning. Marvin, you mentioned competitive pressures to end the quarter, and so I was hoping maybe if you could just expand on that comment given the July monthly comp. Are there specific regions, categories, channels where those pressures are emerging? And then maybe just provide a little more color on how you've incorporated maybe reactive or proactive plans to combat those pressures into the back half of the year?

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

Yes, Steve, thanks for the question. As I said in the prepared comments, we observed some heightened competitive pressures, primarily in July. We had competitors being aggressive on price, primarily seasonal categories. So think about grills, patio, and live goods that probably drove unit and sales performance for them but obviously was not very profitable. So if you look at our July results, you can see that as an impact.

Having said that, our goal is to be very transparent on what we're seeing in the competitive marketplace, but also to be very clear on the initiatives we're working on and how we're trying to drive the business, not only in the second quarter, but in the second half of the year.

So let me hand it over to Bill to just outline some of the things that we're doing to stay really focused on providing value, innovation, and leveraging the differentiation we have with our loyalty platform and some of the other initiatives to serve customers.

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

Yes, Marvin, thanks. And Steve, as we look at the back half, where we stay focused. First of all, as we look at Q3, it's really around Labor Day, making sure we can have a successful Labor Day event. We're also driving our member events with our My Lowe’s Reward members. We've got to continue the momentum that we've got in our businesses that are already working, especially for that small and medium-sized Pro areas like I called out with Rough Plumbing, Millwork, Electrical, Paint, Lumber as examples.

We've got some great plans in place for Labor Day, as I said, really focused around fall planting, lawn restoration. We set our stores for Halloween and then we'll quickly transition to trim-a-tree later on in the quarter. We've got a bunch of new products coming that we're excited about innovation across Kobalt, Craftsman, DeWalt.

I shared in my prepared remarks, we've got a lot of energy around Appliances, seven straight quarters now of positive growth, but really looking to try to grab some opportunity in this premium appliance space, looking at brands like Bosch, KitchenAid, LG Signature, Cafe, ZLINE, FORNO, all trying to meet the customer where they want to purchase some of this better-quality type product.

And then in the Flooring category, we will have completed the rollout of Daltile, which we're really excited about. We saw that come in early in the first half, but we'll complete that in hard surfaces in the third quarter.

And then I shared around grills. Bringing Traeger to the grill lineup is a big advantage for us, really adding to the brands we already carry with Char-Broil, Pit Boss, Weber. And now the Traeger brand gives us some great credibility in that space. We're excited about that. So we got a lot of energy. And then we've got obviously as we come out of the Q4 and get ready for spring, there's lots of stuff coming, but a lot of stuff that we've planned and focused on both online and in store.

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

And Steve, look, just one last comment. We're committed to operational discipline. As I mentioned and so did Brandon, I mean, we dealt with elevated fuel costs, transportation and lots of other cost inputs. But even with that, we stayed really focused on delivering strong flow-through, committed to profitability, and efficiency as a management team. That's something that we're pleased with and that's going to be the hallmark of what we stand for irrespective of what the macro environment serves up to us.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

Thank you both and maybe just a quick follow-up for Brandon. Curious how FBM and ADG performed during the quarter and if the revision to full year guide towards the low end of the initial includes a reduction in the planned organic growth for those two businesses?

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

Yeah, sure, Steve. So as we think about FBM and ADG, certainly seeing elevated rates more pronounced in residential construction, and we're seeing that suppress both new builds and near-term housing demand. FBM, ADG working through these challenges. As a reminder, ADG 100% exposed FBM about 45% exposed to residential construction. As we look at homebuilding, single-family, multi-family, well documented that it's bumping along at multi-year lows.

FBM's business, we are and continue to be pleased with the commercial business, which represents 55%. But as I mentioned, the outlook assumes continued elevated pressures in residential construction and that persisting over the second half, and that's impacting both top and bottom lines at FBM and ADG.

So teams are continuing to drive meaningful integration benefits. In the meantime, we're pursuing aggressively tuck-in opportunities where those exist, and we expect to emerge on the backside of this as a more scaled player, and our longer-term goal is to take advantage of 14 million homes over the next decade.

