

## Magellan – In The Know: Episode 35

### Building the future - drilling into sustainability at Lowe's

#### Announcement (00:00):

The information contained in this podcast is for general information purposes and does not constitute investment advice. You should seek investment advice tailored to your circumstances before making an investment decision.



#### Host (00:14):

This is, In The Know, a Monthly Investment Podcast, brought to you by Magellan Asset Management.

#### Chris Cassell (00:20):

Ultimately, our biggest point of leverage is our customers. If we can get them to live more sustainably, we're going to make a tonne more progress. As you all know, sustainability is not a simple topic but we have to try and find ways to make it simple and actionable and ultimately also to demonstrate in the stores and online that sustainability is a value for the company and that it shows up in meaningful, authentic ways throughout the customer journey.

#### Host (00:45):

That's **Chris Cassell**, the Vice President of Corporate Sustainability at Lowe's Home Improvement, discussing how customers play an important part in achieving Lowe's environmental ambitions but they're not the only part. Welcome to Magellan - In The Know. In this episode, **Chris Cassell** explains to Magellan Investment Analyst, **Tracey Wahlberg** and Magellan's head of ESG, **Amy Krizanovic** just how Lowe's impressive sustainability programme aligns with financial drivers. It's a fascinating look past the gardening, building and tool sections and into the sustainable management practises of the giant behind the hardware. But first, here's a warm welcome from Magellan Investment Analyst, Tracy Wahlberg.

#### Tracey Wahlberg (01:32):

Hello and welcome to episode 35 of Magellan's - In The Know podcast. I'm **Tracey Wahlberg**. I'm joined by **Amy Krizanovic** and **Chris Cassell**, Vice President of Corporate Sustainability at Lowe's. Welcome Chris.

#### Chris Cassell (01:45):

Thank you both for letting me join you today. I'm delighted to be here.

#### Tracey Wahlberg (01:48):

With that, I might start with a bit of background on Lowe's. Lowe's was founded over a hundred years ago in North Carolina where it is still headquartered today. Its operations are now solely focused in the United States and it's positioned as the second largest retailer in the US home improvement industry. Lowe's generates about seven times as much revenue and operates over four times as many stores as our comparable retailer in Australia, Bunnings. And Amy Lowe's is a special podcast that we have today.

#### Amy Krizanovic (02:16):

Thanks, Tracey. Yes, it is. It's Magellan's first focus solely on sustainability. As investors, we focus on financial drivers that will help companies deliver sustainable returns for years to come. And managing environmental, social and governance issues commonly called ESG is a central feature of that. A well-implemented sustainability strategy is not only great for the planet, it also improves returns and shareholder value.

[\(02:41\)](#):

So Chris, welcome and thank you for making time for this discussion to help our listeners make the case for an investment in Lowe's through a sustainable lens. Chris, you've now been at Lowe's for just over a decade with six years in your current role. Let's start at the beginning. Can you tell us a little about how you came to study International Affairs in Portuguese and how that evolved into working at a Fortune 500 company?

**Chris Cassell** [\(03:02\)](#):

I'd be happy to. It's funny, I had a really great teacher in high school that taught me world history and it got me excited about the idea of becoming a diplomat. So I went to school to study International Affairs, actually minored in Spanish in undergrad and decided when I got out that I wanted to work for the Foreign Service but there was a two-year wait list. And when you're 22, you just don't have the patience to sit around and wait for two years to do anything.

[\(03:27\)](#):

So I packed up a suitcase and a buddy of mine and I moved down to South America and I ended up working down there for about two and a half years. Worked for a movie theatre company, opening up big multiplex movie theatres in Chile and in Argentina and about 1998 decided to go back to graduate school. That's where I studied Portuguese, graduated during the .com boom and figured, "I think I want to be a .com millionaire." So I got out, tried to find a job working for one of the .com startups and then the whole .com bubble exploded in 2000, right after I got out of school.

