

Lowe's Companies, Inc.

Consolidated Statements of Current and Retained Earnings (Unaudited)

In Millions, Except Per Share and Percentage Data

	Three Months Ended				Year Ended			
	January 31, 2020		February 1, 2019		January 31, 2020		February 1, 2019	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Current Earnings								
Net sales	\$ 16,027	100.00	\$ 15,647	100.00	\$ 72,148	100.00	\$ 71,309	100.00
Cost of sales	11,046	68.92	10,749	68.70	49,205	68.20	48,401	67.88
Gross margin	4,981	31.08	4,898	31.30	22,943	31.80	22,908	32.12
Expenses:								
Selling, general and administrative	3,685	22.99	5,097	32.58	15,367	21.30	17,413	24.41
Depreciation and amortization	338	2.11	368	2.35	1,262	1.75	1,477	2.07
Operating income/(loss)	958	5.98	(567)	(3.63)	6,314	8.75	4,018	5.64
Interest - net	183	1.14	158	1.00	691	0.96	624	0.88
Pre-tax earnings/(loss)	775	4.84	(725)	(4.63)	5,623	7.79	3,394	4.76
Income tax provision	266	1.66	99	0.64	1,342	1.86	1,080	1.52
Net earnings/(loss)	\$ 509	3.18	\$ (824)	(5.27)	\$ 4,281	5.93	\$ 2,314	3.24
Weighted average common shares outstanding - basic	763		801		777		811	
Basic earnings/(loss) per common share ⁽¹⁾	\$ 0.67		\$ (1.03)		\$ 5.49		\$ 2.84	
Weighted average common shares outstanding - diluted	764		801		778		812	
Diluted earnings/(loss) per common share ⁽¹⁾	\$ 0.66		\$ (1.03)		\$ 5.49		\$ 2.84	
Cash dividends per share	\$ 0.55		\$ 0.48		\$ 2.13		\$ 1.85	
Retained Earnings								
Balance at beginning of period	\$ 2,238		\$ 5,156		\$ 3,452		\$ 5,425	
Cumulative effect of accounting change	—		—		(263)		33	
Net earnings/(loss)	509		(824)		4,281		2,314	
Cash dividends declared	(420)		(385)		(1,653)		(1,500)	
Share repurchases	(600)		(495)		(4,090)		(2,820)	
Balance at end of period	\$ 1,727		\$ 3,452		\$ 1,727		\$ 3,452	

⁽¹⁾ Under the two-class method, earnings per share is calculated using net earnings allocable to common shares, which is derived by reducing net earnings by the earnings allocable to participating securities. Net earnings allocable to common shares used in the basic and diluted earnings per share calculation were \$508 million for the three months ended January 31, 2020 and (\$825) million for the three months ended February 1, 2019. Net earnings allocable to common shares used in the basic and diluted earnings per share calculation were \$4,268 million for the year ended January 31, 2020 and \$2,307 million for the year ended February 1, 2019.

Lowe's Companies, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

In Millions, Except Percentage Data

	Three Months Ended				Year Ended			
	January 31, 2020		February 1, 2019		January 31, 2020		February 1, 2019	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Net earnings/(loss)	\$ 509	3.18	\$ (824)	(5.27)	\$ 4,281	5.93	\$ 2,314	3.24
Foreign currency translation adjustments - net of tax	34	0.21	(46)	(0.27)	94	0.13	(221)	(0.30)
Other	(6)	(0.04)	2	—	(21)	(0.03)	1	—
Other comprehensive income/(loss)	28	0.17	(44)	(0.27)	73	0.10	(220)	(0.30)
Comprehensive income/(loss)	\$ 537	3.35	\$ (868)	(5.54)	\$ 4,354	6.03	\$ 2,094	2.94

Lowe's Companies, Inc.
Consolidated Balance Sheets
In Millions, Except Par Value Data

	(Unaudited)	
	January 31, 2020	February 1, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 716	\$ 511
Short-term investments	160	218
Merchandise inventory - net	13,179	12,561
Other current assets	1,263	938
Total current assets	15,318	14,228
Property, less accumulated depreciation	18,669	18,432
Operating lease right-of-use assets	3,891	—
Long-term investments	372	256
Deferred income taxes - net	216	294
Goodwill	303	303
Other assets	702	995
Total assets	\$ 39,471	\$ 34,508
Liabilities and shareholders' equity		
Current liabilities:		
Short-term borrowings	\$ 1,941	\$ 722
Current maturities of long-term debt	597	1,110
Current operating lease liabilities	501	—
Accounts payable	7,659	8,279
Accrued compensation and employee benefits	684	662
Deferred revenue	1,219	1,299
Other current liabilities	2,581	2,425
Total current liabilities	15,182	14,497
Long-term debt, excluding current maturities	16,768	14,391
Noncurrent operating lease liabilities	3,943	—
Deferred revenue - extended protection plans	894	827
Other liabilities	712	1,149
Total liabilities	37,499	30,864
Shareholders' equity:		
Preferred stock - \$5 par value, none issued	—	—
Common stock - \$0.50 par value;		
Shares issued and outstanding		
January 31, 2020	763	
February 1, 2019	801	401
Capital in excess of par value	—	—
Retained earnings	1,727	3,452
Accumulated other comprehensive loss	(136)	(209)
Total shareholders' equity	1,972	3,644
Total liabilities and shareholders' equity	\$ 39,471	\$ 34,508

