

Q3 2020 Reconciliation of Non-GAAP Measures

Management of Lowe's Companies, Inc. (the Company) uses certain non-GAAP financial measures and considers them to be important supplemental measures of the Company's performance. In addition, management believes these non-GAAP financial measures provide additional insight for analysts and investors in evaluating the Company's financial and operating performance. These non-GAAP financial measures should not be considered alternatives to, or more meaningful indicators of, the Company's financial measures as prepared in accordance with GAAP. The Company's methods of determining these non-GAAP financial measures may differ from the methods used by other companies and may not be comparable.

The Company's non-GAAP financial measures are intended to provide better visibility to the following:

1. Operating performance,
2. Liquidity measures, and
3. Leverage measures.

Operating Performance

The Company has provided the following non-GAAP financial measures for comparing its operating performance for the three months ended October 30, 2020, with the respective period ended November 1, 2019: adjusted gross margin; adjusted selling, general and administrative expenses (SG&A); adjusted operating income; and adjusted diluted earnings per share. These measures exclude the impacts of certain discrete items, as further detailed below, not contemplated in Lowe's Original Business Outlook for fiscal 2020 and fiscal 2019. In addition, in the updated Business Outlook for the fourth quarter of fiscal 2020, the Company has provided a comparison to the non-GAAP financial measures of adjusted operating income and adjusted operating margin for the fourth quarter of fiscal 2019. Lowe's believes these measures are useful in helping understand actual and forecasted performance relative to the original Business Outlook, as well as performance between fiscal periods.

Fiscal 2020 Impacts

For fiscal 2020, the Company has recognized financial impacts from the following discrete items, not contemplated in the Company's Original Business Outlook for the third quarter of fiscal 2020:

- Beginning in the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, and in the fourth quarter of fiscal 2019, the Company announced additional actions to improve future performance and profitability of its Canadian operations. As a result of this review and related actions, in the third quarter of fiscal 2020, the Company recognized \$13 million of pre-tax operating costs related to remaining inventory write-downs and other closing costs (Canada restructuring).
- In the third quarter of fiscal 2020, the Company recognized a \$1.1 billion loss on extinguishment of debt in connection with a \$3.0 billion cash tender offer (Loss on extinguishment of debt).

Fiscal 2019 Impacts

For fiscal 2019, the Company has recognized financial impacts from the following discrete item, not contemplated in the Company's Original Business Outlook for the third quarter of fiscal 2019:

- During the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, and as a result, recognized pre-tax charges of \$53 million associated with long-lived asset impairment (Canada restructuring).

These items impacted the following financial statement line items and metrics:

	Three Months Ended October 30, 2020			
	Gross Margin	SG&A	Operating Income	Diluted Earnings Per Share
Non-GAAP items:				
Loss on extinguishment of debt				✓
Canada restructuring	✓	✓	✓	✓



Three Months Ended November 1, 2019				
	Gross Margin	SG&A	Operating Income	Diluted Earnings Per Share
Non-GAAP items:				
Canada restructuring		✓	✓	✓

The following measures are presented for comparison of operating performance for the quarter ended October 30, 2020, and November 1, 2019:

Adjusted Gross Margin (in millions)	Three Months Ended	
	October 30, 2020	November 1, 2019
Gross Margin, As Reported	\$ 7,300	\$ 5,640
Canada restructuring	3	—
Adjusted Gross Margin	\$ 7,303	\$ 5,640
Gross Margin, % of sales	32.72 %	32.44 %
Adjusted Gross Margin, % of sales	32.73 %	32.44 %

Adjusted SG&A (in millions)	Three Months Ended	
	October 30, 2020	November 1, 2019
SG&A, As Reported	\$ 4,770	\$ 3,772
Canada restructuring	(10)	(53)
Adjusted SG&A	\$ 4,760	\$ 3,719
SG&A, % of sales	21.38 %	21.69 %
Adjusted SG&A, % of sales	21.33 %	21.39 %

Adjusted Operating Income (in millions)	Three Months Ended	
	October 30, 2020	November 1, 2019
Operating Income, As Reported	\$ 2,175	\$ 1,558
Canada restructuring	13	53
Adjusted Operating Income	\$ 2,188	\$ 1,611
Operating Margin, % of sales	9.75 %	8.96 %
Adjusted Operating Margin, % of sales	9.81 %	9.26 %