Steven Forbes - *Guggenheim Securities LLC - Analyst*

Thank you.

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

Thanks, Steve.

Operator

Kate McShane, Goldman Sachs.

Kate McShane - *Goldman Sachs Group Inc - Analyst*

Hi, thanks for taking our question. I think your comments about the heightened promo environment and its impact it had on your comp in July is one of the bigger impacts we've seen in quite a long time. So can you maybe comment a little bit about what you're seeing so far in Q3 when it comes to promotions? Can you talk about how you're going to manage that going forward? And do you think that there's any kind of significant change here if this is the new normal?

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

Kate, this is Marvin. We don't think it's the new normal. We think it's transitory. We think it's the result of competitors having tariff refund dollars and looking for different ways to use those dollars to drive the top-line. And so we don't see this as something that's going to shift.

Historically, as you know, home improvement tends to be a very rational and predictable promotional and price environment. We believe we're going to get back to that in the second half of the year. Quite candidly, we're going to be very disciplined around how we come to market. One of the reasons why we have a DIY loyalty program is so we can offer differentiated value to loyalty customers, and we can do it in a very consistent, very profit-driven, coherent way, and that's something that we continue to do.

However, we have some really exciting things that we're going to be driving in the second half of the year so that we can remain competitive. And I'll just let Bill outline some of the things we're really committed to that we think will drive value for our customers and will continue to show up in a way that customers will put us at the top of their list.

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

Thanks, Marvin. I shared a couple of these examples in the first question, Kate, but we've got -- we'll also finish our rollout with Pet and Workwear in the back half. We're excited about what those categories are doing. If you remember, that was an opportunity for us around our Perpetual Productivity Iniatives, which is all about making space work harder inside our stores and online, and so we're excited about that.

We've got a lot of innovation. I rattled off a number of those with over 150 new tool items across multiple brands in the back half that will help drive our gifting timeframe. We've got a lot of new stuff in our holiday set this year that we're excited that we know drives traffic to the store.

Some new characters that you can put in your front yard and a lot of things that we're excited about as well on the Pro side where we've got just a lot of energy around Millwork and some of these businesses that have just had a really nice run with consecutive quarters of performance.

We've had Rough Plumbing with six straight quarters of positive growth. Paint, Electrical, Millwork, all four- and five consecutive quarters of positive growth. So we're going to continue to drive that. And then as we touched on in the first question, Labor Day for us is really first and foremost and it's all about taking care of the folks that want to get into fall planning, shift into that fall season, put those pumpkins on the porch, do those things that decorate their house and get it started for fall.

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

And Kate, this is Brandon. One last thing I'll mention. We are seeing an emerging trend of just increased take rates during the promo periods as customers seek out and respond to value. We are making recent investments to enhance our back-end promotional tools that are and continue to better inform our promo strategy.

But as Marvin and Bill both mentioned, leaning into member offers, in-store events, enhance fulfillment and believe our second half guide reflects all of these dynamics from a comp standpoint, from a traffic standpoint, from a margin standpoint.

Kate McShane - *Goldman Sachs Group Inc - Analyst*

Thank you.

Operator

Christopher Horvers, JP Morgan.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Thanks. Good morning, everybody. So my first question is a bit of a geographic question. We've heard from a number of home-related retailers and the strength of the coastal housing markets versus pressures or underperformance in the South and you're certainly seeing that in home prices, relative home price performance in many of those markets. So can you talk about regional performance and how you think about maybe that affects your business versus some of your peers.

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

Chris, this is Marvin. As you can imagine, we look at this on a weekly basis, and candidly, there is no material difference in geographies other than weather impacts. We had some drought-like conditions in certain parts of the country. We've had some traumatic conditions in the Midwest. But when you look at all the other housing-related factors, we look at it closely. But from a materiality standpoint, weather continues to be the biggest driver in geographic performance.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Understood. It's a great segue. I mean obviously Memorial Day weekend was tough for everybody just rain on a lot of rain. But as you think about last year, I think you did have a bathtub benefit into the second quarter from the first quarter, and that showed up a lot in July. So can you talk about the weather dynamics year over year?

