

Q3 2022 Reconciliation of Non-GAAP Measures

Management of Lowe's Companies, Inc. (the Company) uses certain non-GAAP financial measures to 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 following non-GAAP financial measures for comparing its operating performance for the three months ended October 28, 2022: adjusted selling, general and administrative expenses (SG&A); adjusted operating income; adjusted operating margin, adjusted effective tax rate, and adjusted diluted earnings per share. These measures exclude the impact of a discrete item, further described below, not contemplated in Lowe's Business Outlook. Lowe's believes these measures are useful in understanding operational performance for the third quarter of fiscal 2022.

The Company does not provide a reconciliation for non-GAAP estimates on a forward-looking basis where it is unable to provide a meaningful or accurate calculation or estimation of reconciling items without unreasonable effort, including timing of and deal-related transaction costs associated with the sale of our Canadian retail business.

Fiscal 2022 Impacts

During the third quarter, the Company recognized financial impacts from the following discrete item, not contemplated in the Company's Business Outlook for fiscal 2022:

- In the third quarter of fiscal 2022, the Company recognized a pre-tax \$2.1 billion long-lived asset impairment of the Canadian retail business (Canadian retail business transaction costs).

The following measures are presented for comparison of operating performance for the three months ended October 28, 2022:

Adjusted SG&A (in millions, except percentage data)	Three Months Ended	
	October 28, 2022	
SG&A, As Reported	\$	6,443
Canadian retail business transaction costs		(2,061)
Adjusted SG&A	\$	4,382
SG&A, % of Sales		27.45 %
Adjusted SG&A, % of Sales		18.67 %

Adjusted Operating Income (in millions, except percentage data)	Three Months Ended	
	October 28, 2022	
Operating Income, As Reported	\$	924
Canadian retail business transaction costs		2,061
Adjusted Operating Income	\$	2,985
Operating Margin, % of Sales		3.93 %
Adjusted Operating Margin, % of Sales		12.71 %

Adjusted Effective Tax Rate (in millions, except percentage data)	Three Months Ended		
	October 28, 2022		
	Pre-Tax Earnings	Income Tax Provision	Effective Tax Rate
Effective Tax Rate, As Reported	\$ 629	\$ 475	75.5 %
Canadian retail business transaction costs	2,061	185	
Adjusted Effective Tax Rate	\$ 2,690	\$ 660	24.5 %

Adjusted Diluted Earnings Per Share	Three Months Ended		
	October 28, 2022		
	Pre-Tax Earnings	Tax ¹	Net Earnings
Diluted Earnings Per Share, As Reported			\$ 0.25
Canadian retail business transaction costs	3.32	(0.30)	3.02
Adjusted Diluted Earnings Per Share			\$ 3.27

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 October 28, 2022 was 24.5%.

Liquidity Measures

Free Cash Flow

Lowe's believes Free Cash Flow is a useful measure and focuses on the Company's 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)	Nine Months Ended	
	October 28, 2022	October 29, 2021
Net cash provided by operating activities	\$ 8,138	\$ 9,179
Capital expenditures	(1,090)	(1,256)
Free Cash Flow	\$ 7,048	\$ 7,923

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	
	October 28, 2022	October 29, 2021
Net Earnings	\$ 6,686	\$ 8,213
Interest ¹	1,037	854
Taxes	2,581	2,700
Depreciation and amortization ²	1,988	1,800
Share-based payments	225	217
Rent	706	663
Certain charges ^{3,4}	2,061	12
EBITDAR	\$ 15,284	\$ 14,459

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 2022 include: \$2.1 billion of costs associated with the long-lived asset impairment of the Canadian retail business.

⁴ Certain charges for 2021 include: \$12 million of costs associated with the Canada restructuring.

Lease Adjusted Debt (in millions)	As of	
	October 28, 2022	October 29, 2021
Short-term borrowings	\$ —	\$ 1,000
Current maturities of long-term debt	609	1,352
Current operating lease liabilities	651	573
Long-term debt excluding current maturities	32,904	23,881
Noncurrent operating lease liabilities	4,048	4,136
Lease Adjusted Debt	\$ 38,212	\$ 30,942
EBITDAR	\$ 15,284	\$ 14,459
Lease Adjusted Debt to EBITDAR	2.50	2.14

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 financial returns. 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, except percentage data)	Four Quarters Ended			
	October 28, 2022			October 29, 2021
	ROIC	Adjustments ³	Adjusted ROIC	ROIC
Numerator				
Net Earnings	\$ 6,686	\$ 1,876	\$ 8,562	\$ 8,213
Plus:				
Interest expense – net	1,037	—	1,037	854
Operating lease interest	160	—	160	162
Provision for income taxes	2,581	185	2,766	2,700
Lease adjusted net operating profit	10,464	2,061	12,525	11,929
Less:				
Income tax adjustment ¹	2,915	143	3,058	2,952
Lease adjusted net operating profit after tax	\$ 7,549	\$ 1,918	\$ 9,467	\$ 8,977
Denominator				
Average debt and shareholders' (deficit)/equity ²	\$ 27,355	\$ 938	\$ 28,293	\$ 29,836
Net Earnings to Average Debt and Shareholders' (Deficit)/Equity	24.4 %		N/A	27.5 %
Return on Invested Capital	27.6 %		33.5 %	30.1 %

¹ Income tax adjustment is defined as lease adjusted net operating profit multiplied by the effective tax rate, which was 27.9% and 24.7% for the periods ended October 28, 2022, and October 29, 2021, respectively. Adjusted for the impact of the Canadian retail business impairment, the effective income tax rate was 24.4% for the period ended October 28, 2022.

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.

³ Adjustments reflect the impact to ROIC for the long-lived asset impairment of the Canadian retail business.