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EDITED TRANSCRIPT

LOW.N - Q3 2026 Lowe's Companies Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, everyone, and welcome to Lowe's Companies' third-quarter 2026 earnings conference call. My name is Rob, and I'll be your operator for today's call. Just 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, President, and Chief Executive Officer; Bill Boltz, our Executive Vice President, Merchandising; Quonta Vance, 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.

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

Thank you, Shelly. Good morning, everyone, and thank you for joining us today.

Third-quarter sales were $22.8 billion, up 9.3%, and comparable sales increased 1.8%, driven by strong execution across the business. Our teams continue to prove that we're one of the best executing retailers in the world. And our success during key selling events, including Labor Day, demonstrated the advantage of our scale and our ability to deliver value for customers in the current macro environment. In fact, this quarter marks the sixth consecutive quarter of positive sales comps.

Additionally, investments we've made in our Total Home strategy are continuing to drive results, particularly in Pro, Online, and Home Services. We also delivered growth in appliances powered by our expansive fulfillment ecosystem that remains a key competitive advantage for us. These results reinforce our confidence and resilience of our operating model and our ability to grow the business across different economic backdrops.

Let me share more details about our performance this quarter. We delivered another quarter of Pro growth supported by the investments we continue to make in the customer experience. Our small to medium-sized Pro customers continue to respond to the enhancements we've made to our fulfillment and loyalty offerings, helping us deepen those relationships and capture more of their spend. We also delivered continued growth in home services this quarter as investments we've made to improve the customer journey are resonating with our customers.

Now turning to our recent acquisitions. We're pleased with the progress we're making to integrate FBM and ADG, including putting FBM's fulfillment assets to work for Lowe's and introducing complementary Lowe's products to FBM customers. We're also seeing continued momentum across FBM's commercial business as demonstrated by their recent work with the Jacksonville Jaguars to furnish and install exterior and interior doors for their stadium of the future. This project reflects how FBM is leveraging Lowe's relationship as an official NFL sponsor to grow their commercial business. We look forward to sharing more about the integration of FBM and ADG in a few weeks at our Analyst and Investor Conference.

Now, let me turn to Online. We delivered 17.4% growth in Online sales this quarter as both DIY and Pro customers continue to engage with Lowe's across our digital channels as well as our stores. This marks the fifth consecutive quarter of double-digit Online growth and the third straight quarter of Online growth above 15%. Our continued Online growth has been supported by the investments we made in fulfillment, giving customers more flexibility in how and when they receive their products.

That brings me to the tariff refunds we received during the quarter. As I've said before, we thought first about how we're going to share these refunds with the customer. Our intention is to reinvest our tariff refunds in ways to strengthen our customer value proposition by putting these dollars to work to enhance the customer experience, strengthen our competitive position, and bring value to our customers. Brandon will discuss our tariff refund reinvestment philosophy in more detail during the call.

Lastly, I'd like to thank our frontline associates for their continued dedication to serving our customers regardless of the economic conditions. And we'll remain focused on strong execution, disciplined investments, and delivering value for our customers and our shareholders. And we're excited to share more on December 9 at our Analyst and Investor Conference, where we will discuss our evolving Total Home strategy and how Lowe's is positioned to grow regardless of the market conditions.

Before I turn over to Bill, I'd like to thank him for his eight years of outstanding service and leadership as our EVP of Merchandising. To say that Bill's work leading Merchandising at Lowe's has been transformational would be an understatement. Bill was actually the first person I called when I accepted the CEO role at Lowe's in 2018, and our partnership over the past eight years has been truly outstanding.

We are pleased that Bill will remain with us through the end of the calendar year to support Margi's transition into her role as EVP of Merchandising. And we're also delighted, beginning in 2027, Bill will serve as President of the Lowe's Foundation, a role that reflects his deep passion for giving back and his love for the company.

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I also want to congratulate Margi on her expanded role. Throughout her tenure at Lowe's, Margi has been a proven leader and delivered exceptional results across a variety of roles. Margi's background as a former GMM and SVP of Home Decor and Hardlines, in addition to her nearly three years of leading the Lowe's supply chain, perfectly positions her for this new assignment as EVP of Merchandising.

And with that, let me turn the call over to Bill.

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

Thanks, Marvin, and good morning, everyone. It has been a privilege and an honor to lead the Lowe's Merchandising team for the past eight years. I'm excited to hand the reins over to Margi to continue to deliver for our customers and our shareholders.

As Marvin mentioned, I'm very passionate about our Lowe's Foundation, and I'm equally thrilled to take the role as President of the Lowe's Foundation in 2027. I look forward to working side-by-side with Margi for the balance of 2026 to ensure that she makes a seamless transition into her new role.

This quarter, our comp sales increased 1.8%, with growth across Building Products, Home Decor, and Hardlines, including positive comp sales in seven of our 13 merchandise divisions. That performance reflects our continued focus on what matters most to our customers: compelling value, leading brands, innovative products, and an easy shopping experience both in our stores and online.

Turning first to Building Products. We delivered positive comp sales in electrical, lumber, and rough plumbing, reflecting our continued investments in the Pro. These include improved inventory breadth and depth, enhanced digital tools for customers and associates, and stronger service levels, which help Pros get in, get what they need, and get back to the job site faster.

In electrical, our growth went beyond just commodity categories, with positive comps in switchgear, wiring devices, as well as tools and attachments. We're continuing to strengthen Lowe's position as a destination for trade professionals, supported by trusted brands like Klein Tools, Southwire, and Eaton.