And as you think about July and on a one-year basis negative X , even with the adjustment, but on a two-year basis, you saw a strong improvement. So I guess maybe try to wrap the weather around how you're thinking about July and what that would suggest going forward with the business?

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

Chris, hey, this is Brandon. I think as Marvin said, the main weather headline was really around Memorial Day. Memorial Day weekend was one of our biggest DIY events of the year. It kind of drug on the full quarter results, and I think as you look at even that on a two-year stack, we were cycling a really tough Memorial Day last year.

So you're mentioning some of the two-year trends. I think the two-year trends, for May, negative because of that dynamic, but we were actually encouraged -- I mentioned the 75 basis points shift on monthly results just during the holiday. But if we look at two years pure as we move through May, June, July, they actually accelerated as we moved across the quarter. So from a two-year standpoint, we exited July at plus 3.4. So comfortable and confident, again, kind of teasing out the weather that business is on a good trajectory just as we turn into Q3.

Christopher Horvers - *JPMorgan Chase & Co - Analyst*

Understood. Thanks so much.

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

Thanks, Chris.

Operator

Simeon Gutman, Morgan Stanley.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

Hey, good morning, everyone. My first question is on the second half outlook. Can you elaborate on anything that changed? Did your initial outlook have a, I guess, upward tilt in the back half and that upward tilt is no longer in existence or is the consumer just gotten worse or maybe a mixture of both?

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

Hey, Simeon, this is Brandon. I think when we look at the outlook, first half results, second half current DIY trends, and pressures on residential construction, those are really the two things that we're projecting out into the second half. We also continue to expect strength and momentum in our Total Home strategy. So the areas that we've highlighted where we had strength in the first half we expect those to continue: Pro, Online, Loyalty, Home Services.

But if I just look at the -- if I unpack that and just look at the cadence Q3 as we mentioned, is expected to be flat and that reflects again a very similar demand environment to what we just saw here in Q2. So status quo and more of the same there.

And then as we push out to Q4, it is implied negative, really it's similar expectations on kind of mix of our business and the momentum as what I just said for Q3. And the one big difference there is the winter storm that we're cycling last year that came through in January and that's going to create about a 50 basis points drag for us in Q4 this year.

But overall, when we look at the second half outlook, it is based on expectations and normal weather trends and we're not baking anything in terms of expected events. So this is really in Q4, just all about what we're cycling.

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

Simeon, this is Marvin. The only final comment I'll make is, we don't anticipate that we're going to run into additional macro pressure or we're going to have any overlap other than the weather that Brandon cited in Q4. We're just trying to be prudent and we're trying to just take a view of the first half and basically make the assumption that the second half is going to look a lot like the first half.

Now, if the macro environment gives us any type of tailwind or we're able to have accelerated performance and some of the initiatives that Bill outlined, we'll be very pleased with that. But we felt like that it was the disciplined thing to do to just look at the second half and basically carry the first half performance into the second half.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

Okay. And then my follow-up, as you think about allocating capital to each side of the business, DIY and Pro or allocating investment, does anything change? Does this kind of stagnant housing market make you push one way or the other? Do you lean in where your sales exist today or do you push much harder into where your Pro segment, where you have less exposure?

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

So look, I'll take that one. I think from a philosophical perspective, we have a great balance sheet and so we're going to always invest in the future. We're not running the business quarter to quarter, we're not running the business with a short-term point of view. What we do know -- when you look at John Burns Real Estate Consulting as an example, they estimate there's anywhere between $20 billion and $50 billion of pent-up deferred project demand in home improvement.

And so we know that this environment we're in is cyclical, it goes down, but at some point, it comes back up. That is the business thesis around investments in ADG and FBM. This is a really difficult single-family and multifamily construction environment, but it's not going to always be that way.

We know at some point we're going to have to build houses in this country and when we do, we're better positioned today and we'll be better positioned in the future than we've ever been in the history of this company. And so we're going to look at our capital allocation based on where we believe we can get the best return to our shareholders.

