

## **Company Participants**

Marvin Ellison - Chairman and CEO

Brandon Sink - EVP and CFO

## **Conference Call Participants**

Brian Nagel - Oppenheimer

### **Brian Nagel**

Good morning, everyone. My name is Brian Nagle. I'm a senior equity research analyst here at Oppenheimer. Very pleased to have you joining us this morning.

So this is actually a continuation of our 23rd Annual Oppenheimer Consumer Conference. And I'm very pleased to have with us today, presenting the senior leadership team of Lowe's the CEO Marvin Ellison; CFO, Brandon Sink, and Investor Relations, Kate Pearlman.

So everyone, thank you for joining us.

### **Marvin Ellison**

Thank you, Brian. Glad to be here.

### **Brian Nagel**

So we're going to structure this as informal fireside chat with me, asking questions and Lowe's answering them. I mean, to the extent there are questions from the audience, please shoot them through the chat. And I'll be happy to work them into our conversation. But again, thank you, everyone for joining us.

So just to kick off here, more of and I thought, before we jump into all the specifics, all the dynamics that are occurring at Lowe's. I would love to get, your's a branded TOV [ph], your perspectives on just the overall backdrop right now for Lowe's in Home Improvement. There's a lot of discussion within the investment community, the demand dynamics within home improvement, particularly post-pandemic. So I guess the question is really open ended this point, what do you see right now?

## **Question-and-Answer Session**

### **A - Marvin Ellison**

Yeah, well, hey, well, Brian it's always great to be with you. I think the best way to answer your question is when you look at the overall consumer from a discretionary spend standpoint, for large ticket, I will say the consumer is a bit cautious just based on what's happening in the macro. But when we take a look at those historical demand drivers for our business, they're still pointing in a positive direction. And let me remind you those demand drivers are home price appreciation, the age of housing stock, and personal disposable income.

If you think about those three, specifically, the age of homes, we were in a unique time where we have the oldest homes on record, currently in the U.S. And that's for a lot of unique factors have historically low rates, people locked in at fixed rates. And they have no real motivation to pivot out of those fixed rates to go into a higher rate environment.

And as phones get older, that's really bodes well for our business. I mean, as reminder also, two thirds of our sales are non-discretionary. In other words, when things break, was the refrigerator water heater, you can't postpone those purchases, and that really drives demand to our business.

Home price appreciation, we actually made - versus pre-pandemic, we're up 35%, home prices, which also is important. Because one of the key determining factors between a purchase for your home and expense or an investment has to do with where you are from a home price appreciation. And so being at a roughly a 35% plus rate versus pre-pandemic still incentivizes those customers to invest in their homes, because they believe they're going to get a return on that investment.

And although we're seeing some near term pressure, especially versus last year, on personal disposable income, customers and homeowners still feel good about their current financial situation, especially if you compare it to a pre-pandemic, from what's in your savings account.

Now, having said all that, when you sit home and you feel good about your employment situation, you have really good home price appreciation, you have a fixed relatively low mortgage rate. And then you see here, all of the narrative on the news on the financial press about something looming around the corner from macro standpoint, it gives you a bit of hesitation. But we're in a really unique environment that gives us a lot of confidence in the medium to long-term view of Lowe's and Home Improvement. And we remain really bullish relative to our business, not only because of those demand drivers, but we've made a lot of investments on our total home strategy. And I feel we put one of the best teams in retail together.

And we believe that regardless of what we face from a macro standpoint, our strategy, our execution will give us the ability to continue to perform well to continue to hit some of our financial targets. But again, we're really, really incredibly bullish about the future. And we just have to wait until we get through some of these near term headwinds.

### **Brian Nagel**

That's very helpful. But so just to reiterate, so the point being is we've looked at the structural drivers enrollment permit demand, it's intact. Those factors are very much in play.

