

Q1 2021 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 to the three months ended May 1, 2020: adjusted selling, general and administrative expenses (SG&A); adjusted operating income; and adjusted diluted earnings per share. These measures exclude the impact of a discrete item, further detailed below, not contemplated in Lowe's Business Outlook for the first quarter of fiscal 2020. Lowe's believes these measures are useful in helping understand actual operational performance, as well as performance between fiscal periods.

Fiscal 2020 Impacts

During fiscal 2020, the Company recognized financial impacts from the following discrete item, not contemplated in the Company's Business Outlook for the first quarter:

- 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 first quarter of fiscal 2020, the Company recognized \$9 million of pre-tax operating costs related to severance and other costs (Canada restructuring).

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

	Three Months Ended May 1, 2020				Diluted Earnings Per Share
	Gross Margin	SG&A	Depreciation & Amortization	Operating Income	
Non-GAAP items:					
Canada restructuring		✓		✓	✓

The following measures are presented for comparison of operating performance to the three months ended May 1, 2020:

	Three Months Ended
	May 1, 2020
Adjusted SG&A (in millions)	
SG&A, As Reported	\$ 4,196
Canada restructuring	(9)
Adjusted SG&A	<u>\$ 4,187</u>
SG&A, % of sales	21.32 %
Adjusted SG&A, % of sales	21.28 %



Adjusted Operating Income (in millions)	Three Months Ended	
	May 1, 2020	
Operating Income, As Reported	\$	1,991
Canada restructuring		9
Adjusted Operating Income	\$	2,000
Operating Margin, % of sales		10.12 %
Adjusted Operating Margin, % of sales		10.16 %

Adjusted Diluted Earnings Per Share	Three Months Ended		
	May 1, 2020		
	Pre-Tax Earnings	Tax ¹	Net Earnings
Diluted Earnings Per Share, As Reported			\$ 1.76
Canada restructuring	0.01	—	0.01
Adjusted Diluted Earnings Per Share			\$ 1.77

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 rate for the three months ended May 1, 2020 was 25.04%.

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)	Three Months Ended	
	April 30, 2021	May 1, 2020
Net cash provided by operating activities	\$ 4,492	\$ 4,450
Capital expenditures	(461)	(328)
Free Cash Flow	\$ 4,031	\$ 4,122

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	
	April 30, 2021	May 1, 2020
Net Earnings	\$ 6,819	\$ 4,572
Interest ¹	855	733
Taxes	2,167	1,583
Depreciation and amortization ²	1,640	1,428
Share-based payments	183	83
Rent	649	661
Certain charges ^{3,4}	1,096	248
EBITDAR	\$ 13,409	\$ 9,308

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 2021 include: \$1,060 million of charges associated with the loss on extinguishment on debt and \$36 million of costs associated with the Canada restructuring.

⁴ Certain charges for 2020 include: \$213 million of costs associated with the strategic reassessment of Canadian operations, \$23 million of charges associated with the company's decision to exit its Mexico operations, and \$12 million of closing costs associated with Orchard Supply Hardware.

Lease Adjusted Debt (in millions)	As of	
	April 30, 2021	May 1, 2020
Short-term borrowings	\$ —	\$ 1,000
Current maturities of long-term debt	1,338	604
Current operating lease liabilities	551	506
Long-term debt excluding current maturities	21,906	20,200
Noncurrent operating lease liabilities	3,925	3,915
Lease adjusted debt	\$ 27,720	\$ 26,225
EBITDAR	\$ 13,409	\$ 9,308
Lease adjusted debt to EBITDAR	2.07	2.82