We're extremely pleased we have one of the best Return On Invested Capital results in all of retail and we're going to maintain that disciplined focus. And we believe if we do that, we're going to benefit our shareholders over the long-term.

Simeon Gutman - *Morgan Stanley & Co Ltd - Analyst*

I appreciate it. Good luck.

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

Thanks, Simeon.

Operator

Greg Melich, Evercore ISI.

Gregory Melich - *Evercore Inc. - Analyst*

Hi, thanks. I have two questions. First, on tariffs, you mentioned there could be more coming. Could you help frame what you think is coming in reference to the size of what you just saw this quarter? And then my follow-up was on the comp trend.

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

Hey, Greg, this is Brandon. So as we highlighted, we recorded tariff benefit in Q2, $80 million or $0.11, that was largely offset by fuel and transportation pressure. We are moving through the filing process for additional refunds. We don't have any estimates in our outlook in the second half, just purely due to the uncertainty of the timing.

And I will say our Q2 refund amount represents a smaller portion of the total IEEPA tariffs that we paid here over the last year to 18 months. So we're pursuing all of that, all that we're eligible to collect and anticipate any further benefits are going to be reinvested in customer-facing actions that are going to continue to reinforce our value prop.

And as Marvin mentioned earlier, we're going to continue to be mindful of the competitive dynamics, focus on taking share in the second half, and at the same time maintaining disciplined margins at the same time. So we'll have more on that as we move through the second half on future earnings calls as it relates to tariff refunds and our plans for how we might leverage the benefit.

Gregory Melich - *Evercore Inc. - Analyst*

That's great. And my follow-up is on the online sales growth. I mean, 16%, a pretty good number. I'd love to maybe just unpack that a little bit. What do you see driving that? Is it speed, assortment? What sort of initiatives do you have? And if we were to think about the comp transactions down 2%, is the split-- is this Pro? Are Pro transactions up and DIY down that much? Or how do we think about online and how it interacts on overall traffic?

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

Yeah, so Greg, I'll take the online question and Brandon will respond to the transaction question. So what drove our performance, it's a combination of a lot of things. But first and foremost, we're pleased to have two consecutive quarters of online comps north of 15%. So we saw strength across Pro and DIY in online. We saw higher traffic and increased conversion.

We saw great take rate based on the total improvement in our digital experience. We've had tailored experiences for customers. We expanded our visualization capabilities, and we have really strong adoption of our new fulfillment options. So we're excited that customers really responded to our free delivery and same-day delivery options that we launched early in the year, and that's something that really drove our online business.

Also, I mentioned in my prepared comments that our digital agent, Mylow, has been a very, very nice addition to our online business. So as I stated, we have roughly 25 million questions since its inception. And within that, customers who engage with Mylow while shopping online convert at 3 times greater than customers that don't. And so all of those things are playing a huge role.

And it's still early days with our Marketplace, and we're excited about what we're learning. The great thing about our Marketplace is that it's given our customers great pricing options, not only on the value side, but on the premium side. And so we're seeing really, really good adoption.

So as Bill talked about that K-shaped economy, online is a great place to really look at that in real time because we see premium customers and value-oriented customers shopping and we believe that we're just getting started. We have lots of investments planned for online and we think this is going to be a continued driver of our business. I'll let Brandon talk about the transactions.

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

Greg, your second question on the transaction decline, it is largely centered around DIY. The contraction was mainly in transactions that were driven by pressure and weather sensitive, outdoor and seasonal categories and that was in particular in the southern geographies and kind of centered around that Memorial Day activity that we had kind of highlighted. So that's the main driver of the pressure.

Gregory Melich - *Evercore Inc. - Analyst*

That's great. Thanks and good luck, guys.

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

Thanks, Greg.

Operator

Brian Nagel, Oppenheimer.

Brian Nagel - *Oppenheimer & Co Inc - Analyst*

Hey, guys. Good morning. So the rest of you, I know we've discussed this a lot later, the tariff-refund, some of the pricing actions, but I wanted to further probe that if I could. So I guess from the question, I mean, you mentioned competitors. Any more color on that? Is it the smaller competitors, larger competitor?