We also delivered positive comps in rough plumbing, with broad-based growth led by HVAC, water heaters, pumps, irrigation, pipe and fittings, and air circulation. We're continuing to work with SharkBite on a multi-year strategy to bring new solutions to the Pro, including the new PEX press system, which is exclusive to Lowe's in the home center channel. This innovation gives Pros a faster, simpler, and more cost-effective way to complete plumbing projects, with a press-to-connect system that can cut installation time in half compared to a traditional crimp fitting.

Now, let's shift to Home Decor, where appliances was once again a standout with positive comps for the eighth consecutive quarter. During our Labor Day event, we showcased the total value of an appliance purchase at Lowe's with an exclusive all-in offer for MyLowe's Rewards members that included delivery, haul away, basic installation, and an extended warranty. This helped us drive strong appliance demand as we moved into the fall. Our performance reflects the investments we've made in our fulfillment capabilities along with our customer experience, both in-store and online.

As a reminder, Lowe's also offers the broadest assortment of leading appliance brands and models. And that's an important distinction. Lowe's competitive advantage is our ability to combine speed with choice. We remain the only retailer in the US who can deliver and hook up a wide range of major appliances same day and next day in virtually every zip code.

And we continue to give customers new reasons to trade up for innovation. One example is Whirlpool's new counter-depth French door refrigerator with the industry's first in-door nugget ice maker. It gives customers the popular soft chewable nugget ice along with the traditional cubed ice in the freezer so that they can have both options without needing a separate ice maker.

Now turning to Hardlines, where we delivered positive comp sales in power equipment, tools and hardware, and seasonal and cleaning, supported by new product innovation, strong brands, and great execution. In outdoor power equipment, our new DEWALT generators were

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popular with Pro customers and both Pro and DIY customers responded to our industry-leading lineup, including John Deere, Toro, EGO, and CRAFTSMAN. In fact, many of our key brands delivered double-digit growth this quarter, and our strong in-stocks helped us meet customer demand throughout the season.

In power tools, we delivered strength across our major cordless platforms as we continue to bring customers the latest innovation from leading brands like DEWALT, Bosch, Metabo, Kobalt, and CRAFTSMAN. One great innovation for the Pro is the new Metabo HPT Gen Three cordless nailer, which is now available in all of our stores exclusively at Lowe's within the home center channel. It combines the convenience of cordless with the power Pros expect from a pneumatic nailer without having to deal with the compressor or hose. It's fast, lightweight, and designed to deliver more shots per charge, helping Pros work more efficiently.

This quarter, we're adding even more depth to our power tools assortment with an expanded lineup of nailers from DEWALT, giving Lowe's the largest assortment of DEWALT power tools and accessories of any US home improvement retailer. We're also continuing to strengthen our private brand power tools assortment with the largest new product introduction in Kobalt history, including 20 new 24-volt power tools.

This launch also introduces our new TXP tabless battery technology, which delivers up to 40% more power in a smaller package, while remaining compatible with the Kobalt 24-volt tools our customers already own. Kobalt is a great example of how our own brands can deliver innovation and performance while providing a compelling value for our customers. As we look ahead to Black Friday, we're excited about our Trim-a-Tree set and our Gift Zone, along with the strong offers planned across key categories, highlighting the value, brands, and innovation that customers expect from Lowe's.

As I close, we're pleased with the growth we delivered across all three of our merchandising areas this quarter. We remain focused on building on that performance by giving our customers compelling assortments with compelling value, combined with a shopping experience that makes it easy to choose Lowe's. I want to again thank our merchants, our MST associates, our inventory and supply chain teams, along with our vendor partners, for their execution, focus, and commitment to serving our customers and driving results.

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

Quonta Vance - *Lowe's Companies Inc - Executive Vice President - Stores*

Thanks, Bill, and good morning, everyone. I'm excited to join you today in my new role leading our Stores organization. I've been in this role since the beginning of September, and it's been an honor to take over for my long-time friend and colleague, Joe McFarland.

Over the past eight years, Joe has done an incredible job of transforming Lowe's into one of the best executing retailers in the world. I also want to thank Joe for his partnership throughout this transition. I appreciate the strong foundation he and our stores have built.

Now turning to our third-quarter performance. Let me start with Pro, where we delivered another quarter of strong growth driven by our core small and medium-sized Pro customer. We're seeing these Pros respond to the values we're creating, particularly through fulfillment and loyalty.

As I saw up close in my prior role, time is money for the Pro. Every trip they can avoid gives them more time on the job site. That's why same-day fulfillment is such an important part of our value proposition for our Pro loyalty customers. When they need something to keep a job moving, we can get it to them quickly. And during the quarter, our Pro savings days provided additional volume savings on products Pros use every day, including such items as cleaning, paint essentials, power tools, and accessories. Together, these offers help us deliver more value, deepen relationships with existing Pro customers, and capture more of their spend.

In our most recent survey, our core Pro customer reported steady backlogs and a consistent trend of smaller projects as repair and maintenance continues to be the dominant occasion. Pros expressed stable confidence levels, signaling that they remain optimistic about their ability to stay busy.

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Switching gears to Home Services. Strong execution drove another quarter of growth, our tenth straight. We continue to see strength in replacement categories where customers often have an immediate need and are looking for a trusted partner who can make the process easier. And we continue to streamline this customer journey by adding scheduling to the point of sale.

Customers can now select their installation date when they make the purchase, simplifying the journey and giving them greater certainty as it relates to when their project will be completed. You will hear more about these developments and improved customer experience in a few weeks at our Analyst and Investor Conference as we lay out our path for future growth.

Across our stores, we're also delivering enhanced customer service for both the DIY and Pro customers while advancing our perpetual productivity improvement initiatives. We will also discuss some of these specific initiatives in more detail at our December Analyst and Investor Conference.