### **Marvin Ellison**

That's, I think that sums it up really well. I mean, we feel really good about those things. Again, we can look back historically, and those three things outside it, correlate hard and things like housing turnover. They correlate higher interest rates. And so as we look at those three things, it gives us a lot of confidence, that from a structural demand driving components of our business, that we're still headed in the right direction. We just have to work our way through some of the near term macro challenges that we're facing. But again, we remain incredibly bullish on the medium to long-term view of Lowe's and Home Improvement.

### **Brian Nagel**

So just one more one more moment, just on the near term pressures. I guess maybe if you could add just a little bit more color what you're seeing? I mean, is it -- and again, the question I would ask is, are you seeing any type of regional differences in areas where you'll -- maybe housing pricing has beginning to moderate more than others? You see more pressures there?

And then the question, one question I wrestle with a lot I talk to with my companies in my cover companies a lot is how much of this near term pressure reflects a consumer that's reacting to cyclical pressures, versus maybe you maybe us just working past the pandemic, and some of that outside demand that occurred during the pandemic?

### **Marvin Ellison**

So like, I'll give you a view? I'll let Brandon jump in and give a perspective. Also, look, I think for us, we really believe that what we're saying is just reflective of consumers being remotely cautious based on uncertainty. It's not necessarily what's impacting them real time, but what they believe could be looming around the corner relative to other things happening. Some of our customers, feel great about their employment situation. But when you're looking at depressed, and you see tech companies, creating layoffs, then you have a little bit of hesitation.

I mean, one interesting datapoints that we use is over 90% of homeowners either have their houses paid for, or they have a fixed low mortgage rate. And those are our customers. So our customers are in a really, really solid

financial situation.

And as we look at a geographic spread, I mean, there are really no, what I would call measurable differences between markets where you saw a really aggressive run up in home prices. And you seen that moderate somewhat. I mean, they're the usual suspects. It's Austin, it's South Florida, it's Arizona, parts of California. And so when we look at the data, there are no real distinguishing factors relative to housing prices that ran up during the pandemic and now that they're moderating. The most distinguishing factors we saw in Q1 was roll weather driven than anything. And as we've moderated through some of that, we hope when we look at that first half of the year, the first and second quarter combined, we'll get a much better view, not only of the health of the business, but the impact of the macro environment. And Brandon?

### **Brandon Sink**

Yeah, Brian, I would just add, in the near term, Marvin mentioned some of the pressures more cautious consumer, from a necessity standpoint, we're seeing that take up a larger share of wallet. So think spending on food and gas and where customers are engaging in spending from a discretionary standpoint, they're tending to spend more on the services side, travel, airlines, those sort of areas, as opposed to goods.

You did mention the dynamic with reversion and pull forward, we have seen categories. When we look at pre-pandemic 2019, we've seen a number of our categories revert back to those levels. But there are nuances within that. We've grown our Pro business substantially. We look at categories like building materials, rough plumbing, even in the DIY interior area, categories like appliances.

So we've actually taken share grown units grown transactions in those categories. We do feel like based on where we are today, we have a new baseline, by which we can manage the business. And we continue to be confident in those categories where we're taking share that we're going to continue to take, share and grow those businesses going forward. So that's how we're sort of thinking about current dynamics and where the business is going moving forward.

### **Brian Nagel**

That's very helpful. So let's jump in now to talk some more specifics on Lowe's. So Marvin, you joined the company CEO back in 2018. I think you've done a phenomenal job of repositioning the company, you and your team at repositioning Lowe's here.

So the question I want to ask on that front is kind of where are we? As you look at the Lowe's business model now, we've had no significant progress measured different -- number of different ways, probably the best way would be your operating margin now. But where are we in terms of the repositioning? And from your standpoint, what still needs to -- what can happen or what still needs to happen in order to drive further improvement at Lowe's?

### **Marvin Ellison**

Yeah, it's a really good question. And I'll take the first part of it. And I'll let Brandon to provide some financial support, to the strategic initiatives. Look, overall, we've made incredible progress. And when I look back, and I'll be celebrating my fifth-year anniversary in about a week, which is amazing how fast Tom just kind of flew by. But I think when you're busy as you know, when time goes by pretty quick, and we've been really busy.