And then, I guess, as I understand, given the commentaries from Lowe's, did you choose not to match these pricing actions and as a result, lost, temporarily lost market share, was that happening? Do you stick with that strategy going forward and assuming that maybe some of these pricing actions on the part of your competitors stick?

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

Hey, so Brian, this is Marvin. I think the most transparent way to answer this is what I said earlier. We think it's transitory. We believe we had competitors, plural, that received tariff refunds and decided to take pricing action to either A, drive units and B, to clear out seasonal inventory. And that's what we saw. So that's just giving you a view of the competitive landscape.

We did not choose to match some of those promotions because they were not in our financial plan, nor did we think it was financially prudent to match them. It's pretty easy to determine who did what, just look at their tariff refunds versus their gross margin versus last year. And you can determine pretty much who did what.

So for us, we're extremely pleased that we're going to remain disciplined. That's why we are happy with the fact that we dealt with lots of cost pressures like everyone is dealing with. But we were able to leverage our PPI initiatives to ensure that we were able to take the right plan steps to drive profitability, to create really good flow-through.

Now, we're going to be competitive, but we're going to be rational with our competitiveness. And again, we think this is transitory. We don't see this happening in the second half of the year because we don't see additional tariff refunds coming to competitors in the second half of the year that's going to give them the ability to be this aggressive on price. It was a moment in time, it impacted July, and we're just being transparent with what we saw in the competitive landscape.

Brian Nagel - *Oppenheimer & Co Inc - Analyst*

Very helpful, Marvin. Just my follow-up question, bigger picture. So as we step back, obviously a lot of moving pieces here, tariffs being one of them, weather, etc. But as you're looking at this demand dynamic at Lowe's, is the consumer getting better, worse, staying the same? How would you characterize the underlying demand dynamic there?

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

So look, I'll give you a perspective. I'll let Brandon provide maybe some financial analysis around it. Look, in our point of view, Brian, we think the customer is basically the same. I mean, as we've said numerous times, we feel really good about the overall health of our consumer. Our core consumer is the middle-income homeowner. They have a strong personal balance sheet, they have real disposable income growth, their house is getting older and they have increased equity.

But the caveat to all of that is that this consumer is being cautious. And it's not just about fuel prices. Fuel prices make up roughly 2% of their annual spend, but it's a combination of fuel prices, geopolitical events, and other uncertain things in the macro. And so when you combine all these things together, people are just being cautious with their discretionary spend.

Look, as I said earlier, we think this is cyclical. We do think it's a moment in time. The good news is we've delivered five consecutive quarters of positive comps with a DIY penetration north of 60%. So we feel great about how we are managing our business and in an arguably one of the most difficult DIY environments and we know the moment we get any type of macro tailwind that our business is going to perform, we're going to perform proportionate to that tailwind because we're doing a lot of things right.

And so we don't think the consumer is getting worse. We think it's pretty much the same, but we think it's a healthy consumer that's overly cautious based on all those factors I outlined.

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

Brian, the only thing I would add is, we're looking at the consumer. They do continue to have strong balance sheet, steady job growth, but I think as Marvin was hinting to, affordability remains kind of the major concern, and that's across rates, it's across home prices, insurance, taxes. And that's really translating to prioritization of repair maintenance spend and the projects that our consumers are engaging in and this ongoing trend of caution around big ticket discretionary.

We've been talking about that for the last several years that played out in the first half and our outlook essentially reflects more of the same and that's going to play out in the second half and that's what's reflected in our expectations.

Operator

Seth Sigman, Barclays.

Seth Sigman - *Barclays Services Corp - Analyst*

Hey, good morning, everyone. I wanted to focus on the gross margin. So if you back out tariff-refunds and the acquisitions this quarter, the underlying Lowe's gross margin was only down slightly in Q2, despite a lot of external cost pressures. So can you just talk about how those cost pressures are impacting the business, how you were able to manage that?

And then, Brandon, on the Q3 EPS guide, if there's any more color you can provide on the gross margin implications embedded in that would be helpful.