In closing, to all of our store associates and leaders, thank you for the way you show up every day for our customers and for one another. I'm excited about the opportunity ahead and I'm honored to lead this team.

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, Quonta, and good morning.

In Q3, we delivered better-than-expected sales and earnings, reflecting strong execution across the business despite macroeconomic pressures. We saw continued momentum across several of our strategic growth areas while maintaining our focus on productivity, disciplined cost management, and investing for long-term growth.

Beginning with our third-quarter results, we generated GAAP diluted earnings per share of $2.98. In the quarter, we recognized $96 million in pre-tax non-GAAP charges from acquisition-related intangible asset amortization. Excluding these impacts, we delivered adjusted diluted earnings per share of $3.10.

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 third quarter were $22.8 billion, up 9.3% from the third quarter of last year. Comparable sales increased 1.8%, with August up 0.3%, September up 2.9%, and October up 2%. Please note that the shift in timing of Labor Day pressured August by approximately 150 basis points and benefited September by a similar amount.

As Marvin and Bill discussed, we continue to see strong performance across several of our strategic growth areas, including Pro, Online, and Home Services. We also saw strong performance in appliances and power equipment, driven by our assortment, value and fulfillment capabilities, with power equipment also benefiting from strong Labor Day execution and an extended seasonal selling period.

Comparable average ticket increased 3.5%, while comparable transactions declined 1.7%. The increase in average ticket reflects mix into Pro and appliances along with inflation in commodity-driven categories like lumber and electrical cable. Excluding commodity categories, like-for-like inflation was in line with our expectations.

For the third quarter, gross margin was 32.9%, down 124 basis points versus prior-year gross margin. Gross margin includes approximately 120 basis points from IEEPA tariff refunds this quarter, which drove $0.34 of adjusted diluted earnings per share. In the quarter, we reinvested about one-third of the refunds in actions to reinforce customer value. We expect to reinvest the remainder of the tariff refunds in Q4.

Gross margin was also impacted by dilution from the FBM acquisition in line with our expectations. Importantly, we have now fully cycled that impact following the acquisition's close at the end of Q3 last year. And we saw elevated fuel and transportation costs, which represented approximately 30 basis points of pressure along with a combination of product mix and tariff reinvestments.

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SG&A was 19% of sales, leveraging 55 basis points versus prior-year adjusted SG&A, in line with our expectations. And adjusted operating margin was 11.7%, down 67 basis points versus prior-year adjusted operating margin. Our PPI initiatives, spanning merchandising, stores, supply chain and our corporate functions, continued to deliver meaningful productivity in the quarter, helping us manage these external cost pressures while continuing to invest in the business. The effective tax rate was 24.5%.

Inventory ended the third quarter at $18.3 billion, up $1.1 billion versus prior year, driven by the normalization of prior-year tariff-related timing disruptions and investments to support in-stock levels. We remain focused on improving inventory productivity while ensuring we have the right products available for our customers.

Moving to capital allocation. In Q3, we generated $1.1 billion in free cash flow and capital expenditures totaled $601 million as we continued to invest in our strategic growth priorities. We paid $701 million in dividends at $1.25 per share, reinforcing our commitment to returning capital to shareholders and reaffirming our status as both a dividend aristocrat and a dividend king.

We finished the quarter with adjusted debt to EBITDAR of approximately 3.0 times as we continue to progress toward our 2.75 times leverage ratio target, which we expect to achieve in 2027. And we ended Q3 with $3.4 billion of cash and cash equivalents and delivered return on invested capital of 22.9%.

Turning now to our financial outlook. Today, we are updating our full-year 2026 outlook to reflect our third-quarter results as well as the current demand trends and cost pressures we're seeing across the business. Based on this, we now expect sales of approximately $92.5 billion, with comparable sales up approximately 0.5%. We expect adjusted operating margin of approximately 11.5% and full-year adjusted diluted earnings per share of approximately $12.25, and we expect capital expenditures of up to $2.5 billion.

For the fourth quarter, we expect comp sales to be slightly positive. Please keep in mind that we are cycling approximately 50 basis points of storm-related benefit from Q4 last year. This was concentrated entirely in January, which will create an approximately 200 basis points comp sales headwind for the month. Excluding that impact, our underlying consumer demand assumption is generally consistent with Q3.

And in the fourth quarter, we expect to reinvest the remaining two-thirds of the Q3 tariff refunds into initiatives focused on our customer value proposition. Our priority is to put these dollars back to work for our customers, helping make their home improvement projects more affordable while building loyalty to Lowe's.

And in a few weeks, at our Analyst and Investor Conference, we look forward to sharing more about the growth opportunities we see across Lowe's and how we expect that growth to translate through our longer-term financial model. In the meantime, we're focused on delivering strong execution through the important holiday season and on driving profitable sales growth and taking market share while maintaining discipline across the business.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Horvers, JPMorgan.

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

Thanks, and good morning, everybody. Brandon, I want to dovetail on your underlying trend comment a little bit. How much do you think weather benefited you during the quarter? Was that exclusive to September? And then as you think about October and looking forward, do you see any election noise that may be diminished what was overall a pretty strong month in October?

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

Hey, Chris. When we look overall at the shape of the quarter, pretty even as we looked at August, September, October, weather overall, I would say it was pretty much a non-story. We haven't had a named storm of significance here the last couple of years. We did see a little bit of a bump in October for the extended selling season period with a little bit warmer October benefiting some of our outdoor categories. So really not much to speak of in Q3.

And then I had in my remarks, just as we look ahead to Q4, we are cycling Winter Storm Fern. It was 50 basis points on the quarter expected that we'll be cycling for Q4 and 200 basis points in January. So outside of that, no real noise around the election and excited about the exit rate, the performance for Q3, the trajectory, and feel really good about how we're trending into Q4.

