

Q4 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,
3. Leverage measures, and
4. Capital/asset productivity measures.

Operating Performance

The Company has provided the non-GAAP financial measure of adjusted diluted earnings per share for comparing its operating performance to the three months and fiscal year ended January 29, 2021. This measure excludes the impact of discrete items, further detailed below, not contemplated in Lowe's Business Outlook for fiscal 2020. Lowe's believes this measure is 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 items, not contemplated in the Company's Business Outlook for the fourth quarter and fiscal year:

- 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 fourth quarter of fiscal 2020, the Company recognized \$12 million of pre-tax operating costs related to inventory write-downs and other closing costs. Total pre-tax charges for fiscal 2020 were \$45 million (Canada restructuring), and;
- In the third quarter of fiscal 2020, the Company recognized a \$1.1 billion loss on extinguishment of debt in connection with the cash tender offers on an aggregate principal amount of \$3.0 billion in outstanding notes (Loss on extinguishment of debt).

Adjusted Diluted Earnings Per Share	Three Months Ended			Year Ended		
	January 29, 2021			January 29, 2021		
	Pre-Tax Earnings	Tax ¹	Net Earnings	Pre-Tax Earnings	Tax ¹	Net Earnings
Diluted Earnings Per Share, As Reported			\$ 1.32			\$ 7.75
Canada restructuring	0.01	—	0.01	0.06	—	0.06
Loss on extinguishment of debt	—	—	—	1.41	(0.36)	1.05
Adjusted Diluted Earnings Per Share			\$ 1.33			\$ 8.86

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 and fiscal year ended January 29, 2021 were 25.8% and 24.6%, respectively.

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)	Year Ended	
	January 28, 2022	January 29, 2021
Net cash provided by operating activities	\$ 10,113	\$ 11,049
Capital expenditures	(1,853)	(1,791)
Free Cash Flow	\$ 8,260	\$ 9,258

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	
	January 28, 2022	January 29, 2021
Net Earnings	\$ 8,442	\$ 5,835
Interest ¹	885	848
Taxes	2,766	1,904
Depreciation and amortization ²	1,855	1,572
Share-based payments	230	155
Rent	673	642
Certain charges ³	—	1,122
EBITDAR	\$ 14,851	\$ 12,078

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 2020 include: \$1,060 million of charges associated with the loss on extinguishment of debt, \$45 million of costs associated with the Canada restructuring, and \$17 million of closing costs associated with Orchard Supply Hardware.

Lease Adjusted Debt (in millions)	As of	
	January 28, 2022	January 29, 2021
Current maturities of long-term debt	\$ 868	\$ 1,112
Current operating lease liabilities	636	541
Long-term debt excluding current maturities	23,859	20,668
Noncurrent operating lease liabilities	4,021	3,890
Lease adjusted debt	\$ 29,384	\$ 26,211
EBITDAR	\$ 14,851	\$ 12,078
Lease adjusted debt to EBITDAR	1.98	2.17

Capital/Asset Productivity Measures

Return on Invested Capital

Return on Invested Capital (ROIC) is calculated using a non-GAAP financial measure. Lowe's believes ROIC is a meaningful metric for investors as a measure of how effectively the Company is using capital to generate profits. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management may differ from the methods used by other companies. We encourage you to understand the methods used by another company to calculate ROIC before comparing its ROIC to ours.

We define ROIC as the rolling 12 months' lease adjusted net operating profit after tax (Lease adjusted NOPAT) divided by the average of current year and prior year ending debt and shareholders' (deficit)/equity. Lease adjusted NOPAT is a non-GAAP financial measure, and net earnings is considered to be the most comparable GAAP financial measure. The calculation of ROIC, together with a reconciliation of net earnings to Lease adjusted NOPAT, is as follows:

ROIC (in millions)	Four Quarters Ended	
	January 28, 2022	January 29, 2021
Numerator		
Net Earnings	\$ 8,442	\$ 5,835
Plus:		
Interest expense, net	885	848
Operating lease interest	160	171
Loss on extinguishment of debt	—	1,060
Provision for income taxes	2,766	1,904
Lease adjusted net operating profit	12,253	9,818
Less:		
Income tax adjustment ¹	3,024	2,416
Lease adjusted net operating profit after tax	\$ 9,229	\$ 7,402
Denominator		
Average debt and shareholders' (deficit)/equity ²	\$ 26,109	\$ 26,686
Net earnings to average debt and shareholders' (deficit)/equity	32.3 %	21.9 %
Return on invested capital	35.3 %	27.7 %

¹ Income tax adjustment is defined as lease adjusted net operating profit multiplied by the effective tax rate, which was 24.7% and 24.6% for the periods January 28, 2022 and January 29, 2021, respectively.

² Average debt and shareholders' (deficit)/equity is defined as average current year and prior year ending debt, including current maturities, short-term borrowings, and operating lease liabilities, plus the average current year and prior year ending total shareholders' (deficit)/equity.