# SECOND QUARTER 2015
# EARNINGS CALL

August 19, 2015

Disclosures regarding Forward Looking Statements & Non-GAAP Financial Measures (pages 12-19)

# SECOND QUARTER HIGHLIGHTS

| | |
|---|---|
| Comp Sales | +4.3% |
| Gross Margin | 34.47%, -8 bps |
| SG&A | 20.94%, -39 bps |
| EBIT Margin | 11.37%, +41 bps |
| EPS | $1.20, +15.4% |

## Posted solid results for the quarter

- Positive comps in all 14 regions
- Positive comps in 11 of 13 product categories
- Growth primarily driven by big ticket categories
- Robust supply chain redistributed products to weather-impacted regions

## Continued to capitalize on an improving macro backdrop

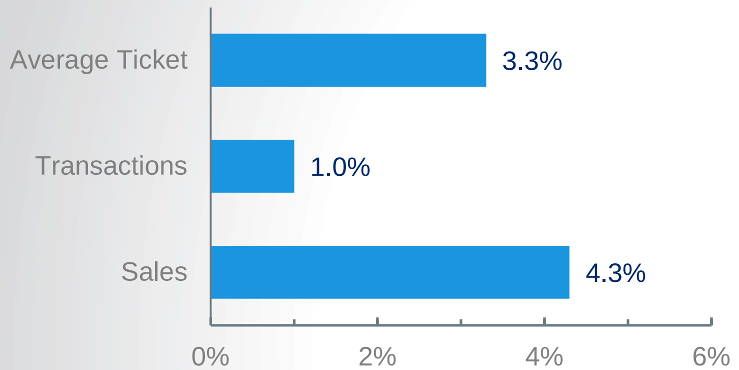
## Repurchased $1.5 billion of stock and paid $218 million in dividends

# TOTAL SALES SUMMARY

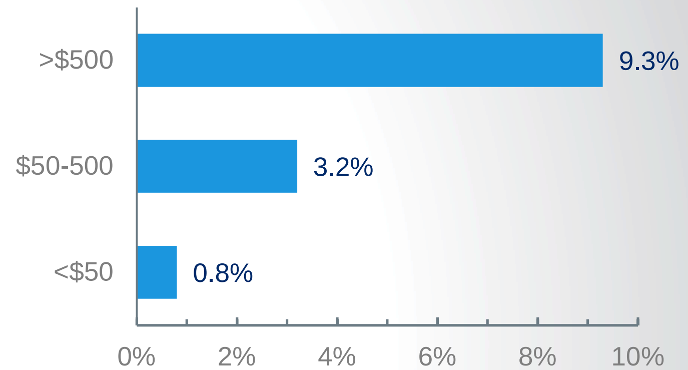
| | Total | % Change |
|---|---|---|
| Sales | $17.3 B | +4.5% |
| Average Ticket | $67.83 | +3.3% |
| Customer Transactions | 255.8 M | +1.2% |