[\(03:59\)](#):

Fortunately, I ended up with a job doing consulting work for Accenture, which gave me some great experience working at some pretty tremendous companies here in the States and switched over to a different consulting firm in 2006 and my first client with them was Lowe's. And so after a long and somewhat crooked journey, I ended up working at Lowe's and have subsequently found myself in what I would consider my dream job, the coolest thing I've done in my entire career.

**Amy Krizanovic** [\(04:28\)](#):

Well, that is a very interesting pathway to your current role. Could you tell us a little bit more about what you were involved in when you were consulting? What were some of the topics there and therefore what has sort of helped in terms of your role at Lowe's in sustainability?

**Chris Cassell** [\(04:43\)](#):

Absolutely. So the consulting work was interesting. It was a combination of process development, strategic planning. I did some IT development, as well. And ultimately what it came down to in my consulting career and then later in the last role that I had at Lowe's running business planning and strategy was trying to find ways to drive strategic transformation within big companies, taking a look at the broader environment, evaluating trends that were happening and then figuring out how to leverage change management to help move a company in a new direction.

[\(05:18\)](#):

And ultimately, when you think about it, that's really what sustainability is all about. We're trying to look at the ways that Lowe's does what it does and change them so that we do it in a better way. And so I think the skills that I picked up in the consulting world have really helped me to be more effective in my role today.

**Tracey Wahlberg** ([05:34](#)):

Chris, Lowe's has set out a clear sustainability agenda, identifying the issues that are material to the business. Can you tell us about that process and your key priorities there?

**Chris Cassell** ([05:43](#)):

So I started working with the team actually back in 2016 before I formally took over the role. And what was really nice about that is, we were working with a third party consultancy at the time and we did a materiality assessment and then helped to develop a new sustainability strategy for the organisation. So the materiality assessment involved detailed interviews and then surveys with both internal and external stakeholders to identify the highest priority topics within the ESG spectrum, which as you know, contains a lot of different areas.

([06:15](#)):

And to understand how aggressively we wanted to pursue each of them, we also conducted a benchmarking process at the time to see where Lowe's stood so we could determine if we were ahead, if we were behind and where we wanted to get to. And through that whole process, both through the surveys, the interviews and the benchmarking, we were able to narrow down on the topics that we felt were the most important.

([06:38](#)):

I'll never forget, I think I was about six weeks into my formal role on the team and I had to take the new strategy and present it to our board of directors and it was the first time that I had ever been in front of our board. We had just built the strategy out and it was probably the most nervous I've ever been in my entire life. But they really liked it and we've been pursuing that strategy with some minor adjustments ever since.

([07:01](#)):

We did go back and conduct another materiality survey in 2020. It's best practise to conduct one every, I'd say, three to five years to make sure that you've got the most important issues at the top of the list. But right now we feel like we're really focused on the right things and the momentum we've been picking up has been tremendous.

**Tracey Wahlberg** ([07:18](#)):

Yeah, well done. I'm curious there, you've mentioned presenting to the board there are obviously a lot of competing priorities at a company and change management can often be a little bit challenging. How did you go getting buy-in from executive management?

**Chris Cassell** ([07:33](#)):

Well, it was helpful that in my prior role I actually spent a lot of time working with our leadership team. And so I had some good relationships already built. And as you mentioned, we talked about a little bit earlier, change management's such a big part of this process that having relationships, understanding how the business works is really a critical component. But I would say that the executive management has been on board since the very beginning.

[\(07:54\)](#):

Fortunately we found a number of areas where we can drive financial benefits to the organisation and environmental benefits at the same time. And so when you can deliver win-wins like that to the leadership team, it really helps. And also you could see the signals, the signals just keep popping up. Investor interest has grown over time, customer interest has grown, as I'm sure we'll talk about throughout the podcast today. And even our associates are caring more and more about this.

[\(08:21\)](#):

So when you want to bring in good talent into an organisation, people want to work for companies that have a stronger purpose. And so our executive team, our board, they see these trends happening and they understand the direction we need to go and they've given me tonnes of great support. I'd also just throw in, we've got a really strong governance structure within the organisation. We have a sustainability council down at the working level that involves people from all functions within the business.

