

Q4 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 and fiscal year ended January 29, 2021, with the respective periods ended January 31, 2020: adjusted gross margin; adjusted selling, general and administrative expenses (SG&A); adjusted depreciation and amortization; 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 Business Outlook for fiscal 2020 and fiscal 2019. 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 items, not contemplated in the Company's Business Outlook for the fourth quarter and fiscal year:

- 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 these 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 a \$3.0 billion cash tender offer (Loss on extinguishment of debt).

Fiscal 2019 Impacts

During fiscal 2019, 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:

- 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 fiscal 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 fourth quarter, pre-tax operating losses associated with the exit and ongoing wind-down of Mexico retail operations totaled \$9 million. Total pre-tax operating costs and charges for fiscal 2019 were \$35 million, which were offset by \$82 million tax benefit (Mexico adjustments), and;
- During the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, which resulted in pre-tax charges of \$53 million associated with long-lived asset impairment. 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 2019 were \$230 million (Canada restructuring).



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

Three Months and Fiscal Year Ended January 29, 2021					
	Gross Margin	SG&A	Depreciation & Amortization	Operating Income	Diluted Earnings Per Share
Non-GAAP items:					
Loss on extinguishment of debt					✓
Canada restructuring	✓	✓	✓	✓	✓

Three Months and Fiscal Year Ended January 31, 2020					
	Gross Margin	SG&A	Depreciation & Amortization	Operating Income	Diluted Earnings Per Share
Non-GAAP items:					
Mexico adjustments	✓	✓		✓	✓
Canada restructuring	✓	✓	✓	✓	✓

The following measures are presented for comparison of operating performance for the three months and fiscal years ended January 29, 2021, and January 31, 2020:

Adjusted Gross Margin (in millions)	Three Months Ended		Year Ended	
	January 29, 2021	January 31, 2020	January 29, 2021	January 31, 2020
Gross Margin, As Reported	\$ 6,456	\$ 4,981	\$ 29,572	\$ 22,943
Canada restructuring	2	122	9	122
Mexico adjustments	—	—	—	(10)
Adjusted Gross Margin	\$ 6,458	\$ 5,103	\$ 29,581	\$ 23,055
Gross Margin, % of sales	31.78 %	31.08 %	33.01 %	31.80 %
Adjusted Gross Margin, % of sales	31.80 %	31.89 %	33.02 %	31.99 %

Adjusted SG&A (in millions)	Three Months Ended		Year Ended	
	January 29, 2021	January 31, 2020	January 29, 2021	January 31, 2020
SG&A, As Reported	\$ 4,541	\$ 3,685	\$ 18,526	\$ 15,367
Canada restructuring	(10)	(35)	(35)	(89)
Mexico adjustments	—	(9)	—	(45)
Adjusted SG&A	\$ 4,531	\$ 3,641	\$ 18,491	\$ 15,233
SG&A, % of sales	22.36 %	22.99 %	20.68 %	21.30 %
Adjusted SG&A, % of sales	22.32 %	22.74 %	20.64 %	21.13 %

Adjusted Depreciation & Amortization (in millions)	Three Months Ended		Year Ended	
	January 29, 2021	January 31, 2020	January 29, 2021	January 31, 2020
Depreciation & Amortization, As Reported	\$ 391	\$ 338	\$ 1,399	\$ 1,262
Canada restructuring	—	(19)	(1)	(19)
Adjusted Depreciation & Amortization	\$ 391	\$ 319	\$ 1,398	\$ 1,243
Depreciation & Amortization, % of sales	1.92 %	2.11 %	1.56 %	1.75 %
Adjusted Depreciation & Amortization, % of sales	1.92 %	2.00 %	1.56 %	1.73 %



Adjusted Operating Income (in millions)	Three Months Ended		Year Ended	
	January 29, 2021	January 31, 2020	January 29, 2021	January 31, 2020
Operating Income, As Reported	\$ 1,524	\$ 958	\$ 9,647	\$ 6,314
Canada restructuring	12	176	45	230
Mexico adjustments	—	9	—	35
Adjusted Operating Income	\$ 1,536	\$ 1,143	\$ 9,692	\$ 6,579
Operating Margin, % of sales	7.50 %	5.98 %	10.77 %	8.75 %
Adjusted Operating Margin, % of sales	7.56 %	7.15 %	10.82 %	9.13 %

Adjusted Diluted Earnings Per Share	Three Months Ended					
	January 29, 2021			January 31, 2020		
	Pre-Tax Earnings	Tax ¹	Net Earnings	Pre-Tax Earnings	Tax ¹	Net Earnings
Diluted Earnings Per Share, As Reported			\$ 1.32			\$ 0.66
Canada restructuring	0.01	—	0.01	0.23	0.03	0.26
Mexico adjustments	—	—	—	0.01	0.01	0.02
Adjusted Diluted Earnings Per Share			\$ 1.33			\$ 0.94

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 January 29, 2021 and January 31, 2020 were 25.8% and 24.7%, respectively.

Adjusted Diluted Earnings Per Share	Year Ended					
	January 29, 2021			January 31, 2020		
	Pre-Tax Earnings	Tax ¹	Net Earnings	Pre-Tax Earnings	Tax ¹	Net Earnings
Diluted Earnings Per Share, As Reported			\$ 7.75			\$ 5.49
Loss on extinguishment of debt	1.41	(0.36)	1.05	—	—	—
Canada restructuring	0.06	—	0.06	0.29	0.02	0.31
Mexico adjustments	—	—	—	0.05	(0.11)	(0.06)
Adjusted Diluted Earnings Per Share			\$ 8.86			\$ 5.74

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 year ended January 29, 2021 and January 31, 2020 were 24.6% and 23.9%, 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 29, 2021	January 31, 2020
Net cash provided by operating activities	\$ 11,049	\$ 4,296
Capital expenditures	(1,791)	(1,484)
Free Cash Flow	\$ 9,258	\$ 2,812

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 29, 2021	January 31, 2020
Net Earnings	\$ 5,835	\$ 4,281
Interest ¹	848	691
Taxes	1,904	1,342
Depreciation and amortization ²	1,572	1,395
Share-based payments	155	98
Rent	642	666
Certain charges ^{3,4}	1,122	184
EBITDAR	\$ 12,078	\$ 8,657

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 on debt, \$45 million of costs associated with the Canada restructuring, and \$17 million of closing costs associated with Orchard Supply Hardware.

⁴ Certain charges for 2019 include: \$204 million of costs associated with the strategic reassessment of Canadian operations, \$35 million of charges associated with the company's decision to exit its Mexico operations and (\$55) million adjustment to closing costs associated with Orchard Supply Hardware.

Lease Adjusted Debt (in millions)	As of	
	January 29, 2021	January 31, 2020
Short-term borrowings	\$ —	\$ 1,941
Current maturities of long-term debt	1,112	597
Current operating lease liabilities	541	501
Long-term debt excluding current maturities	20,668	16,768
Noncurrent operating lease liabilities	3,890	3,943
Lease adjusted debt	\$ 26,211	\$ 23,750
EBITDAR	\$ 12,078	\$ 8,657
Lease adjusted debt to EBITDAR	2.17	2.74