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

Yes, sure, Seth. I think as you had gross margin Q2, we called out the major factors. The tariff refund was the new piece. We also cited some credit revenue favorability, and that's largely from loss reserves. But if I back up and just look at the overall operating margin kind of flow across the quarters, there are some unique items as we look into the second half.

We talked about the tariff refund really in Q2. We don't have anything in the outlook there for the second half. And really the big item is the pressure from fuel and transportation. So I mentioned, it largely offset the tariff refund benefit in Q2. We are now projecting that across the second half of the year.

And we're actually expecting it to be a bit more elevated as we start to turn through new cost layers that built up through the first half of the year. So that's mainly what's reflected in the second half that's kind of a newly emerged dynamic from the outlook that we had provided earlier in the year.

Seth Sigman - *Barclays Services Corp - Analyst*

Okay, that's helpful. And then I guess just a related follow-up. So it sounds like you'll still see a significant amount of refunds in the second half of the year. Is the view that you'll reinvest all of that or could there be upside to the guidance that you just updated since you're already embedding those headwinds to your last point?

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

Yes, I'll just reinforce. We'll give you more color on that as we move through the year, Q3, Q4 call. And we're committed to looking at that, looking at opportunities and reinvesting in customer-facing actions that are going to reinforce our value prop. So that was a comment I made earlier. We're going to stick to that, and we'll have more color as we move through the second half of the year.

Seth Sigman - *Barclays Services Corp - Analyst*

Okay. Thanks so much.

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

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

Operator

Chris Nardone, Bank of America.

Christopher Nardone - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Thank you, guys. Good morning, and thanks for taking our questions. I had one shorter-term question and one longer-term question. First, on the shorter-term one, we talked about this a little bit, but you gave guidance for the third quarter. Just want to see if there's any other drivers in the 4Q guidance outside of lapping FBM that is driving the implied improvement in profitability in the fourth quarter, specifically like any changes in assumptions around supply chain costs quarter-on-quarter?

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

No, I think Chris, I just mentioned the supply chain fuel transportation pressure is included and projected across the second half. And the one improvement, just if you're looking at operating margin, just a reminder, we're cycling a Q4 discretionary bonus that was paid out last year. So that's probably the one difference just when you look at the dynamic of Q3 and Q4.

Christopher Nardone - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay, very clear. And then maybe for Marvin. As we sit in this relatively frozen housing market for longer, do you think this potentially amplifies the potential upside for longer-term growth, the longer-term growth algorithm once the market turns? I believe previously you said expectations for about mid-single-digit market growth in an accelerated turn, but curious if there could be even more upside torque as pent-up demand continues to build.

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

Chris, it's a fair question. My short answer would be, we're expecting that the housing market is going to recover gradually, but we do believe that there is extreme value in the older homes that our customers are living in. As you know, we have the oldest housing stock on record, and we also have customers living in their houses for the longest duration on record.

And what we know is wear and tear happens. The only caveat to all of this is that there's so much happening in the macro, in the geopolitical world that customers are just cautious. And again, the good news for us is that these customers are economically healthy. So are we optimistic that the out years can be really strong for us, absolutely.

One of the things that we're really focused on, and Brandon and I both spoke to it, is that we're leveraging our balance sheet to make the right capital investments, not just for the short-term, but for the long-term. We believe strongly that Lowe's is a significantly better company than it was pre-housing recession, we just haven't had a chance to benefit from that because we have such a high penetrating business in DIY.

That may be a bit of a drag on our business today, but we believe strongly that when this market starts to cycle up, although gradually, that's going to be a tremendous benefit for our business because the DIY customer is going to hopefully be the first customer that's going to come out of this with positive growth in all the investments we've made in our e-commerce business, in our DIY loyalty platform, in our fulfillment capabilities, in our customer service initiatives. All those things will start to bear fruit and pay dividends. So we're optimistic, but again, we think it'll be gradual and we're prepared to benefit from whatever recovery we see here in the short-term or the long-term.

Christopher Nardone - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Great. Thank you guys. Good luck.

Shelly Hubbard - *Lowe's Companies Inc - Vice President, Investor Relations*

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

Operator

Thank you. This concludes the Lowe's second quarter 2026 earnings call. You may now disconnect.
