Q4 and Fiscal 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 and fiscal year ended February 3, 2023: 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 fourth quarter and fiscal 2022.

Fiscal 2022 Impacts

During fiscal 2022, 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. In the fourth quarter of fiscal 2022, the Company recognized additional pre-tax costs totaling $441 million, consisting of the loss on the sale and closing costs associated with the sale 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 February 3, 2023:

Adjusted SG&A (in millions, except percentage data)	Three Months Ended February 3, 2023	Year Ended February 3, 2023
SG&A, As Reported	$ 5,131	$ 20,332
Canadian retail business transaction costs	(441)	(2,501)
Adjusted SG&A	$ 4,690	$ 17,831
SG&A, % of Sales	22.86 %	20.94 %
Adjusted SG&A, % of Sales	20.90 %	18.37 %

Adjusted Operating Income (in millions, except percentage data)	Three Months Ended February 3, 2023	Year Ended February 3, 2023
Operating Income, As Reported	$ 1,704	$ 10,159
Canadian retail business transaction costs	441	2,501
Adjusted Operating Income	$ 2,145	$ 12,660
Operating Margin, % of Sales	7.59 %	10.47 %
Adjusted Operating Margin, % of Sales	9.55 %	13.04 %

Adjusted Effective Tax Rate (in millions, except percentage data)	Three Months Ended February 3, 2023 Pre-Tax Earnings	Three Months Ended February 3, 2023 Income Tax Provision	Three Months Ended February 3, 2023 Effective Tax Rate	Year Ended February 3, 2023 Pre-Tax Earnings	Year Ended February 3, 2023 Income Tax Provision	Year Ended February 3, 2023 Effective Tax Rate
Effective Tax Rate, As Reported	**$ 1,382**	**$ 425**	**30.8 %**	**$ 9,036**	**$ 2,599**	**28.8 %**
Canadian retail business transaction costs	441	13		2,501	198	
Adjusted Effective Tax Rate	**$ 1,823**	**$ 438**	**24.0 %**	**$ 11,537**	**$ 2,797**	**24.2 %**

Adjusted Diluted Earnings Per Share	Three Months Ended February 3, 2023 Pre-Tax Earnings	Three Months Ended February 3, 2023 Tax [1]	Three Months Ended February 3, 2023 Net Earnings	Year Ended February 3, 2023 Pre-Tax Earnings	Year Ended February 3, 2023 Tax [1]	Year Ended February 3, 2023 Net Earnings
Diluted Earnings Per Share, As Reported			**$ 1.58**			**$ 10.17**
Canadian retail business transaction costs	0.73	(0.03)	0.70	3.95	(0.31)	3.64
Adjusted Diluted Earnings Per Share			**$ 2.28**			**$ 13.81**

[1] *Represents the corresponding tax benefit or expense related to the item excluded from adjusted diluted earnings per share.*

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)	Twelve Months Ended February 3, 2023	Twelve Months Ended January 28, 2022
Net cash provided by operating activities	$ 8,589	$ 10,113
Capital expenditures	(1,829)	(1,853)
Free Cash Flow	**$ 6,760**	**$ 8,260**

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 February 3, 2023	January 28, 2022
Net Earnings	**$ 6,437**	**$ 8,442**
Interest [1]	1,123	885
Taxes	2,599	2,766
Depreciation and amortization [2]	1,965	1,855
Share-based payments	233	230
Rent	711	673
Certain charges [3]	2,501	—
EBITDAR	**$ 15,569**	**$ 14,851**

[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:$2.5 billion of costs associated with the long-lived asset impairment, loss on sale, and other closing costs associated with the sale of the Canadian retail business.*

Lease Adjusted Debt (in millions)	As of February 3, 2023	January 28, 2022
Short-term borrowings	$ 499	$ —
Current maturities of long-term debt	585	868
Current operating lease liabilities	522	636
Long-term debt excluding current maturities	32,876	23,859
Noncurrent operating lease liabilities	3,512	4,021
Lease Adjusted Debt	**$ 37,994**	**$ 29,384**
EBITDAR	**$ 15,569**	**$ 14,851**
Lease Adjusted Debt to EBITDAR	**2.44**	**1.98**

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 February 3, 2023	Four Quarters Ended January 28, 2022
Numerator		
Net Earnings	$ 6,437	$ 8,442
Plus:		
Interest expense – net	1,123	885
Operating lease interest	163	160
Provision for income taxes	2,599	2,766
Lease adjusted net operating profit	10,322	12,253
Less:		
Income tax adjustment [1]	2,970	3,024
Lease adjusted net operating profit after tax	$ 7,352	$ 9,229
Denominator		
Average debt and shareholders' (deficit)/equity [2]	$ 24,155	$ 26,109
Net earnings to average debt and shareholders' (deficit)/equity	**26.6 %**	**32.3 %**
Return on invested capital [3]	**30.4 %**	**35.3 %**

[1] *Income tax adjustment is defined as lease adjusted net operating profit multiplied by the effective tax rate, which was 28.8% and 24.7% for the periods ended February 3,2023, and January 28, 2022, 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.*

[3] *As of February 3, 2023, ROIC was negatively impacted approximately 800 basis points as a result of the sale of the Canadian retail business.*