When I think back on what we tried to address, Brian. I mean, it was it was really getting back to what we think retail fundamentals. We were doing a lot of initiatives, but they were not really aligned around some of the key things that really matter in business. That is how do you grow, share? And how do you create more profitability and return for your shareholders. And so for us, we feel like that we're in the early innings of this was a baseball game. We think we're in the early innings, because there's tremendous upside remaining in every element of our business.

We believe that the work that we've done to invest in information technology, our e-commerce platform, our Pro customer, and really addressing some of the productivity related issues that we had in our stores, as well as getting our merchandising assortment, adjusted and correct it has already started to pay dividends from an operating profit, from a return on invested capital perspective. And that's reflected in our share price performance.

The good news is we have a lot of upside in front of us. I mean, as I compare where we are to other major, what I would call world-class performing retailers, we have enormous opportunity in areas like improving space productivity in our stores, continuing to modernize our supply chain, continuing to connect our physical and digital footprint, so we can have a true omnichannel environment. And what we have in front of us for our Pro customer remains a unique opportunity for growth. And we think that is one of our most unique areas that we can not only grow top-line, but we also can leverage operating profit, because the relative expense required to grow top-line in that customer segment, we'll create more profit flow through.

So we feel like we're in early innings, and we have a really clear line-of-sight of what it's going to take for us to get from where we are to where we'd like to be. And Brandon, I'll let you share anything ---

### **Brandon Sink**

Brian, I would just, talk about the path that we outlined in December to get to the 14.5% operating margin. And building blocks still very consistent, very focused on driving top-line sales productivity is margin, as Marvin mentioned. Trying to get to \$520 per square foot, clearly our biggest sales growth opportunities are going to be in the Pro and in the online space. We've improved those businesses dramatically. Pro penetration is up 600 basis points. We've doubled our online penetration, but they're still -- when we look specifically within the Pro businesses, we unlocked some of the digital tools, continuing to invest in inventory, fulfillment capabilities, same thing online to improving the digital experience, selling the omnichannel experience, selling the endless aisles in our stores and also very heavily investing in fulfillment capabilities that we're unlocking in the store.

So from a sales productivity standpoint, confident we're making the right investments and seeing the right progress. And then underpinning all of that is really what we're driving across the organization, Brian from a productivity standpoint. And that's every group, every team, every function. Specifically, within merchandising, we've talked about callback activities with commodities with transportation, profit brand penetration opportunities, pricing initiatives that we're deploying there.

And then as we look at supply chain, Marvin mentioned, continued investment, automation, robotics to improve productivity. And then a number of things going on within the store environment, from transforming the frontend of our stores to, in our store-tech modernization that's happening. So combination of both top-line activities, investment, bottom line productivity PPI initiatives that are going to fund those things, all give us confidence that we're on the right trajectory, and that we have that 14.5% in front of us.

### **Brian Nagel**

That's very helpful. So before, I do have some real specific questions with Pro, but there is still one more bigger picture question here. So as you're talking about this continued progress at Lowe's, is this more -- is it more operate -- a continued operational tweaking? Or are there points of investments need to be made in order to kind of drive these product to begin unlocks?

### **Marvin Ellison**

Well, I would say that our capital commitment, we outlined roughly \$2 billion of CapEx spend year-over-year, we don't see any dramatic increase in that. So everything that we're talking about to get us to that 14.5 to an operating margin is really already factored into our capital spend. And so in other words, we don't see any big investments looming on the horizon that we have not communicated as part of our overall capital strategy.

We think it's a combination of operational tweaks. What our PPI initiatives continue to have this repetitive, ongoing flywheel of productivity improvements across every area of our business, in addition to making sure that we're making the right investments in IT and the right investments in our assortment, so that we can, we can better serve certain customer segments like a Pro customer.