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

And then as you think about '27, I know we'll get a lot at the Analyst Day, but I think there's -- in the bull camp, you sit there and you say, replacement cycles persist and maybe even accelerate if we're going to be a little bit more inflation. Life goes on, people stay in place and remodel, but then you have the impact of higher rates.

So just broad strokes if you're exiting the back half of the year at around a sort of a 1%-ish underlying trend, net of all weather impacts, does that accelerate into next year given the positive factors? Or do you think that it actually decelerates next year given how maybe there's a lagged impact on rates on demand? Thank you.

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

Chris, this is Marvin. I think the simple response would be it's too early to determine all the specifics of that. But what we intend to do at the Analyst and Investor Conference in December is lay out a very specific strategy of how we can grow irrespective of the macro environment.

We simply believe because of the fragmented total addressable market, that is the US home improvement environment, that there's a lot of market share out there that we can go and get. And we have some very specific initiatives that we're going to lay out and discuss in December that will reinforce our confidence that we can make that happen. So we look forward to discussing that in the next couple of weeks.

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

Thanks. Have a great holiday season.

Operator

Steven Zaccone, Citi.

Steven Zaccone - *Citi Infrastructure Investments LLC - Analyst*

Good morning. Thanks very much for taking my question. Could I ask for just a little bit more detail on the tariff reinvestment? Maybe how should we think about that in terms of pricing and the aspect of sort of promotions in the fourth quarter, just help us understand how you're thinking about that reimbursement as we turn to 4Q.

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

Hey, Steve. This is Brandon. So as we mentioned, we had the refund of approximately $250 million that we recognized in Q3. We have invested and did invest one-third of that refund in Q3, and that was largely in initiatives to reinforce our customer value proposition remain competitive in the market. A couple of examples I'll throw out is just supporting Tier 1 promo events, investing in our loyalty ecosystem, continuing to lean in to enhance fulfillment, specifically within our Online platform. And that gives our members additional benefits, value, we're really seeing them respond to that.

The remaining two-thirds is where we expect to invest in Q4. And again, that's focused again in those same areas, reinforcing that customer value proposition. So really, it's net neutral on the year. The timing of the refunds and the associated reinvestments is really just leading to the lumpiness between quarters, and that's what we're seeing with the Q3 actual results and what's expected for Q4.

Steven Zaccone - *Citi Infrastructure Investments LLC - Analyst*

Okay. And then I want to follow up with a question about the underlying trend in the business because you had a stronger results overall from a comp perspective, but there was less breadth in terms of the categories. So when you think about the building blocks of sort of customer engagement, some of these category performance details, have you seen changes from a Pro or DIY perspective that's noteworthy to call out?

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

So Steven, this is Marvin. I'll take that and then I'll let Bill provide some more category specifics.

As we said in the prepared comments, when we think about the business performance, we saw strength across Pro. And as Quonta said, specific to small to medium Pro, we're gaining share with that specific cohort of the Pro business. Appliances was a huge win for us, and we just simply believe that the best-in-class fulfillment ecosystem and the assortment that we have is incomparable in the US.

And as Bill mentioned, I mean, we are the only retailer in the US that has a large variety of products that we can deliver, install, and hook up same day and next day in virtually every zip code. In fact, our appliance comp was the largest we've seen in five years, and that says a lot when you think about the pressure that the DIY consumer is under.

And as Quonta mentioned, our Home Services business is strong as well. We had other strength across the business. I'll hand over to Bill and he could provide a little bit more context.

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

Yeah, Steve. So when we look at Q3, as I said in my prepared remarks, we've had some continued strength across our Pro businesses. Rough plumbing is a great example, six plus quarters of positive comps in the rough plumbing business, really widespread from the discretionary areas of HVAC all the way to water heaters and that repair and maintenance type of product.

And then when we look at appliances, as Marvin just mentioned, we had our eighth consecutive quarter of positive comp growth in appliances. Q3 was our strongest comp since 2021. And so there's some really just great momentum within the appliance business. Just a reminder of the group, 100,000 appliances break every day, and I think our model -- I know our model is there to stand tall to be able to deliver same day, next day and handle that duress customer.

And then just a little more color across some of the categories. There's still pressure in these discretionary areas like kitchens, like flooring. But then when you dig deeper into some of the seasonal areas, we saw strength in patio furniture in Q3. We saw strength across outdoor

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power, as I mentioned in my prepared remarks, really across all segments, so whether that's generators, riding mowers because of the extended season, walk-behind mowers.

But you're also seeing consumers respond to what happened last year in January with Fern, so they're now preparing for that winter season and so we saw some early response for snow blowers. Both segments of both battery and gas segments did very well. And then when you dig into some of the other businesses and look a little deeper like in the garden area, for example, strength across the outdoor project, landscape, fertilizer, landscape mulch, those types -- hardscapes were strong.

And then when we look into that tools and hardware business, which is supporting this repair and maintenance project, fastening, storage, those key categories continue to perform well and have performed well for a long time. So we're pleased with kind of the broad-based breadth of the business that was performing and the strength of what was performing. And early on in Q4, we're seeing some of that -- with the milder weather, we're seeing some of those outdoor projects continue to get done both on the Pro side as well as the DIY side.

Steven Zaccone - *Citi Infrastructure Investments LLC - Analyst*

Thanks for all that detail.

Operator

Kate McShane, Goldman Sachs.