[\(08:46\)](#):

We meet monthly and talk about trends, how progress is going against the plans. We've laid out ideas for new things that we could be working on. We have a steering committee that's chaired by our head of merchandising and has multiple executives on there that helps give us feedback and sponsor the work that we're doing. And then we also have a sustainability committee on our Board of Directors that governs and provides oversight to the work that we do on the ESG side. And it's really those multiple layers in the engagement and oversight at multiple levels that help us to be successful in what we're doing.

**Tracey Wahlberg** [\(09:16\)](#):

Yeah, great. Thank you. And Chris, you mentioned your associates. How did the company translate its sustainability message to employees and how has that permeated through the store floors?

**Chris Cassell** [\(09:27\)](#):

This is a big area of focus for us right now, Tracey. We want to engage with associates both at the corporate headquarters in our supply chain facilities and also in our stores. I would say generally it's easier the closer they are. So we've made some tremendous progress with the folks at our Corporate Headquarters, helping them understand what their role is in achieving the different goals and programmes that we have in place.

[\(09:51\)](#):

There are a lot of competing priorities within the business and so making sure that we find ways to make them aware of the work that we're doing and also help them understand what they can do to help is critical. And the goal ultimately, I think, is for sustainability to be a mental checkpoint in their day-to-day activities so that they think about what we're doing and how we could do it better and just ingrain it into what they do each and every day. If we get to that point, we'll be successful.

[\(10:17\)](#):

Now, I'll touch briefly on the store associates. We have roughly 250,000 store associates out there and they're really the linchpin for success for us because they're the ones that are engaging with our customers day in and day out. They're critical to the success of the business and they're critical for me as a sustainability leader because ultimately our biggest point of leverage is our customers. If we can get them to live more sustainably, we're going to make a tonne more progress.

[\(10:45\)](#):

And so it's much more challenging to try and get a message out to 250,000 store associates around sustainability because as you all know, sustainability is not a simple topic but we have to try and find ways to make it simple and actionable. And ultimately also to demonstrate in the stores and online that sustainability is a value for the company and that it shows up in meaningful, authentic ways throughout the customer journey.

**Amy Krizanovic** ([11:09](#)):

Oh, that's really interesting, Chris and I just wanted to take you back. You mentioned at the beginning about prioritising based on materiality, the sustainability focus for the business. One of those areas is climate risks and we are pleased to see that Lowe's has done a lot of work in this area. So just keen to start with just talking about some of the achievements in this space over the last five years.

**Chris Cassell** ([11:34](#)):

It's interesting, Amy. We actually set our first climate targets back in 2014 and through a series of some very wise investments between 2014 and now in LED lighting for the stores, HVAC, Building Management Systems, we actually managed to hit those early targets a couple of years early. So we actually then started working on a clean energy roadmap for Lowe's, identified some new goals for Scopes One and Two, but also started to take a closer look at Scope Three, which was a bit nebulous to us at the time and came out with more ambitious targets, made faster progress on the hooves than we thought.

([12:13](#)):

We set more ambitious targets. And then as I'm sure we'll get into, we actually decided to set a science-based net zero target, announced it at the end of last year. But I would just point out we invested roughly probably \$500 million, a little more than 500 million between 2019, 2022. So we've made a lot of progress but now as we layer in Scope Three, the journey gets even more complicated and more exciting.

**Amy Krizanovic** ([12:39](#)):

Well, that sounds like really fantastic progress that you've made and we always really acknowledge the huge amount of work that goes into not just achieving the targets but making them more ambitious and also seeking that external verification, which for us as investors when we're looking at the companies we are invested in, really helps with assessing the alignment of those companies to net zero.

([13:04](#)):

You talked a little bit about the projects that you have had in store and the achievements that you've made in your own operations. However, as you mentioned, you have set a net zero climate targets for Scope One and Two and Scope Three. Just wanted to continue on the conversation around your own operations. Could you give us some more examples of maybe what you're working on at the moment to continue to achieve that emission reduction in your own operations?