And as we discussed on our Q1 call, going after that rural customer in in a more direct and in a very specific way to just to get a largest share of their wallet. So all those things have factored in to our capital spend. And we feel really good about the strategic plan we've laid out over the next three to five years to get us there.

### **Brian Nagel**

So let's discuss more Pro. That's clearly the commentary here in which you've said recently, I mean, that's a big focus for Lowe's. Lowe's has shown some success there. So look, I guess the question I'll ask is, what's the -- is there a big unlock with growers? Is it more just kind of ongoing processes to continue to drive -- to continue to better serve those professional customers and drive over time that Pro penetration higher for Lowe's?

### **Marvin Ellison**

It's another good question. I would say, first, it's important to look at the addressable market. So in the U.S., we estimate that the addressable Pro market for us is roughly \$0.5 trillion. So that's a big market. And although we talk a lot about us, and our largest competitor is a really fragmented market also.

And so when I when I take a step back, and I mentioned earlier that I'm going to be celebrating five years here pretty soon, my first day on the job five years ago, was at a Pro desk in Dallas, just trying to understand where we were relative to our competitors from a fundamental how we serving the Pro customer. And trust me, we've come a long way. But we've got a long ways to go. So one of the first things that I did after realizing how far behind we were from a focus on this really important customer, we conducted a series of surveys, focus groups, and townhalls with Pros who would stop shopping at us. So not the current customer, the customer had walked away from us to understand why.

And at a high level, they gave us some pretty basic things. Number one, you're always out of stock. Number two, training of your associates and your commitment to having consistency, and your service levels are all over the place. Number three, I can never count on you to have loading assistance, which is basic and fundamental. Number four, you can't distinguish me from anyone else, I'm in line with a traditional DIY customer. And we're paying the exact same price for the same items. Yet I'm spending hundreds of thousands of dollars with you. Why can't you distinguish me as a more valued customer?

And then the next one was, I mean, your brand. You guys have walked away from national brands, and you're chasing these private brands. And Pros are very brand loyal.

So at a high level, those were the things that they said until you guys fix these things, don't expect us to show back up. And so our strategy was okay, let's get back to the fundamentals to serve this customer. And so we address every one of those challenges, just to get a baseline.

Now the good news is, is from that date until now, we've improved our Pro penetration by 600 basis points. And we've improved our Pro customer service by 500 basis points. So we're headed in the right direction. But your question is, okay, what's required to continue to get to what's next. And we're investing in the Klein's required. We're investing in our new loyalty program that is important for us to have some degree of stickiness, to get a largest share of that customer's wallet. And we're extremely pleased, you're about a year into this, what we're seeing and how we're continuing to evolve it.

We rolled out new CRM platform that gives us visibility to these customers so we can communicate with them more directly. But more importantly, we can understand who they are. I mean, two years ago, I couldn't determine an electrician from a painter. But now we have the data that we can do this we can serve them better, communicate with them better. And third, private-- I mean national brands.

I mean, we just announced recently, we have client tools as an example, client walked away from us years ago for a variety of reasons. And now we're going to be the largest seller of Klein products of any home improvement retailer. And that's the number one brand for electricians and HVAC professionals. And we're going to continue to work on things like fulfillment, which is another big one, and creating a more digital platform for our Pros, which is also critically important and fulfillment.

And so all of the things that I just outlined, Brian, gives us a lot of confidence that we're going to be able to continue to take market share and 2x you know the market which is what we laid out. And as Brandon will outline, this is critical to our ability to not only grow top-line, but to get to the 14.5% operating margin.

### **Brian Nagel**

And so, Marvin as you look across your chain, and again, it's a great roadmap here for as we think about the professional business. But as you look across the chain, are there areas markets, maybe even stores where the

Pro, you're seeing even a better performance of Pro that we can face? As an investors were thinking about your business. We could use that as a roadmap of where the total change could ultimately go?