Kate McShane - *Goldman Sachs International - Equity Analyst*

Hi. Good morning. Thanks for taking our question. We had one question when it came to margin for Q4, just how you're balancing some of that tariff refund with any kind of offset with regards to higher freight costs. And then could you also please talk to the performance of the marketplace during the quarter? Thank you.

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

Hey, Kate. This is Brandon. As it relates to Q4 margin, it's really just a few things. I've already spoken to the tariff refund reinvestment. About two-thirds of what we recognized in Q3 will be reinvested in Q4.

And then you mentioned the higher fuel transportation. That definitely has been an ongoing pressure that we've spoken to throughout the year. We've actually seen that accelerate as we moved here through Q3 relative to our earlier guide in August. Diesel prices as we stand here today are right around $6. So that's up about 15% overall versus what we realized in Q2. So trying to continue to manage that, balance that, and we're reflecting that into our Q4 guide.

And then the last piece is just as it relates to mix in the different margin profile categories. You just heard Bill speak to the strength that we're seeing specifically in appliances. OPE did a double-digit comp in Q3, and we're looking ahead there to similar run rate. So increased adoption of fulfillment options online and trying to take all that into consideration, that's what's reflected in the Q4.

And then as it relates to the marketplace question, Kate, we actually have a really strong update for that in Q4. Excited to share more with you, obviously seeing great growth in our Online business. And as a reminder, the marketplace is reflected there on a net commission basis. So we'll start to share more color and more information there in December and as we lap into 2027.

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

Kate, this is Marvin. Specifically to the Online performance, we felt early on that marketplace was a great addition to the digital strategy. It gives us an opportunity to offer customers value and luxury without adding inventory. And we have some advancements that Brandon mentioned that we're going to be sharing in a little bit more detail and color. I mean, we wanted to give our marketplace strategy a full year of operation before we start to speak specifically on the components of it, the financial performance, and what we are seeing and projecting. We'll share that in some detail in December.

But just to reinforce what we said about the Online performance, we had growth of 17.4%, fifth straight quarter of double-digit growth, third straight quarter of growth over 15%, strength across Pro, DIY, improved traffic and conversion. And also, the enhancements that we made in our fulfillment options are absolutely working, and we have another update coming on that as well in December. And marketplace is obviously a component of that, and again, we'll be more specific and share that with you at the Analyst and Investor Conference in December.

Kate McShane - *Goldman Sachs International - Equity Analyst*

Thank you.

Operator

Michael Lasser, UBS.

Michael Lasser - *UBS AG - Analyst*

Good morning. Thank you so much for taking my question. You raised your full-year sales guidance by about $500 million, yet you lowered your operating margin outlook by about 10 basis points or so. Was that entirely due to the fuel pressure that you referenced, or are there other factors? And would you expect to be able to recover the pressure in 2027 such that you will be operating from a normalized margin base next year? And then I have a quick follow-up.

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

Yeah. Hey, Michael. You mentioned the top line, again, very pleased with the trajectory. If I go back to August, our implied guide for top line was roughly flat. We exceeded that with a plus 1.8. Looking now into Q4, we had implied back in August down 1. That's roughly flat as of now. So continue to be really pleased with the performance Bill went into some of the details around what we're seeing momentum.

As it relates to the margin guide and the update, it's really three themes that I've sort of already hit them. It's the tariff refund and the expected reinvestment, the majority of that going into Q4, and that is going to be neutral on the year. Elevated fuel and transportation costs, there is going to be, as you referenced there, Michael, some wrap pressure in the next year and then the mix of sales into some of these lower margin profile businesses and categories, appliances and OPE as an example. So that's what we've reflected in our guide that's in the 11.5% for the year.

And as it relates to the 2027 jump-off points, wrap pressure, we're focused right now on landing the 2026 guide. We have what I believe is a really nice strong message in 2027 here coming up in December. And that's going to include our views on 2027, as well as sales margin, what the trajectory looks like there.

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

Michael, this is Marvin. The only thing I'll add to that is we're going to share some PPI initiatives. You heard Quonta earlier talk about some of the really specific successes we've had in the store operations area of the business. As you've heard us say in the past, PPI is now an enterprise-wide focus for the company. And as we deal with some of these unique pressures like fuel, which is unprecedented, that just means that we're going to be more aggressive in going after these perpetual productivity improvement initiatives.

We're going to share some of those in December. We have some areas that are supported by technology that we are very excited about that we haven't really talked about publicly that we'll share. But you can be trusted to understand that we are committed as always to being very efficient in how we operate this business and driving profitability. And that's something that we think is a hallmark of this leadership team.

Michael Lasser - *UBS AG - Analyst*

Understood. That's a good segue to my quick follow-up question, Marvin. At the risk that I steal some of the thunder from the meeting in a few weeks that we're all very excited to attend, how do you think about the profitability profile for the traditional retail big box model within home improvement now that the players have moved more deeply into the traditional building materials and distribution market?

The thought, and there's a theory out there that says, the recovery in margins for the sector and the leverage inherent in the models will just not be as robust this time around as sales improve as it might have been in the past, given the strategy of expanding into deeper segments of the total addressable markets. How would you look at that question? Thank you so much.

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

Michael, I appreciate the question. I think it's a very timely question and I can understand philosophically your point of view. I'll give you my thoughts and then I'll let Brandon provide just some financial underpinnings.

I would say one of the reasons why we've decided strategically not to chase a lot of the various segments of the building material space is basically the foundation of what you just said. We just believe that every sale is not a sale that provides the level of profitability that we think is not only unattractive but advantageous to us. So we've been very specific with this interior solutions platform that we're trying to build. And we're in the very early days of it.