**Chris Cassell** ([13:33](#)):

Let me start the discussion just by giving you the framework that I use to talk about our net zero plans because there are really three key levers that we lean into as we work towards net zero, both within the enterprise and within our value chain. The first piece is efficiency. So we're looking for ways to make the things that we have as efficient as possible. The second piece is electrification. So anything that isn't fueled by electricity today, if it's natural gas or diesel or gasoline or propane, anything that we have that is currently using fossil fuel is a big focus on electrification. And then the last piece is renewable energy.

[\(14:10\)](#):

So if you can electrify everything, you can get things as efficient as they possibly can be, then your last lever is power all of the remaining things that are using electricity with renewable energy and you basically solved your net zero problem. So if you think about our own operations for Scopes One and Two, some of our biggest sources of Scope One emissions, the direct emissions, are the fleet that we operate, the generators that we use as backup power in our stores, the furnaces that heat our stores.

[\(14:40\)](#):

And so we're now examining ways to both make the existing assets more efficient but ultimately the goal is to transition the fleet, the generators and the furnaces in the stores to electric. And that obviously is going to take some time and take some investment. And then on the Scope Two side, we're looking at a diverse portfolio of renewable energy projects. So we've got a VPPA or Virtual Power Purchase Agreement that's operating in Texas today. It actually offsets all the electricity that our Texas stores use and there's well over a hundred stores in Texas.

[\(15:13\)](#):

We're installing rooftop solar, I think on over 150 locations over the next couple of years. We're involved in Community Solar, so we're trying to take a very diversified approach to get the renewable percentage where we need it to be. So as we bring our Scope One emissions down, as we make our assets more efficient, the remaining electricity usage will be complimented with renewable energy. So that's an overview of what we're doing within the operations. On the Scope Three side, which I think we'll dive into, it gets a lot more complicated.

**Tracey Wahlberg** [\(15:45\)](#):

So let's take the conversation there. So Scope Three is within your supply chain and your supply chain is very large and complex. We really appreciate that the business is now focused on working with its supply chain to reduce emissions. You sell over 2 million products online and stock over 40,000 SKUs in stores. So Chris, can you tell us how will this work? How do you accomplish net zero eventually with your suppliers and what's your current target?

**Chris Cassell** [\(16:14\)](#):

You bet, yeah. So the current target right now is a 22.5% reduction in Scope Three emissions by 2030 and then fully net zero by 2050. Just to give you a little bit of an overview, unlike a lot of the retailers that are out there, our largest source of Scope Three emissions is use of sold products. So it is emissions tied to the lawnmowers we sell, the refrigerators when they get plugged in, gas grills, water heaters, you name it. Those actually drive nearly 80% of our total emissions impact.

[\(16:51\)](#):

So when I was talking earlier about our customers being our biggest leverage point, our focus really is how do we drive sustainability into the home? The second largest source of emissions is upstream manufacturing or what they call purchase goods and services. In both of those areas, when you think about it, both the product use element as well as the upstream purchasing element are both heavily dependent on our suppliers. They're the ones that are designing the products, they're the ones manufacturing them.

[\(17:19\)](#):

And so close collaboration and partnership with those suppliers is going to be critical for our success. They have to be on the journey with us. Just to give you an idea, we have over 10,000 suppliers. We're obviously going to focus on the biggest ones first and try and help them if they're not already on the

journey, recognise that there's a challenge we all need to solve together and bring them along on the journey with us.

[\(17:44\)](#):

We got to take a look at the way they're running their facilities upstream, help them find ways to eliminate emissions and take care of their supply chains upstream from us. And then we also want to work with them to design and build better products for us over time. And the way we think about it is, the first thing we do is we got to educate and signal to our suppliers the direction that we're headed.

[\(18:07\)](#):

Then we have to capture data and figure out where everybody is on the journey so that we know to lean into the places where we need to lean into and the folks that are already well on their way, we can just partner with them and keep moving along. And then we want to motivate and recognise the folks that are doing well. So just to give you an example, we have a Sustainable Vendor of the Year Award that's given out every year to recognise the top supplier doing sustainability work for us. And we're trying to find other ways to provide recognition and rewards to those suppliers to encourage them to continue to do a good job.