Lowe's Companies, Inc.
Consolidated Statements of Cash Flows (Unaudited)
In Millions

	Year Ended	
	January 31, 2020	February 1, 2019
Cash flows from operating activities:		
Net earnings	\$ 4,281	\$ 2,314
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,410	1,607
Noncash lease expense	468	—
Deferred income taxes	177	(151)
Loss on property and other assets - net	117	630
Impairment of goodwill	—	952
Loss on cost method and equity method investments	12	9
Share-based payment expense	98	74
Changes in operating assets and liabilities:		
Merchandise inventory - net	(600)	(1,289)
Other operating assets	(376)	(110)
Accounts payable	(637)	1,720
Other operating liabilities	(654)	437
Net cash provided by operating activities	4,296	6,193
Cash flows from investing activities:		
Purchases of investments	(743)	(1,373)
Proceeds from sale/maturity of investments	695	1,393
Capital expenditures	(1,484)	(1,174)
Proceeds from sale of property and other long-term assets	163	76
Other - net	—	(2)
Net cash used in investing activities	(1,369)	(1,080)
Cash flows from financing activities:		
Net change in commercial paper	220	(415)
Net proceeds from issuance of debt	3,972	—
Repayment of long-term debt	(1,113)	(326)
Proceeds from issuance of common stock under share-based payment plans	118	114
Cash dividend payments	(1,618)	(1,455)
Repurchase of common stock	(4,313)	(3,037)
Other - net	(1)	(5)
Net cash used in financing activities	(2,735)	(5,124)
Effect of exchange rate changes on cash	1	(12)
Net increase/(decrease) in cash and cash equivalents, including cash classified within current assets held for sale	193	(23)
Less: Net decrease/increase in cash classified within current assets held for sale	12	(54)
Net increase/(decrease) in cash and cash equivalents	205	(77)
Cash and cash equivalents, beginning of period	511	588
Cash and cash equivalents, end of period	\$ 716	\$ 511

Lowe's Companies, Inc.

Non-GAAP Financial Measures Reconciliation (Unaudited)

To provide additional transparency, the Company has presented the non-GAAP financial measure of adjusted earnings per share to exclude the impact of certain discrete items, as further described below, not contemplated in Lowe's Business Outlook for 2019 to assist the user in understanding performance relative to that Business Outlook.

In addition, in the Business Outlook for fiscal 2020, the Company has provided a comparison to the non-GAAP financial measure of adjusted operating income and adjusted operating margin for fiscal 2019, which excludes the impact of certain discrete items, as further described below, not contemplated in Lowe's Business Outlook for 2019, to assist the user in further understanding the Company's forecasted performance for fiscal 2020 in comparison to fiscal 2019.

The Company believes these non-GAAP financial measures provide useful insight for analysts and investors in evaluating the company's operational performance.

Fiscal 2019 Impacts

For fiscal 2019, the Company has recognized financial impacts from the following discrete items, not contemplated in the Company's Business Outlook for 2019:

- Prior to the beginning of fiscal 2019, the Company announced its intention to exit its Mexico retail operations and had planned to sell the operating business. However, in the first quarter of 2019, after an extensive market evaluation, the decision was made to instead sell the assets of the business. That decision resulted in an \$82 million tax benefit in the first quarter, partially offset by \$12 million in pre-tax operating losses associated with the exit and ongoing wind-down of Mexico retail operations. During the second quarter of fiscal 2019, the Company recognized pre-tax operating losses of \$14 million. For the third quarter, pre-tax operating losses for the Mexico retail operations were insignificant. For the fourth quarter, pre-tax operating losses totaled \$9 million. Total pre-tax operating costs and charges for fiscal year 2019 were \$35 million (Mexico adjustments), and;
- 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. In addition, the Company announced on November 20, 2019, additional actions to improve future performance and profitability of its Canadian operations. In the fourth quarter, the Company recognized \$176 million of pre-tax operating costs and charges related to inventory liquidation, accelerated depreciation and amortization, severance and other costs, as well as a net \$26 million impact to income tax expense related to income tax valuation allowance. Total pre-tax operating costs and charges for fiscal year 2019 were \$230 million (2019 Canada restructuring).