And I think it's going to be really interesting for the investment community to hear from Ruben Mendoza, our President of FBM, who's going to be speaking at our Investor Conference, and he's going to be laying out our current and long-term strategy for both FBM and ADG, not only the integration success, but how we see these businesses driving both top and bottom-line value for the company long term. So we've been very specific that we're not going to chase a lot of these segments because we don't like the profit profile of some of these businesses.

Now, I think what we're looking at today is an unprecedented unique environment of historically high fuel costs and other macro factors that candidly we haven't seen probably ever all converge at the same time. So we're not taking the current state as a perfect predictor of what the future state is going to be.

But as we think about the businesses where we see growth, we're very confident that we can grow both top-line revenue and we can grow profit dollars at the same time and we have to lay that out and we will. But again, we've decided not to chase some of these other building material categories because we don't like the profit profile, and that's something that we're going to remain committed to.

And let me hand it over to Brandon.

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

And Michael, I would just add, philosophically and from a capital allocation standpoint, we manage the portfolio to maximize long-term value and returns, not necessarily maximize margin rate in every individual business. As Marvin mentioned, we're actively investing in higher growth parts of the business, Pro, Online, appliances, Pro distribution.

We see ourselves winning and taking share in a lot of these categories and businesses. So some of these may carry a bit of a structurally lower margin profile. But for us, where the economics and the return on invested capital are compelling, we're going to continue to prioritize that profitable growth and long-term value creation, and that's our philosophy.

Michael Lasser - *UBS AG - Analyst*

Thank you so much, and see you soon.

Operator

Simeon Gutman, Morgan Stanley.

Simeon Gutman - *Morgan Stanley - Analyst*

Hey. Good morning, guys. Brandon, I want to try to ask a question about fourth quarter and maybe sleuth a little into '27, if you're willing. So the EBIT margin is down year over year, but if we take the tariff refunds or the reinvestment of tariffs out, it's down marginally. And on this call, I think you said we'd a pretty good update of things around 2027.

So I know we're not talking about margin and year-over-year change, but is there anything we can think about around the flow-through of the business where you can leverage on a certain comp level? Are you willing to share that? Is that the same structurally? Is that a thought we can take with us into two weeks from now?

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

Hey, Simeon. As it relates to margin profile kind of ex-tariffs, I mentioned earlier the $250 million is effectively neutral on the year. So really, when you look at the annual number and the updated outlook at 11.5%, it really is transportation and fuel, as well as mix.

And then as it relates to 2027, I don't think I'm going to take your bait on that. When we are planning for a pretty robust dive around 2027, the updated jump-off point here for 2026, what we believe is going to wrap, obviously, the algorithm and the profit profile, the trajectory of the business. So we'll be ready at that point here in the next two weeks to fully unpack that.

Simeon Gutman - *Morgan Stanley - Analyst*

Fair enough. And my follow-up is on pricing power. So historically, this category has been a pretty good one where retailers have been able to recover costs related to inflation and you've done it through pricing. Is there anything different about this environment that makes it more difficult like price sensitivity, competitiveness? Or is it timing that you're facing at this point?

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

Simeon, it's a good question. I think as I said earlier, this is a unique environment when you think about the fact that we all had to deal with the supply chain disruption of tariffs for the last couple of years. And now, we're dealing with refunds and how we are able to manage giving

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those dollars back to the consumer, and quite candidly, Bill and the merchant team dealing with the suppliers trying to ensure that we are also having a fair, equal redistribution of the cost increases that we took over that timeframe. And so it's really hard to give you a really succinct and coherent answer to your question.

But what I will say to you is, when I think about coming here in 2018, and I'll let Bill talk about this in a second, what we walked into was an environment we had zero visibility to cost, we had zero visibility to price. As a matter of fact, all of our pricing was done in one peanut butter spread. As I said before, from Philadelphia, Pennsylvania to Philadelphia, Mississippi, it was all the same because our systems were so antiquated. But between Bill and Brandon and our CIO, Seemantini Godbole, we built a best-in-class pricing system that we think allows us to be really fair and priced right for the consumer, but also to ensure that we're understanding the competitive dynamics.

But the biggest point to your question is relative to cost. And I think Bill and his team have done a really nice job of working with our suppliers and working internally to try to make sure that we're doing the right thing, we're keeping prices competitive, but also making sure that we're sharing in the benefits with our suppliers.

I'll let Bill go into a little bit more detail.

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

Yeah. Thanks, Marvin. And Simeon, I think we've said this a couple of times, but between Brandon and I and our teams, we've built out a really robust playbook that we've been operating against for three-plus years really prior to the tariff impact. We've tried to work as a partnership with our suppliers to share in the costs. Our first and foremost priority is to be competitive. So there's ongoing dialogues with our merchants and our vendors to make sure that we remain competitive in the market. That's the number one priority.

And then we'll navigate where the consumer allows us to go. And so some of the reinvestment that Brandon talked about is part of making sure that we can remain competitive. And I'm just really pleased with the level of detail and the systems we have in place and the robust and agility that our teams can operate against. I think it's best in class. So I appreciate the question.

Simeon Gutman - *Morgan Stanley - Analyst*

Okay, thanks. Good luck. See you soon.

Operator

Peter Benedict, Baird.

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

Hi, guys. Good morning. Thanks for taking the question, and congrats to Bill and Margi on their changing roles there. One, Brandon, it's just on the fuel and freight headwind 30 basis points. It sounds like that's going to be larger in the fourth quarter. Is there a way to maybe frame your expectation around that?

And the other question is just really around like the bigger ticket durable items. And I think there was some allusion to like replacement demand happening, not to be a thing. Maybe you could just build off on that. And obviously, with rates up and that type of thing, I mean, these categories basically just disassociate themselves from things like turnover and rates, and it's just really being driven by kind of that repair maintenance type thing. Those are my two questions. Thank you.