**Amy Krizanovic** [\(18:36\)](#):

I just want to pick up, Chris, on a few things that you mentioned there. You did talk about the challenges but you also talked about working with your supply chain. And something that we really acknowledge from the companies that we invest in is where they are being a leader and collaborating, whether that's with peers or part of the supply chain. So we noticed that you are a board member of the Products Stewardship Society. We're just really interested to hear a little bit more about product stewardship and perhaps give us a few examples of how that's been implemented at Lowe's.

**Chris Cassell** [\(19:12\)](#):

Product stewardship's an interesting space. It's actually an emerging and evolving profession and there isn't even really a formal globally accepted definition of it yet. So it was great to participate with that group because I got to meet a bunch of really talented people and learn from the work that they were doing. The way the Product Stewardship Society defines it is responsibly managing the health, safety and environmental aspects of raw materials, intermediate and consumer products throughout their lifecycle and across the value chain in order to prevent or minimise negative impacts while maximising value.

[\(19:48\)](#):

So that's the way they define it on the website. I know that's a lot of words. I kind of think about it this way. The goal is really to design and build better products. And one of the ways that we're implementing this, so we talked a little bit about our suppliers. Well, the gateway to our suppliers is through our merchandising organisation. And so our merchants historically have not been that familiar with sustainability as a key consideration when they're making purchasing decisions.

[\(20:13\)](#):

So our first goal is, okay, how do we go and educate our merchants, make them smarter so when they engage with our suppliers, they can actually ask the right questions, push for the right investments and focus on the most impactful areas for the product categories that they run. And so we've actually built out a product sustainability framework which helps to identify the key areas where we think we can make improvements in product sustainability. The six categories that fall into the framework include sustainable materials, healthy homes, reducing and recovering waste or, as we like to call it, circularity, saving water, reducing emissions.

[\(20:51\)](#):

And then we have this catchall bucket that's more focused either on community empowerment like fair trade or on a full end impact like cradle to cradle certification. So we use this framework to help educate the merchants and then we roll these buying guides out category by category. So if you're in live goods and you're selling plants, you'll know which of those elements within the sustainability framework are actually the most important for the category you manage. And as you can imagine, live goods sustainability priorities look very different than they do in appliances. They look very different than they do in outdoor lawn and garden. And so each one gets a bespoke guide to help them understand which areas they should be leaning into and what types of things they should be focused on.

**Amy Krizanovic** ([21:36](#)):

Oh, that's really interesting and I think that education piece is so important. Most employees and suppliers and partners across the organisation and industry want to do the right thing but providing that framework in education sounds very constructive.

[\(21:52\)](#):

One area that you mentioned in terms of your suppliers, which is quite a large area for Lowe's, is around the sustainability and bio-diversity of the sourcing of wood. So Lowe's is one of the largest buyers of wood in the world. Could you give our listeners an idea of the scale of this for Lowe's and how that puts you in a position to work with your suppliers to really focus on sustainability and provide that education you're talking about.

**Chris Cassell** ([22:20](#)):

To give you an idea of scale, in 2022, we sourced roughly 395 million cubic feet of wood. That includes everything from two by fours, plywood, to little poles and ceiling fans and lamps, handles on tools. So 395 million cubic feet. I was trying to find some sort of equivalency so that I could help people understand what that looks like. It's roughly the size, if you filled up all 114 stores in the state of North Carolina where we operate from wall to wall, floor to ceiling with wood or about ... I was also looking up the Great Pyramid of Khafre in Egypt, there's about 75 million cubic feet, so it would be about five, five and a half Great Pyramids worth of wood every year.

**Amy Krizanovic** ([23:07](#)):

Wow. That really provides some perspective on scale. Thank you.

**Chris Cassell** ([23:11](#)):

Yeah. So you can see why it's an important topic for us. And I would just say to start the discussion, one of the things I would say within the home improvement sector and specifically for building materials, we really believe that wood is one of the more sustainable materials that you can use for building products. It's renewable, it stores carbon, it's very durable and it can be used in a lot of different ways. And so we believe it's a sustainable material but you really have to understand what type of wood you're sourcing, where it comes from, how it's grown and harvested.