### **Marvin Ellison**

I would say, the short answer is yes. We, as you know, we piloted a lot of different things. We piloted different fulfillment mechanisms. We've piloted, dedicated fulfillment distribution centers, we piloted different salesforce. And so, what we're trying to do, is test and learn, and try to be very methodical, but also very disciplined around how we address the needs of this customer.

So there are geographies where we've implemented different things and tried different things, where we've seen green shoots, that really informed us around our strategy, but it's also informing us around what the future strategic initiatives should be.

So a lot more to come on that. But we're going to be outlining, probably the latter part of this year, early next year, some other key initiatives that we think will allow us to accelerate, our Pro market share. But for us, because we've been very disciplined around the small to medium size Pro, we feel really confident that what we're doing today will give us the ability to serve those customers at a high level. And then we have some future initiatives that I mentioned that we'll be deploying here in the future that we think will allow us to continue to grow the share of that customer and then at some point start to go after that larger Pro.

### **Brandon Sink**

Brian, I would just add that the small to medium Pro, really is where the focus is, no matter the market, that's where we feel like we have the right, and the ability to win. That's where we're seeing the most traction where we feel like we're taking the majority of the share.

And just to add on a couple nuances within what Marvin called out digital tools, which is what is in the process of rolling out this year, the ability for, you know, a small to medium Pro online, to get a quote online scheduled runner into our store, scheduled job site delivery. Those are new capabilities that we're seeing, a lot of traction, a lot of momentum. The fulfillment side of this, as Marvin mentioned, is we're looking at assets that we already have in distinct markets, whether that's assets out of the back of our store, in terms of how we fulfill we have flatbed distribution centers, that today singularly flow product from vendor to store. We're looking at unlocking capabilities where that can go direct to job site.

So again, those are leveraging the assets that we have. And that's where we feel like the biggest unlock is from a sales productivity sales per square foot, where we can take share and where we can ultimately drive both operating profit and operating margin.

### **Brian Nagel**

So shifting gears a bit. I was on the last conference call, I think. And then this year, you mentioned this, the rural market strategy, which I was always impressed. Because in my mind with this says that Lowe's now at point, we can start looking even more specifically at these groups of stores within your larger chain to unlock productivity.

So maybe just discussing the opportunity you see in there in these rural market stores. So for us is a big kind that the timetables to unlock those improvements. And then also as you step back, are there other cohorts of stores within your larger chain where you can make specific adjustments like you're doing your rural stores now?

### **Marvin Ellison**

Well, as I said, I mean we're in this test and learn environment. And this is just another example of just trying to be more customer centric and listening to the customers. And we had rural customer saying to us, we love shopping in your stores, but there are items that we have to go other places to buy that would be great for us. If you sold, these items under the same roof as your core home improvement products.

And one of the things that we learned as we start to think about this journey to this 14.5% in operating profit, we start to look at our entire footprint of stores. And as I've mentioned, initially we looked at these rural and

remote stores as competitive disadvantages. But we came to the ruralization, as I said on earnings call, it's a heck of a lot more efficient for us to operate a store in Philadelphia, Mississippi than in Philadelphia, Pennsylvania, from an expense standpoint. And we can be efficient, in a Philadelphia, Mississippi. We're going to create a lot more profitability along with top-line potential just based on the competitive set and based on serving that customer with more things that they require.

So taking rural specifically, we identified roughly 300 stores that kind of fit the profile and through a lot of testing and learning, we identified some assortment changes and additional products that we're going to start to put in the stores as we reset them, thinking more along the lines of the rural customer. And we've been really pleased with what we've seen in the early stages.

And really, if you take a step back, Brian, this is really all about localization. It's about us being a lot more aggressive around understanding the customer, understanding the demographics and the needs, and making sure our assortment fits the needs of the customer. And when I say that, I'm sure there are a lot of observers that could say, well, I mean, there's nothing new about localization that that's been going on for decades with retails, but we are we're decades behind because our systems and our assortment planning tools were so inefficient, that the merchant team basically assorted every store the same way irrespective of geography and demographic, because they didn't have the ability to do any unique tweaks, based on assortment planning.