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

Yes, Peter, first question again was what? I'm sorry. Oh, fuel and freight, yeah.

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

Just around the sizing of fuel and freight headwind, yeah, for Q4 relative to Q3.

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

Yeah, Pete, it's going to be roughly the same. And keep in mind, with the fuel and freight, it operates on roughly a one-quarter lag. We have a lot of that sort of contained in the supply chain, goes within inventory for inbound and outbound freight. So I would say, as you model that out for Q4, what we realized in Q3 is a similar run rate.

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

And so Peter, on the replacement categories in the bigger ticket, in Quonta's prepared comments, he talked about how, in our Home Services business, we're seeing replacement take place. I'm going to let him just give a couple of examples of some of the replacement bigger ticket categories we're seeing in that Home Services business, which he ran in his previous role.

Quonta Vance - *Lowe's Companies Inc - Executive Vice President - Stores*

Yeah. Thanks, Marvin. And Peter, as I said in my prepared comments, we're still seeing continued strength in Home Services. And actually, we've run, as I said, 10 consecutive quarters of positive comps, and that's really been driven by the replacement categories. And these are categories like HVAC, windows, doors. We've seen just incredible penetration in those areas. And partnering with our credit offers, customers are truly taking us up.

Along with that, we've done that by just really simplifying our processes for both the customer, the associates, and the installer. You heard me mention the ability to schedule simple scheduling at point of sale. We've also continued to lean in and expand our in-home selling capabilities. And that's where Joe has mentioned before with the ability to take payment in the house. Our central selling model where we've made the whole process of really just doing business with us over the past three years easier.

All of those things are contributing to us being able to take more share with these replacement categories. And we're pleased with each of these initiatives and how they're panning out. So we'll continue to do that.

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

Great. Thanks. We'll see you in a couple of weeks.

Operator

Seth Sigman, Barclays.

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Seth Sigman - *Barclays Services Corp - Analyst*

Hey. Good morning, everyone. I wanted to focus on two of the initiatives, one on the Pro, specifically FBM and ADG. Can you talk about the performance there? How are those doing as they start to come into the comp base? And then how do you think about whether there is more capital required here to really get those businesses to where you want it to be?

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

Hey, Seth. This is Marvin. I'd say first and foremost, we're really pleased with the integration efforts of both FBM and ADG. And as I mentioned earlier, Ruben Mendoza is going to give a very detailed update at the Analyst and Investor Conference in December on the integration efforts, the current state, but also the future strategic rationale and where we see this business.

I'll just remind you before I hand it off to Brandon that FBM's business is roughly 55% commercial. That's why, in my prepared comments, I showed an example of one of the large projects they had with the Jacksonville Jaguars by leveraging Lowe's status as an official sponsor of the NFL to leverage that relationship. And that's just one of many relationships that Ruben and FBM has been able to leverage from Lowe's to get in the front door of some really attractive commercial offers.

As you can imagine, the residential single-family construction space is really tough right now, but we feel great about the fact that we're taking share in a really, really tough environment. But the commercial business and integration efforts is something that we're really pleased about.

And I'll let Brandon provide us some more specifics.

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

Seth, as it relates to the second part of your question on ongoing capital allocation, we're looking at FBM. They're going to continue to run their play, and that includes greenfield expansion, small tuck-in, FP&A. We believe we can self-fund large majority of that with excess cash. That's going to complement their existing verticals and geographies, and we're looking at tuck-in type of targets with lower EBITDA multiples compared to their base business.

This year, on the FBM branches and greenfield, we expect to open about 15 new branch locations. And then as Marvin mentioned, we remain confident in the long-term strategy on our interior solution platform, bullish on Pro distribution over the long term. But here in the next 6 to 12 months remain focused on returning to our 2.75 times leverage target and uber-focused again on driving integration and realizing synergies from the transaction.

Seth Sigman - *Barclays Services Corp - Analyst*

Okay. That's all very helpful. And then on e-commerce, the growth there has really stepped up meaningfully over the course of this year. What is driving that unlock? Is that DIY? Is that Pro? So any perspective there? And then also just from an economic perspective, how are you seeing the financials -- the profitability of that channel progress as it becomes more and more important?

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

So Seth, this is Marvin. I'll take the first part and I'll let Brandon answer the second part.

As I mentioned earlier, I mean, we couldn't be more pleased with our Online business. It grew 17.4% this quarter, fifth straight quarter of double-digit Online growth, third straight quarter over 15% growth. And we're seeing strength across Pro, DIY, and we're seeing it from improved traffic and conversion. And to me, that's what's really, really exciting because it's not just one or the other.

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One other really interesting point to note when you think about our AI agentic tool online that we call Mylow, this is creating great conversion for our customers. As a reminder, this is a virtual assistant. The first one in home improvement is launched on OpenAI platform. This thing is answering over 1 million questions a month. And when our online customers leverage Mylow, we're seeing triple the conversion rate versus customers that don't. And so that within itself is also helping us to drive some of the great conversion numbers that we're seeing.

The user experience online is much better. And our online app has been recognized not only as one of the top apps in retail in the App Store, but just universally is one of the best apps out there. And so a lot of investment has gone into this. We'll get into this in a little bit more strategic detail at the Analyst and Investor Conference, but all of those things are driving the growth.

I'll let Brandon answer the second part.

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

Seth, really pleased with the ongoing growth in the online space. The additional benefits that we're offering through loyalty fulfillment continue to see momentum. I would say on the margin side, when we look at this, we continue to deliver positive contribution margin as we assess, and that's sort of in line with the philosophy that I mentioned earlier. And that online growth and the associated margin profile again is reflected in our outlook.