[\(23:42\)](#):

Forestry practises are extremely important in this space. So you can't just go out and blindly buy wood from anywhere, any kind of wood. You have to be very thoughtful in how you pursue your sourcing practises. As you all probably know, forests play an extremely important role both in climate but also in bio-diversity and in indigenous rights as well. And so we have to think about those aspects as we're working with our suppliers to source wood throughout the world.



[\(24:09\)](#):

So to give you an idea, we have a number of different mechanisms that we use to make sure that we do this in the right way. The first thing is we actually conduct a survey every year and the survey will capture the wood volume within that item, the origin of the wood, what species it is and whether or not it carries a third party certification so that we can get a good understanding of what our footprint looks like. And it also helps us to focus in on areas where we want to pursue more certifications or work on forestry practises.

[\(24:40\)](#):

We encourage all of our suppliers to get third party certifications. We've got a preference for FSC or the Forest Stewardship Council, but forest certifications are a good way for us to validate that responsible forestry practises are going on since we're not actually on the ground with the suppliers while they're sourcing the wood. In addition to that, we also conduct audits of our suppliers annually.

[\(25:03\)](#):

So we'll pick folks from the survey and we'll go in, we'll send auditors out to their site, we'll review paperwork, we'll review their sourcing practises, their policies, the way they communicate to their employees and to their vendors to make sure that their practises are actually in alignment with the principles in our wood sourcing policy in the commitments that we've made externally.

[\(25:24\)](#):

And then finally, this is a team sport. We look for partnerships and collaborations like you were mentioning earlier, to find better ways to source wood and to improve forestry practises around the world. So we're partnered with the World Wildlife Fund. They've got this great programme called Forest Forward. Several large wood sourcing companies out there all come together. We talk about challenges and opportunities, we're seeing ways to improve transparency and visibility, ways to drive certification.

[\(25:52\)](#):

And ultimately our goal is just to lift up all practises around the world to make forestry and wood products sustainable over time. And the last thing I'd mentioned, I know that was a lot, but we also just announced at the end of last year that we're embarking on a new reforestation programme. So we'll be looking for ways to invest to plant trees in many of the areas where we currently sourced to try and ensure that we've got both continued supply of timber out there, but that we're keeping an eye on climate and bio-diversity and human rights as we do so.

**Amy Krizanovic** [\(26:24\)](#):

Thanks, Chris. That was so interesting. And I think putting it together with the scale that you mentioned at the outset really shows how companies like Lowe's can really use their scale to lift up the whole industry. And from an investment perspective, that really helps to put in place that certainty of supply.

**Tracey Wahlberg** [\(26:42\)](#):

Yeah. And the other thing I would say is what you've highlighted there, Chris, is increasingly retailers need to become responsible retailers, really. And that ends up becoming part of your competitive advantage as you've adopted all of these strategies. I would imagine as well that this extends beyond wood that you're sourcing sustainably. I'd love to talk about how you apply sustainability credentials to other products and how does that impact your buying decisions for other products at Lowe's?

**Chris Cassell** [\(27:13\)](#):

Customers ultimately want, I mean, we're seeing more and more signals. Customers want to buy better products and they want to know that the products that they're buying are responsibly made, that they're good for the environment, that they're more efficient, that they're safer and healthier, but the stuff's really complicated. And so the third party certifications and credentials help to simplify the process for them so they don't have to do as much home homework. If you find trusted, credible and holistic third party certifications out there, it goes a long way.

[\(27:44\)](#):

One, in making it easier both for our merchants when they're looking for products, but also our customers when they're out shopping to find products that match their values. But the other thing it does is add credibility. There's lots of stories out in the news these days about greenwashing and companies making claims that aren't true. Gaining a customer's trust is not easy and once you have it, the last thing you want to do is lose it.