Now we put in a better set of tools, so we can address the rural customer, we can address the urban customer.

And one really specific point that I'll make that gives you a view of the opportunity in front of us. As you know, I ran stores for our closest competitor for six years. And so I still have, relatively solid knowledge on the sales volume of some of those locations. And it is not uncommon for me to go to certain urban markets, and have one of our stores literally six blocks away from a competitor. And we're doing 50% of the volume with a larger physical store.

And so the question is, why is that? I mean -- so it's not a demographic issue, it comes down to three things. The assortment is totally wrong for the demographic of the customer. We have a significantly lower Pro penetration than a competitor, that's driven in large part based on some of those fundamental things I talked about, that we're addressing. And we haven't really captured the physical and digital syncing of that omnichannel that we will -- would improve technology and focus.

Now the good news is we know exactly what we need to do to fix our assortment. And that work is underway. We know exactly what we need to do to improve our Pro penetration. And we know exactly what we need to do to continue to make sure that we are connecting the physical and the digital stores, which gives me confidence that we could get a heck of a lot more productivity through not only rural stores, but urban stores with just the execution of basic things like assortment planning, that's done locally and all the other things I talked about.

So when I say we're bullish about the future of our company, it's really more about understanding what we need to do to just create more productivity in the locations we have. And there's no mystery around how we do it. We just have to be very disciplined, and very methodical around the investments we make. And we have done that and we think they'll continue to pay dividends for us.

### **Brandon Sink**

And Brian, I would I would just add the rural customer in particular, very mission-based mission-focused, right. So driving, a lot of times long distances, looking for value, convenience, one-stop shop. So really pleased we're seeing assortments categories lawn, outdoor, ranch, really starting to pop as Marvin mentioned, we'll have 300 stores rolled out by the end of the year. And these are already stores from a profitability standpoint and operating margin standpoint that are above the company average, leading in localization, better sales productivity does nothing but grow and enhance that. And again, these are all markets where we know these customers, and we felt like we have the right and the ability to win. So really excited about seeing the acceleration here.

### **Brian Nagel**

That's very helpful. So maybe be shifting back, maybe a little bit of near term inflation. Again, this is a topic of conversation, I've covered with a lot with our clients and a lot of companies I covered including you. So the question I have is, I guess maybe you can update us, I mean what you're seeing from an inflation standpoint,

probably more specifically on the shipping cost side. And I guess the question I have is, as you think about Lowe's and the dynamics of Lowe's, as we head into what's likely to be maybe not deflationary, but disinflationary. How will the dynamics of Lowe's change? Is that a curse?

### **Marvin Ellison**

Sure, Brian, I'll take that one. Inflation certainly been a large component of our comp sales over the last several quarters. We still expect that unit to impact our results as we look here in 2023. A lot of rap steal from price actions that we took in the second half of last year, so expecting that to impact our average ticket. We messaged across most all of our merch divisions, we saw average tickets still up. In Q1, we expect that to hold for the most part as we look across the year, again mostly due to the rap from pricing actions that we took last year.

Now the one caveat to that is really what we're seeing with lumber and commodities. We mentioned in May, roughly expecting 150 basis point impact on the year. So that's going to be the one category, negatively impacting average ticket and where we expect to take a step back.

You mentioned more broadly, transportation costs, commodity costs, we have a really big set of activities and actions internally with our merchandising partners and with our supply chain partners. As we look at commodities and transportation costs that have moved up. Over the last several years, we've been very diligent in tracking those down to the item level. And we're seeing as these markets rollover, we're prepared to reengage. So we're negotiating, we're taking these costs out, whether it's commodity, whether it's transportation. The wage piece has proven to be a little bit more sticky.

But seeing great success there. And just as a reminder, as we get those costs out, they do have to roll through turn through inventory, before we start to see the benefits flow through margin, but again, very much a part of merchandising PPI, it's included in our gross margin expectations for the year. And it also puts us in a leadership position.