And keep in mind, we're seeing momentum across all the fulfillment channels, but 50% roughly of orders coming through online are fulfilled out of our stores, and that has a higher profit profile associated with that. So as we've discussed, our team here has a track record of disciplined profitable growth reflected in the stable margins as our online sales have increased, and we expect that to continue and that discipline to be reflected into 2027.

Seth Sigman - *Barclays Services Corp - Analyst*

Okay, great. Very helpful. Thanks, guys.

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

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

Operator

Zach Fadem, Wells Fargo.

Zachary Fadem - *Wells Fargo Securities LLC - Analyst*

Hi. Good morning. Marvin, how would you frame 2026 thus far in terms of category growth versus Lowe's share gain? And then for Q3 specifically, what type of benefit did you see from tariff reinvestment? And what would you expect to see from reinvestment in Q4 and '27?

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

Great question. So I'll take the first part. I'll let Brandon and Bill jump in as well.

I think one of the things I oftentimes say is that most of the investment community and analyst community believes that we're operating in a duopoly because there's so much dialogue about us and our chief competitor. But the reality is, if you combine the revenue of both Lowe's

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and our chief competitor, we're less than 30% of the total addressable US home improvement market, which we estimate is roughly $1 trillion. And so it is not a coincidence that you can see growth from both companies because we're less than 30% of the total addressable market.

And so as we think about market share growth, and we're really pleased that there is a lot more sophistication from a data standpoint, we can actually track and look at market share by categories, we feel really good about the progress that we made across some very specific categories. I'll let Bill provide some specifics. So we feel good about category growth. We feel great about overall market share growth.

But again, the point I want to make is that this is a $1 trillion total addressable market. And we believe that the investments we're making right now by getting customers into our loyalty ecosystem are going to not only pay benefits short term with revenue growth, but it's going to grow benefits long term because once customers get in this ecosystem the data is so compelling on the value that they bring to Lowe's and the value we give back to them.

Jen Wilson, our Chief Marketing Officer, is going to provide a level of specificity on this that we've not shared externally before at the upcoming Analyst and Investor Conference and is going to hopefully reinforce the fact that short-term investments to get customers in this ecosystem have incredible long-term benefits. And we think that we're going to continue to have unique differentiation being the only home improvement retailer with a distinct loyalty program for DIY customers and for Pros. And we're going to demonstrate why that differentiation works for us.

And I'm going to let Bill give you an example of some of the category growth we've been taking share at.

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

Yeah. So Zach, thanks for the question. Marvin, thanks for being able to talk about some of the category performances.

Largely consistent with what I said in my prepared remarks is really consistent with what we've seen all year in these repair maintenance categories, whether that be rough plumbing, rough electrical, across the tools and hardware business, now seeing strength in power tools with the addition of some new categories within our tool category from DEWALT and Bosch, we're excited about that.

And then as I mentioned, appliances, and we can't talk about that enough, but eight straight quarters largely supporting a duress customer and being able to fulfill same day, next day in virtually every zip code, and just the innovation, the new products, the great brands that the team has delivered and then that shopping experience online, as Marvin talked earlier about this e-commerce growth, 90% plus of the appliance journey start online and that journey is very, very easy to do online, and that's where the consumer wants to go.

And then if you look into other discretionary type categories like in outdoor power equipment that we've talked about a lot, double-digit growth in the third quarter, but seeing that customer respond to the great brands in John Deere, EGO, Toro, Ariens, those are replacement categories. Those are lawn mowers, riding equipment, snow blowers that they're preparing themselves for and/or replacing that they bought five or six years ago.

So we see that largely as we finish up the year with Q4. We're excited about Trim-a-Tree. We're excited about our Gift Zone. Our Gift Zone has great offers out there. We've got great appliance offers. And this quarter, obviously, we've got Black Friday next week, so the team is energized and excited about what we're going to do and how we exit the year with the holiday.

Zachary Fadem - *Wells Fargo Securities LLC - Analyst*

Thanks for the color. And then you mentioned FBM and ADG integration in the prepared remarks. I know you plan to frame the bigger picture opportunity at Analyst Day. But in terms of achieving the long-term sales productivity goals, is it fair to frame '27 as an investment year or a growth year in order to get where you'd like to be?

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

Yeah. Hey, Zach. As it relates to integration and synergies kind of in two pieces, and I've spoken to this throughout the year, the first component and I would say already realized is the procurement cost that we aggressively went after with the FBM team at the beginning of the year post-transaction. That's in categories like drywall, steel, insulation. For the large part, that has been realized in 2026 and we'll carry the benefits of that into 2027.

On the selling side, a lot of activity happening as we look at leveraging FBM's inventory fulfillment capabilities on the Lowe's side, introducing our complementary product offerings to FBM's customers in their branches and online and the ability for FBM customers to use their credit in our Lowe's stores and in our Lowe's ecosystem. So really excited about all those efforts. And in some form, those are in test and pilot. We're learning, we're measuring, we're operationalizing, and we're confident we're going to scale those.

And when we look ahead to 2027 and beyond, that's what we're most excited about in terms of what we can drive. And again, Marvin mentioned, we have Ruben Mendoza, our President of FBM, who is going to give you more color on that as we approach December. So excited to share that.

Zachary Fadem - *Wells Fargo Securities LLC - Analyst*

Thanks for the time. We'll see you soon.

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

Thanks.

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

Thank you all for joining us today. We will look forward to speaking with you at our Analyst and Investor Conference on December 9.

Operator

Thank you. This concludes today's Lowe's third-quarter 2026 earnings call. You may now disconnect at this time.

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