Fiscal 2018 Impacts

During fiscal 2018, the Company recognized financial impacts from the following discrete items, not contemplated in the Company's Business Outlook for 2018:

- During the fourth quarter of fiscal 2018, the Company recorded \$952 million of goodwill impairment associated with its Canadian operations (Canadian goodwill impairment);
- On August 17, 2018, the Company committed to exit its Orchard Supply Hardware operations. As a result, the Company recognized pre-tax charges of \$230 million during the second quarter of fiscal 2018 associated with long-lived asset impairments and discontinued projects. During the third quarter of fiscal 2018, the Company recognized pre-tax charges of \$123 million associated with accelerated depreciation and amortization, severance and lease obligations. During the fourth quarter of fiscal 2018, the Company recognized additional pre-tax charges of \$208 million primarily related to lease obligations. Total pre-tax charges for fiscal year 2018 were \$561 million (Orchard Supply Hardware charges);

- On October 31, 2018, the Company committed to close 20 under-performing stores across the U.S. and 31 locations in Canada, including 27 under-performing stores. As a result, the Company recognized pre-tax charges of \$121 million during the third quarter of fiscal 2018 associated with long-lived asset impairment and severance obligations. During the fourth quarter of fiscal 2018, the company recognized additional pre-tax charges of \$150 million, primarily associated with severance and lease obligation costs, as well as accelerated depreciation. Total pre-tax charges for fiscal year 2018 were \$271 million (U.S. and Canada store closure charges);
- On November 20, 2018, the Company announced its plans to exit retail operations in Mexico and is exploring strategic alternatives. During the third quarter, \$22 million of long-lived asset impairment was recognized on certain assets in Mexico as a result of the strategic evaluation. During the fourth quarter, an additional \$222 million of impairment was recognized. Total charges for fiscal year 2018 were \$244 million (Mexico impairment charges);
- During the third quarter of fiscal 2018, the Company identified certain non-core activities within its U.S. home improvement business to exit, including Alacrity Renovation Services and Iris Smart Home. As a result, during the third quarter of 2018, the company recognized pre-tax charges of \$14 million associated with long-lived asset impairment and inventory write-down. During the fourth quarter of fiscal 2018, the Company recognized additional pre-tax charges of \$32 million. Total pre-tax charges for fiscal year 2018 were \$46 million (Non-core activities charges), and;
- During the fourth quarter of fiscal 2018, the Company recorded a pre-tax charge of \$13 million, associated with severance costs due to the elimination of the Project Specialists Interiors position (Project Specialists Interiors charge).

Adjusted diluted earnings per share, adjusted operating income, and adjusted operating margin should not be considered an alternative to, or more meaningful indicator of, the Company's measures as prepared in accordance with GAAP. The Company's methods of determining these non-GAAP financial measures may differ from the method used by other companies for this or similar non-GAAP financial measures. Accordingly, these non-GAAP measures may not be comparable to the measures used by other companies.

Detailed reconciliations between the Company's GAAP and non-GAAP financial results are shown below and available on the Company's website at www.lowes.com/investor.

(in millions, except per share data)	Three Months Ended					
	(Unaudited) January 31, 2020			(Unaudited) February 1, 2019		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			\$ 0.66			\$ (1.03)
Non-GAAP adjustments - per share impacts						
Mexico adjustments	0.01	0.01	0.02	—	—	—
2019 Canada restructuring	0.23	0.03	0.26	—	—	—
Canadian goodwill impairment	—	—	—	1.19	(0.03)	1.16
Orchard Supply Hardware charges	—	—	—	0.25	(0.05)	0.20
U.S. & Canada charges	—	—	—	0.18	0.05	0.13
Mexico impairment charges	—	—	—	0.28	0.01	0.29
Non-core activities charges	—	—	—	0.04	(0.01)	0.03
Project Specialists Interiors charge	—	—	—	0.02	—	0.02
Adjusted diluted earnings per share			\$ 0.94			\$ 0.80

Fiscal 2020 Lowe's Business Outlook

	Low End of Guidance Range			High End of Guidance Range		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
(in millions, except per share data)						
Forecasted diluted earnings per share			\$ 6.38			\$ 6.58
Non-GAAP adjustments - per share impacts						
2019 Canada restructuring	0.09	(0.02)	0.07	0.09	(0.02)	0.07
Forecasted adjusted diluted earnings per share			\$ 6.45			\$ 6.65

	Year Ended (Unaudited)	
	January 31, 2020	
(in millions, except operating margin)		
Operating income, as reported	\$	6,314
Non-GAAP adjustments		
Mexico adjustments		35
2019 Canada restructuring		230
Adjusted operating income	\$	6,579
Adjusted operating margin		9.13%