

Lowe's Companies, Inc.

Consolidated Statements of Current and Retained Earnings (Unaudited)

In Millions, Except Per Share and Percentage Data

	Three Months Ended				Nine Months Ended			
	November 1, 2019		November 2, 2018		November 1, 2019		November 2, 2018	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Current Earnings								
Net sales	\$ 17,388	100.00	\$ 17,415	100.00	\$ 56,121	100.00	\$ 55,662	100.00
Cost of sales	11,748	67.56	12,038	69.12	38,159	67.99	37,653	67.64
Gross margin	5,640	32.44	5,377	30.88	17,962	32.01	18,009	32.36
Expenses:								
Selling, general and administrative	3,772	21.69	3,997	22.95	11,682	20.82	12,315	22.13
Depreciation and amortization	310	1.79	423	2.43	924	1.65	1,108	1.99
Operating income	1,558	8.96	957	5.50	5,356	9.54	4,586	8.24
Interest - net	177	1.02	153	0.88	508	0.90	467	0.84
Pre-tax earnings	1,381	7.94	804	4.62	4,848	8.64	4,119	7.40
Income tax provision	332	1.90	175	1.01	1,077	1.92	981	1.76
Net earnings	\$ 1,049	6.04	\$ 629	3.61	\$ 3,771	6.72	\$ 3,138	5.64
Weighted average common shares outstanding - basic	769		806		782		815	
Basic earnings per common share ⁽¹⁾	\$ 1.36		\$ 0.78		\$ 4.81		\$ 3.84	
Weighted average common shares outstanding - diluted	770		807		783		816	
Diluted earnings per common share ⁽¹⁾	\$ 1.36		\$ 0.78		\$ 4.80		\$ 3.83	
Cash dividends per share	\$ 0.55		\$ 0.48		\$ 1.58		\$ 1.37	
Retained Earnings								
Balance at beginning of period	\$ 2,439		\$ 5,517		\$ 3,452		\$ 5,425	
Cumulative effect of accounting change	—		—		(263)		33	
Net earnings	1,049		629		3,771		3,138	
Cash dividends declared	(423)		(387)		(1,233)		(1,115)	
Share repurchases	(827)		(603)		(3,489)		(2,325)	
Balance at end of period	\$ 2,238		\$ 5,156		\$ 2,238		\$ 5,156	

⁽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 \$1,046 million for the three months ended November 1, 2019 and \$628 million for the three months ended November 2, 2018. Net earnings allocable to common shares used in the basic and diluted earnings per share calculation were \$3,760 million for the nine months ended November 1, 2019 and \$3,128 million for the nine months ended November 2, 2018.

Lowe's Companies, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

In Millions, Except Percentage Data

	Three Months Ended				Nine Months Ended			
	November 1, 2019		November 2, 2018		November 1, 2019		November 2, 2018	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Net earnings	\$ 1,049	6.04	\$ 629	3.61	\$ 3,771	6.72	\$ 3,138	5.64
Foreign currency translation adjustments - net of tax	24	0.13	(21)	(0.13)	60	0.11	(176)	(0.32)
Other	(1)	—	(1)	—	(15)	(0.03)	(1)	—
Other comprehensive income/(loss)	23	0.13	(22)	(0.13)	45	0.08	(177)	(0.32)
Comprehensive income	\$ 1,072	6.17	\$ 607	3.48	\$ 3,816	6.80	\$ 2,961	5.32

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

	(Unaudited) November 1, 2019	(Unaudited) November 2, 2018	February 1, 2019
Assets			
Current assets:			
Cash and cash equivalents	\$ 794	\$ 1,668	\$ 511
Short-term investments	127	208	218
Merchandise inventory - net	13,716	12,365	12,561
Other current assets	1,025	897	938
Total current assets	15,662	15,138	14,228
Property, less accumulated depreciation	18,371	18,923	18,432
Operating lease right-of-use assets	3,873	—	—
Long-term investments	363	290	256
Deferred income taxes - net	479	285	294
Goodwill	303	1,272	303
Other assets	713	805	995
Total assets	\$ 39,764	\$ 36,713	\$ 34,508
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings	\$ 637	\$ —	\$ 722
Current maturities of long-term debt	574	1,117	1,110
Current operating lease liabilities	499	—	—
Accounts payable	8,822	9,283	8,279
Accrued compensation and employee benefits	779	806	662
Deferred revenue	1,222	1,356	1,299
Other current liabilities	2,530	2,507	2,425
Total current liabilities	15,063	15,069	14,497
Long-term debt, excluding current maturities	16,635	14,460	14,391
Noncurrent operating lease liabilities	3,942	—	—
Deferred revenue - extended protection plans	875	827	827
Other liabilities	791	963	1,149
Total liabilities	37,306	31,319	30,864
Shareholders' equity:			
Preferred stock - \$5 par value, none issued	—	—	—
Common stock - \$0.50 par value;			
Shares issued and outstanding			
November 1, 2019	768		
November 2, 2018	806		
February 1, 2019	801	384	403
Capital in excess of par value	—	—	—
Retained earnings	2,238	5,156	3,452
Accumulated other comprehensive loss	(164)	(165)	(209)
Total shareholders' equity	2,458	5,394	3,644
Total liabilities and shareholders' equity	\$ 39,764	\$ 36,713	\$ 34,508