So right as we look to continue to support our everyday competitive price strategy with the merchandising organization, we can invest, we can take price leadership when needed. But we're always going to do that, as we continue to manage margins. So that's just overall landscape in terms of where we are with inflation, cost, callback activities and how we're managing that across the portfolio.

### **Brian Nagel**

So just a follow up question for Brandon, maybe a couple of quick ones. One is, in areas that are not as commodity-driven, such as lumber. That's one ramp, I guess maybe help to emphasize this, the anticipation is that Lowe's will likely not be lowering prices, correct?

### **Brandon Sink**

That's correct. Brian outside of commodities at this point, we do not expect to see disinflation and a significant step back in average ticket. And that's as we look out to '23 and also beyond. So outside of commodities, we're not expecting significant step backs or significant disinflation there.

### **Brian Nagel**

I guess just one more quick one, from a consumer standpoint, maybe Marvin, this is where we started our conversation this morning. But as you're watching your consumer, do you think the unit demand could actually improve as inflationary pressures subside?

### **Marvin Ellison**

It's a good question. We hope so. I think it's a wait and see for us. This is one of the most unique convergence of macroeconomic factors and home improvement factors that we've ever seen. So we're cautious about predicting how the consumer is going to respond, because it's just such a unique set of factors that are converging together.

Having said that, we believe that as we work our way through the remainder of 2023, we're going to obviously have a much, much better view of the consumer. And we're going to have a much better view of when we're going to see our growth trajectory, come back. And again, we're approaching the end of the first half, which will

give us a really clear set of data points. And then as we get into the back half, we'll get another clear set of consumer datapoints. And then that's going to inform us, you're more intelligently, regardless of where the consumer is trending and what we can hope will occur next year in subsequent years.

### **Brandon Sink**

And, Brian, I think it gets back to earlier comments that we were making around reversion, right. We look across the portfolio, you mentioned, when you look at units and transactions, we've seen those down now for several consecutive quarters in a row. We are back to pre-pandemic levels as it relates to a number of those categories. So we do feel confident that we have a new baseline by which to manage the business.

And when we look out beyond in the more normalized Home Improvement environment, we do expect that more typical relationship between transactions units and average ticket to start to return. So that's what we're expecting when we look forward.

### **Brian Nagel**

I'm getting the notification our time is running now. So we asked one quick final question, Lowe's has been a very solid allocator of capital, a return of capital to shareholders is maybe an update there on how you're thinking about uses of excess capital.

### **Brandon Sink**

Yeah, sure, Brian no change to our previously stated capital allocation strategy. So continuing to invest in the business and high return projects, targeting a 35% dividend payout ratio and returning excess through share repurchases. We do expect to get to our 2.75 times leverage target by the end of this year. And just as a reminder, based on that, we will see a normalization and share repurchases when comparing 2023 to 2022.

A couple other things I'll also mention just from a cost to capital standpoint, continue to be really competitive there. Our average -- weighted average interest rate is at 3.95%, a 100% of our debt portfolio is fixed. So very little exposure to the interest rate environment that we're in. We look at debt maturities this year and next pretty insignificant when we look at 2023, as well as 2024.

And then the last thing I'll mention just as we look at the current interest rate environment, share repurchases as we continue to lean in, those are still accretive to EPS, as we look at and forecast and project what we're looking at for 2023.

### **Marvin Ellison**

Yeah, and Brian, one of the things that we're in you incredibly pleased with not only is our improvement from a customer service and an operating income, but also return on invested capital. And Brandon and his team have really done an incredible job of maintaining a very disciplined, very focused approach to how we allocate capital and how we return capital to our shareholders. And that's something we're going to continue to do.

### **Brian Nagel**

Marvin, Brandon, Kate, thank you all very much. We appreciate your time. Congratulations on the ongoing success at Lowe's.

### **Marvin Ellison**

Thank you. Always great to be with you.

### **Brandon Sink**

Thank you, Brian.