[\(28:07\)](#):

And so we lean heavily on third party certifications because they do all the homework, they're the experts in the space and by using their credentials, it shows that the claims that are being made about those products are true and that they can be trusted. And so it's through those credentials that we build a level of trust with our customers and also make it easier for them to navigate the shopping environment.

[\(28:29\)](#):

With that said, some of these credentials aren't that well recognised yet. And so part of the work we have to do is find ways to decode the different credentials and third party certifications, make them more approachable and help make the shopping experience for customers easier. And so that's one of the areas that we're focused on now.

**Tracey Wahlberg** [\(28:47\)](#):

Yeah, that's really interesting. On that, we've noticed Lowe's has increased the number of products and appliances that sells with Energy Star and Water Sense ratings. So can you tell us a bit about those programmes then? And what do they mean for the customer and also for the environment?

**Chris Cassell** [\(29:06\)](#):

Energy Star and Water Sense are two of my favourite certifications. Energy Star is probably one of the most widely recognised labels that is out there and it really helps communicate the message of, buy this product, it's more efficient, you'll save money and at the same time you're going to be reducing emissions and helping to protect the climate. Water sense is also great, similar story, but focused on water conservation.

[\(29:25\)](#):

And the great thing about it is not every customer walks into the store thinking like, "Hey, I'm going to be a great sustainable customer today," but everybody loves to save money. And so sometimes you lean into a message about savings rather than a message about saving the planet but you ultimately achieve the same goal. Now, just to give you an idea, think about Energy Star. The water heater in your house, generally speaking, is somewhere between 10 to 15% of your monthly energy bill. Energy Star certified water heaters are at least 20% more efficient and oftentimes even more efficient than that.

[\(30:01\)](#):

And so you can take big bites out of your energy bill just by buying a different product at the front end, and you don't have to do anything differently afterwards. And then if you think about toilets,

interestingly, toilets are about 30% of your water bill. Most people don't think about it. So you get a Water Sense certified toilet, you can actually save a tonne of water that way, same functionality.

[\(30:21\)](#):

And if you don't want to replace the toilet, there's easy ways that you can hack it, too. You can fill up a Coke bottle with sand and drop it into the tank or we sell bags that you can drop into the tank that reduce the amount of water that's used every time. So there's a combination of both trying to sell better products but also just trying to help educate our customers on shortcuts and hacks and things that they can change at home that'll make small differences that over time add up to a really big change.

**Tracey Wahlberg** [\(30:45\)](#):

Yeah, that's really interesting. So by using Energy Star and Water Sense ratings, I imagine the role of the home evolves and the home becomes a more sustainable centre for achieving net zero globally. So how do you think about that at Lowe's? How do you play into the evolution of the home and where do you think that goes?

**Chris Cassell** [\(31:05\)](#):

Yeah, Tracy, this is the area that I get the most excited about in my job. So if I start talking too much, just let me know and I'll try and cut it down. But it's really fascinating space. So in the US, homes account for roughly 20% of energy consumption and emissions for the country and roughly 50% of water consumption and waste generation. And you think about our company, what Lowe's does each and every day is talk to customers about changes they want to make within their home.

[\(31:36\)](#):

The median home age in the US is 41 years and so there's a lot of outdated infrastructure and tech in those homes that need to be evolved if we're ever going to get to a net zero context for the whole planet. And so I sort of view this as our superpowers. We can be the ones to help customers on this journey to make this transition. And it's a very similar set of themes to what we talked about earlier when we were discussing net zero. It's about electrification, it's about efficiency and it's about renewable energy.

[\(32:09\)](#):

So you can start with simple things like, how do you improve the insulation in your home, how do you check to see if you've got leaks and you get weather stripping or caulking or sealing, get LED lighting in. You can make big changes with relatively small investments on the front end and then move on to improving your appliances. Converting from a traditional water heater to a heat pump water heater, getting Energy Star certified appliances, converting that lovely gas cooktop you have over to an efficient electric one or induction cooktop. I just bought one, they're amazing.