# COMPARABLE SALES SUMMARY

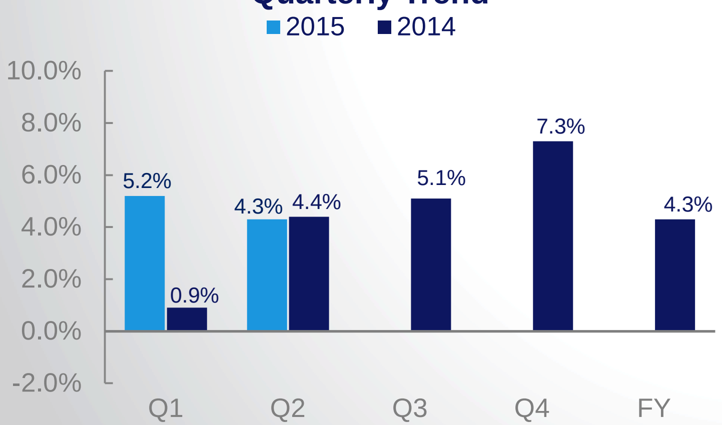
## Transaction/Ticket



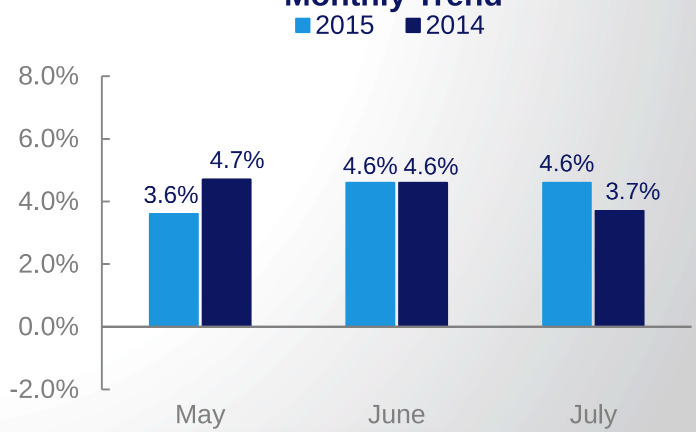

## Ticket Size




## Quarterly Trend




## Monthly Trend *




* Normalizing for the July 4th weekend shift, June and July comps would have been 3.9% and 5.8%, respectively

# PRODUCT CATEGORY PERFORMANCE*

| Above Average | Average | Below Average |
|---|---|---|
| Appliances | Flooring | Fashion Fixtures |
| Kitchens | Millwork | Home Fashions |
| Outdoor Power Equipment | Rough Plumbing & Electrical | Lawn & Garden |
| Seasonal Living | Tools & Hardware | Lumber & Building Materials |
| | | Paint |

*Q2 comp sales were +4.3%

# OPERATING MARGIN SUMMARY

| | % of Sales | Leverage/ (Deleverage) | Drivers |
|---|---|---|---|
| Gross Margin | 34.47% | -8 bps | (–) Product mix<br>(–) Promotions<br>(+) Value Improvement |
| SG&A | 20.94% | 39 bps | (+) Store payroll<br>(+) Bonus<br>(+) Maintenance & repairs<br>(+) Utilities<br>(+) Advertising<br>(+) Payroll taxes<br>(–) Store closing costs<br>(–) Costs to accelerate Canadian expansion |
| Depreciation | 2.16% | 10 bps | (+) Higher sales |
| EBIT Margin | 11.37% | 41 bps | |

# BALANCE SHEET SUMMARY

| | | YOY Change |
|---|---|---|
| Cash & Cash Equivalents | $901M | -$138M or -13.3% |
| Inventory | $9.7B | +$389M or +4.2% |
| Inventory Turnover | 3.90x | +16 bps |
| Asset Turnover | 1.74x | +11 bps |
| Accounts Payable | $7.1B | +$932M or +15.1% |
| Lease Adjusted Debt to EBITDAR | 2.08x | |
| Return on Invested Capital | 14.98% | +237 bps |

# STATEMENT OF CASH FLOWS SUMMARY

| | Amount |
|---|---|
| **Operating Cash Flow** | **$4.2B** |
| **Capital Expenditures** | **$0.6B** |
| **Free Cash Flow** | **$3.6B** |
| **Share Repurchases:** | |
| **YTD** | **$2.5B** |
| **Authorization Remaining** | **$4.9B** |

# ECONOMIC LANDSCAPE

- Key drivers of home improvement spending are real disposable personal income, home prices, and housing turnover.
- Those key drivers remain supportive for home improvement industry growth as economists are still forecasting a modest acceleration in both incomes and consumer spending this year.
- Recovery within the housing market continues, including moderate home price appreciation and stronger gains in housing turnover.
- Respondents to our Consumer Sentiment Survey revealed that growth in their home improvement spending is outpacing increases in their overall spending, suggesting a strengthening affinity for the home.