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

	Nine Months Ended	
	November 1, 2019	November 2, 2018
Cash flows from operating activities:		
Net earnings	\$ 3,771	\$ 3,138
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,029	1,206
Noncash lease expense	341	—
Deferred income taxes	(88)	(139)
Loss on property and other assets - net	93	400
Loss on cost method and equity method investments	12	6
Share-based payment expense	75	79
Changes in operating assets and liabilities:		
Merchandise inventory - net	(1,129)	(1,030)
Other operating assets	(108)	(94)
Accounts payable	523	2,708
Other operating liabilities	(408)	524
Net cash provided by operating activities	4,111	6,798
Cash flows from investing activities:		
Purchases of investments	(563)	(1,298)
Proceeds from sale/maturity of investments	556	1,309
Capital expenditures	(927)	(846)
Proceeds from sale of property and other long-term assets	71	50
Other - net	—	(3)
Net cash used in investing activities	(863)	(788)
Cash flows from financing activities:		
Net change in short-term borrowings	(85)	(1,137)
Net proceeds from issuance of long-term debt	2,972	—
Repayment of long-term debt	(1,092)	(288)
Proceeds from issuance of common stock under share-based payment plans	78	73
Cash dividend payments	(1,195)	(1,068)
Repurchase of common stock	(3,649)	(2,498)
Other - net	(7)	(3)
Net cash used in financing activities	(2,978)	(4,921)
Effect of exchange rate changes on cash	1	(9)
Net increase in cash and cash equivalents, including cash classified within current assets held for sale	271	1,080
Less: Net decrease in cash classified within current assets held for sale	12	—
Net increase in cash and cash equivalents	283	1,080
Cash and cash equivalents, beginning of period	511	588
Cash and cash equivalents, end of period	\$ 794	\$ 1,668

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 original Business Outlook for 2019 to assist the user in understanding performance relative to that Business Outlook.

In addition, in the Business Outlook for fiscal 2019, the Company has provided a comparison to the non-GAAP financial measure of adjusted operating margin for fiscal 2018, which excludes the impact of certain discrete items, as further described below, not contemplated in Lowe's original Business Outlook for 2018, to assist the user in further understanding the Company's forecasted performance for fiscal 2019 in comparison to fiscal 2018.

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, or expects to recognize, financial impacts from the following discrete items, not contemplated in the Company's original 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 a tax benefit in the first quarter. During the first six months of fiscal 2019, the Company recognized pre-tax operating losses associated with the exit and ongoing wind-down of Mexico retail operations of \$27 million, which were offset by \$83 million of tax benefit. For the third quarter, pre-tax operating losses for the Mexico retail operations were insignificant (Mexico adjustments).
- 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. As a result of these actions, in the fourth quarter of 2019, the Company expects additional pre-tax operating costs and charges of \$175 to \$225 million consisting of inventory liquidation, accelerated depreciation and amortization, severance, and other costs, as well as associated potential impacts to the Company's income tax expense (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 original 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 pre-tax charges 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 and adjusted operating margin should not be considered an alternative to, or more meaningful indicator of, the company's diluted earnings per share or operating margin 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) November 1, 2019			(Unaudited) November 2, 2018		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			\$ 1.36			\$ 0.78
Non-GAAP adjustments - per share impacts						
2019 Canada restructuring	0.07	(0.02)	0.05	—	—	—
Orchard Supply Hardware charges	—	—	—	0.15	(0.03)	0.12
U.S. & Canada closing charges	—	—	—	0.15	(0.04)	0.11
Mexico impairment charges	—	—	—	0.02	—	0.02
Non-core activities charges	—	—	—	0.02	(0.01)	0.01
Adjusted diluted earnings per share			\$ 1.41			\$ 1.04

Fiscal 2019 Lowe's Business Outlook

(in millions, except per share data)	Low End of Guidance Range			High End of Guidance Range		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Forecasted diluted earnings per share			\$ 5.35			\$ 5.47
Non-GAAP adjustments - per share impacts						
2019 Canada restructuring	0.36	(0.01)	0.35	0.30	0.00	0.30
Mexico adjustments	0.03	(0.10)	(0.07)	0.03	(0.10)	(0.07)
Forecasted adjusted diluted earnings per share			\$ 5.63			\$ 5.70

(in millions, except operating margin)	Year Ended (Audited)	
	February 1, 2019	
Operating income, as reported	\$	4,018
Non-GAAP adjustments		
Canadian goodwill impairment		952
Orchard Supply Hardware charges		561
U.S. and Canada store closure charges		271
Mexico impairment charges		244
Non-core activities charges		46
Project Specialists Interiors charge		13
Adjusted operating income	\$	6,105
Adjusted operating margin		8.56%