[\(32:42\)](#):

But then you think about that sort of transformation from the 41-year-old median household to what I'd like to refer to as the George Jetson home of the future. We're not quite to flying cars yet, but homes are going to need EV chargers as EVs become more popular, you're seeing solar panels being installed, battery storage. You're seeing smart home technology come in that starts to tie all of these different things together.

[\(33:10\)](#):

And I envision this future where you've got these highly efficient homes powered by renewable energy, all of the assets are talking to each other and you're getting the same or a better level of comfort out of it but with a much lower environmental impact. And so it gets me really excited to think about how to

do it. And the fact that we can be the ones to help educate and guide and lead customers through that transition is really exciting.

[\(33:36\)](#):

The other thing I would mention, too, I don't know if you all have caught it in the news over there but we just passed the largest climate bill in the states recently called the Inflation Reduction Act. And it's providing homeowners with a tonne of tax credits and Point of Sale rebates. Some of the things are already implemented, some will be implemented early next year, but the government is now putting money into the equation.

[\(33:58\)](#):

So you've got this public, private, public partnership where homeowners, Lowe's and other retailers and the government are involved in trying to help accelerate the transition so we can reduce that footprint and really start to bring both the emissions profile but not just emissions, water consumption, waste generation, all the rest of it down rapidly over the next couple of decades. So I could talk to you all about this for hours. You probably don't have hours but this is an area that I think is going to be really fun to watch for the next couple of decades.

**Tracey Wahlberg** [\(34:29\)](#):

It sounds like a great time to be a responsible home improvement retailer. Thanks, Chris.

**Amy Krizanovic** [\(34:34\)](#):

Well, we've really covered a lot of ground today from climate to the circular economy and as investors, we see it as really important for companies like Lowe's to be at the forefront of these topics, not just to manage risks but also to take advantage of opportunities. We've already heard your passion and excitement about the opportunities in the home but just wanted to ask you to look out over the next five years. What else excites you about the opportunities ahead for Lowe's with respect to sustainability?

**Chris Cassell** [\(35:05\)](#):

So you already hit number one, but a close second to that one is just seeing the rapid increase in momentum in the space and particularly within our peer set and within our supply chain, the collaborations that are forming, the groups that are getting together to try and solve these complex topics. I mean, you could go through the whole list of ES&G topics, and there are interest groups and industry collaborations that are forming with extremely talented people, bringing these talents to the table, assessing the issues, driving innovation, finding ways to work together.

[\(35:42\)](#):

One of the things that I love about my job is that it's a very cooperative space. We talk to everybody. When I first started, people were like, "Oh, it's the new guy." And they brought me in and they're bringing me up to speed and they're sharing materials. We share what we're doing with everybody we can and we learn from so many of those around us. And every time I talk to a new supplier and they're saying, "Hey, we got a net zero." Or, "We're working a net zero target." Or, "We're working on a new target here, can you help us?"

[\(36:07\)](#):

It just gives me an extra spike in energy because you can see that people are really grasping the importance of this. They're putting their minds to making a difference and ultimately, it's going to take

all of us working together if we're going to be successful over time. So between that and turning everybody's home into the home of the future, I feel like I've got some really fun years ahead of me.

**Tracey Wahlberg (36:26):**

Well, Chris, that sounds great. And thank you again for being with us today, helping us consider the ways in which Lowe's sustainability strategy helps deliver shareholder returns. We look forward to watching your progress in this space and appreciate the company's leadership and matters related to ESG. Thanks, Chris.

**Chris Cassell (36:42):**

Thank you both so much for having me. It's been a pleasure.

**Tracey Wahlberg (36:45):**

Thanks.

**Host (36:46):**

That was Vice President of Corporate Sustainability at Lowe's, Chris Cassell. In discussion with Magellan Investment Analyst, Tracey Wahlberg and Magellan's Head of ESG, Amy Krizanovic. We trust you've enjoyed this episode of Magellan - In The Know. Join us in a month's time for the next episode. For more information on upcoming episodes, visit [magellan.group.com.au/podcast](http://magellan.group.com.au/podcast) where you can also sign up to receive our regular investment insights programme. Thanks for listening.

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