Adjusted Diluted Earnings Per Share	Three Months Ended					
	October 30, 2020			November 1, 2019		
	Pre-Tax Earnings	Tax ¹	Net Earnings	Pre-Tax Earnings	Tax ¹	Net Earnings
Diluted Earnings Per Share, As Reported			\$ 0.91			\$ 1.36
Loss on extinguishment of debt	1.40	(0.35)	1.05	—	—	—
Canada restructuring	0.02	—	0.02	0.07	(0.02)	0.05
Adjusted Diluted Earnings Per Share			\$ 1.98			\$ 1.41

¹ Represents the corresponding tax benefit or expense related to the item excluded from adjusted diluted earnings per share. Based on these adjustments, the adjusted effective tax rates for the three months ended October 30, 2020 and November 1, 2019 were 23.9% and 24.1%, respectively.



The following measures are presented to support the Company's Business Outlook for the fourth quarter of fiscal 2020:

(in millions, except operating margin)	Three Months Ended	
	(Unaudited)	
	January 31, 2020	
Operating income, as reported	\$	958
Non-GAAP adjustments		
Canada restructuring		176
Mexico adjustments		9
Adjusted operating income	\$	1,143
Adjusted operating margin		7.15 %

Liquidity Measures

Free Cash Flow

Lowe's believes Free Cash Flow is a useful measure to describe the Company's financial performance and measures its ability to generate excess cash from its business operations. The Company defines Free Cash Flow as net cash provided by operating activities less capital expenditures.

Free Cash Flow (in millions)	Nine Months Ended		FY 2019	FY 2018
	October 30, 2020			
Net cash provided by operating activities	\$	11,485	\$ 4,296	\$ 6,193
Capital expenditures		(1,172)	(1,484)	(1,174)
Free Cash Flow	\$	10,313	\$ 2,812	\$ 5,019

Leverage Measures

Lease-Adjusted Debt to EBITDAR

Lowe's believes the ratio of Lease-Adjusted Debt to EBITDAR is a useful supplemental measure and provides an indication of the results generated by the Company in relation to its level of indebtedness. The Company defines EBITDAR as four quarters' earnings before interest, taxes, depreciation, amortization, share based payments, rent (inclusive of interest on operating leases), and certain items as defined by the Company's credit facility.

The Company defines Lease-Adjusted Debt as short-term debt, current maturities of long-term debt, long-term debt excluding current maturities, and operating lease liabilities reflected on our balance sheet.

EBITDAR (in millions)	Four Quarters Ended	
	October 30, 2020	November 1, 2019
Net Earnings	\$ 5,367	\$ 2,947
Interest ¹	827	665
Taxes	1,828	1,176
Depreciation and amortization ²	1,514	1,418
Share-based payments	131	70
Rent	648	616
Certain charges ^{3,4}	1,279	1,557
EBITDAR	\$ 11,594	\$ 8,449

¹ Interest includes amortization of original issue discount, deferred loan costs & other non-cash amortization charges.

² Depreciation and amortization represents total Company depreciation, including amounts recognized in cost of goods sold, as well as amortization of certain trademarks and intangibles.

³ Certain charges for the four quarters ended October 30, 2020 include: \$1,060 million of charges associated with the loss on extinguishment on debt, \$183 million of costs associated with the Canada restructuring, \$9 million of charges associated with the company's decision to exit its Mexico operations, and \$27 million of closing costs associated with Orchard Supply Hardware.

⁴ Certain charges for the four quarters ended November 1, 2019 include: \$952 million of goodwill impairment associated with the company's Canadian operations; \$159 million of long-lived asset impairment, discontinued project charges, and closing costs associated with Orchard Supply Hardware; \$103 million of long-lived asset impairment, discontinued projects, and severance-related costs associated with the Company's closure of 20 U.S. and 31 Canada locations; \$250 million of impairment associated with the company's decision to exit its Mexico operations; \$40 million of non-core activities charges; and \$53 million of impairment costs associated with the strategic reassessment of Canadian operations in Q3 2019.

Lease Adjusted Debt (in millions)	As of	
	October 30, 2020	November 1, 2019
Short-term borrowings	\$ —	\$ 637
Current maturities of long-term debt	609	574
Current operating lease liabilities	530	499
Long-term debt excluding current maturities	21,185	16,635
Noncurrent operating lease liabilities	3,907	3,942
Lease adjusted debt	\$ 26,231	\$ 22,287
EBITDAR	\$ 11,594	\$ 8,449
Lease adjusted debt to EBITDAR	2.26	2.64