# 2015 PRIORITIES

## Grow Sales

- Further improve our product and service offering for the Pro customer
- Differentiate through better customer experiences
- Continue developing omni-channel capabilities

## Drive Productivity and Profitability

- Continue to optimize store payroll and marketing
- Leverage our scale to get cost savings on indirect spend

# 2015 BUSINESS OUTLOOK*

(BASED ON U.S. GAAP UNLESS OTHERWISE NOTED)

- Total sales are expected to increase 4.5 to 5 percent
- Comparable sales are expected to increase 4 to 4.5 percent
- The company expects to add 15 to 20 home improvement and hardware stores
- Earnings before interest and taxes as a percentage of sales (operating margin) are expected to increase 80 to 100 basis points
- The effective income tax rate is expected to be approximately 38.1%
- Diluted earnings per share of approximately $3.29 are expected for the fiscal year ending January 29, 2016
- Cash flow from operations are expected to be approximately $5.0B
- Capital expenditures are expected to be approximately $1.3B
- The company expects to repurchase $3.8B of stock

***As of August 19, 2015**

APPENDIX

# FORWARD LOOKING STATEMENTS

This document includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Statements of the Company's expectations for sales growth, comparable sales, earnings and performance, shareholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for services, share repurchases, the Company's strategic initiatives and any statement of an assumption underlying any of the foregoing, constitute "forward-looking statements" under the Act. Although we believe that the expectations, opinions, projections, and comments reflected in these forward-looking statements are reasonable, we can give no assurance that such statements will prove to be correct. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results either expressed or implied by our forward-looking statements including, but not limited to, changes in general economic conditions, such as the rate of unemployment, interest rate and currency fluctuations, fuel and other energy costs, slower growth in personal income, changes in consumer spending, changes in the rate of housing turnover, the availability of consumer credit and of mortgage financing, inflation or deflation of commodity prices, and other factors which can negatively affect our customers, as well as our ability to: (i) respond to adverse trends in the housing industry, such as a demographic shift from single family to multi-family housing, a reduced rate of growth in household formation, and slower rates of growth in housing renovation and repair activity, as well as uneven recovery in commercial building activity; (ii) secure, develop, and otherwise implement new technologies and processes necessary to realize the benefits of our strategic initiatives and enhance our efficiency; (iii) attract, train, and retain highly-qualified associates; (iv) manage our business effectively as we adapt our traditional operating model to meet the changing expectations of our customers; (v) maintain, improve, upgrade and protect our critical information systems from data security breaches and other cyber threats; (vi) respond to fluctuations in the prices and availability of services, supplies, and products; (vii) respond to the growth and impact of competition; (viii) address changes in existing or new laws or regulations that affect consumer credit, employment/labor, trade, product safety, transportation/logistics, energy costs, health care, tax or environmental issues; and (ix) respond appropriately to unanticipated failures to maintain a high level of product and service quality that could result in a negative impact on customer confidence and adversely affect sales. In addition, we could experience additional impairment losses if either the actual results of our operating stores are not consistent with the assumptions and judgments we have made in estimating future cash flows and determining asset fair values, or we are required to reduce the carrying amount of our investment in certain unconsolidated entities that are accounted for under the equity method. For more information about these and other risks and uncertainties that we are exposed to, you should read the "Risk Factors" and "Critical Accounting Policies and Estimates" included in our Annual Report on Form 10-K to the United States Securities and Exchange Commission (the "SEC") and the description of material changes therein or updated version thereof, if any, included in our Quarterly Reports on Form 10-Q.

The forward-looking statements contained in this document are based upon data available as of the date of the 2nd quarter earnings release or other specified date and speak only as of such date. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf about any of the matters covered in this release are qualified by these cautionary statements and the "Risk Factors" included in our Annual Report on Form 10-K to the SEC and the description of material changes, if any, therein included in our Quarterly Reports on Form 10-Q. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, change in circumstances, future events, or otherwise.

# NON-GAAP MEASURES

Management is using non-GAAP financial measures in this document because it considers them to be important supplemental measures of the Company's performance. Management also believes that these non-GAAP financial measures provide additional insight for analysts and investors in evaluating the Company's financial and operating performance. Non-GAAP financial measures should be considered in addition to, not as a substitute for, net income, total debt or other financial measures 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 for these or similar non-GAAP financial measures. Accordingly, these non-GAAP financial measures may not be comparable to measures used by other companies.

Pursuant to the requirements of SEC Regulation G, detailed reconciliations between the Company's GAAP and non-GAAP financial results were posted, by incorporation within the appendix to this presentation, on the Company's Investor Relations website at www.Lowes.com/investor on the day the Company's operating and financial results were announced for the quarter ended July 31, 2015 and management presented certain non-GAAP financial measures during a conference call with analysts and investors. Investors are advised to carefully review and consider this information as well as the GAAP financial results that are disclosed in the Company's earnings releases and annual and quarterly SEC filings.

# NON-GAAP MEASURES

## EBIT Margin (Operating Margin)

We define EBIT Margin as earnings before interest and taxes as a percentage of sales.

Lowe's believes that EBIT Margin is a useful measure to describe the Company's operating profit.

## EBITDAR

We define EBITDAR as earnings before interest, taxes, depreciation, amortization, share-based payments and rent.

## Lease-Adjusted Debt

We define Lease-Adjusted Debt as short-term debt, current maturities of long-term debt, long-term debt excluding current maturities, and eight times the last four quarters' rent[1]. We believe eight times rent is a reasonable industry standard estimate of the economic value of our leased assets.

Lowe's believes the ratio of Lease-Adjusted Debt to EBITDAR is a useful supplemental measure, as it provides an indication of the results generated by the Company in relation to its level of indebtedness by reflecting cash flow that could be used to repay debt.

[1] The annualized impact of the Company's acquisition of 12 former Target locations is included in the 8 times rent calculation for the period ended July 31, 2015.

# NON-GAAP MEASURES

## ROIC

We define ROIC as trailing four quarters' Net Operating Profit after Tax (NOPAT) divided by the average of ending debt and equity for the last five quarters.

Lowe's believes ROIC is a useful measure of how effectively the Company uses capital to generate profits.

## Free Cash Flow

We define Free Cash Flow as net cash provided by operating activities less capital expenditures.

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.

# RECONCILIATION OF NON-GAAP MEASURES

| EBIT and EBITDAR | Four Quarters Ended July 31, 2015 | Four Quarters Ended August 1, 2014 |
|---|---|---|
| Net Earnings | 2,834 | 2,467 |
| Taxes | 1,743 | 1,467 |
| Interest[1] | 533 | 503 |
| **EBIT** | **5,110** | **4,437** |
| Depreciation and Amortization[2] | 1,572 | 1,585 |
| Share-based Payments | 123 | 108 |
| Rent | 455 | 439 |
| **EBITDAR** | **7,260** | **6,569** |

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 Distribution Networks and Millworks, as well as amortization of certain trademarks and intangibles

# RECONCILIATION OF NON-GAAP MEASURES

| Modified Lease Adjusted Debt | Four Quarters Ended July 31, 2015 | Four Quarters Ended August 1, 2014 |
|---|---|---|
| Short-term Borrowings | - | - |
| Current Maturities of LTD | 1,014 | 54 |
| Long-term Debt Excluding Current Maturities | 10,345 | 10,063 |
| **Total Debt** | **11,359** | **10,117** |
| 8 Times Rent[1] | 3,707 | 3,507 |
| **Lease Adjusted Debt** | **15,067** | **13,624** |

[1] The annualized impact of the Company's acquisition of 12 former Target locations is included in the 8 times rent calculation. This adjustment increases 8 times rent for the period ended July 31, 2015 by $64 million.

# RECONCILIATION OF NON-GAAP MEASURES

| EBIT and NOPAT | Four Quarters Ended July 31, 2015 | Four Quarters Ended August 1, 2014 |
|---|---|---|
| Net Earnings | 2,834 | 2,467 |
| Taxes | 1,743 | 1,467 |
| Interest | 533 | 503 |
| **EBIT** | **5,110** | **4,437** |
| Effective Tax Rate | 38.1% | 37.3% |
| Tax Adjustment | 1,944 | 1,657 |
| **NOPAT** | **3,166** | **2,780** |

# RECONCILIATION OF NON-GAAP MEASURES

| Free Cash Flow | FY 2015E | FY 2014 | FY 2013 |
|---|---|---|---|
| Net Cash Provided by Operating Activities | 5,000 | 4,929 | 4,111 |
| Capital Expenditures | 1,300 | 880 | 940 |
| **Free Cash Flow** | **3,700** | **4,049** | **3,171** |

E = Estimate

# INVESTOR RELATIONS CONTACTS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