Q3 2019 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, as further outlined below. 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. 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 for these or similar non-GAAP financial measures. Accordingly, these non-GAAP financial measures may not be comparable to measures used by other companies.

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.

Operating Performance

The Company has provided the following non-GAAP financial measures for comparing its operating performance for the three and nine months ended November 1, 2019, with the respective periods ended November 2, 2019: adjusted gross margin, adjusted SG&A, adjusted depreciation and amortization, adjusted operating income, and adjusted diluted earnings per share. In addition, in the updated Business Outlook for fiscal 2019, the Company has provided the non-GAAP financial measure of forecasted adjusted diluted earnings per share and a comparison to the non-GAAP financial measure for adjusted operating margin for fiscal 2018. These measures exclude the impacts of certain discrete items, as further detailed below, not contemplated in Lowe's original Business Outlook for fiscal 2019 and fiscal 2018. Lowe's believes these measures are useful in helping understand actual and forecasted performance relative to the original Business Outlook, as well as performance between fiscal periods.

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 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 first six months of 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, the pre-tax operating losses for the Mexico retail operations were insignificant (Mexico adjustments), and;

- 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. Subsequent to the third quarter, the Company made the decision to close 34 under-performing stores and take 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 impairment 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 through the third quarter of fiscal year 2018 were $353 million, and 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 through the third quarter of fiscal year 2018 were $121 million, and total pre-tax charges for fiscal year 2018 were $271 million (U.S. and Canada closing charges);

- As previously discussed above, on November 20, 2018, the Company announced its plans to exit retail operations in Mexico and was 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 pre-tax charges through the third quarter of fiscal year 2018 were $22 million, and total pre-tax 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 through the third quarter of fiscal year 2018 were $14 million, and 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).

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

	Three and Nine Months Ended November 1, 2019				
	Gross Margin	SG&A	Depreciation & Amortization	Operating Income	Diluted Earnings Per Share
Non-GAAP items:					
Mexico adjustments	✔	✔		✔	✔
2019 Canada restructuring		✔		✔	✔

	Three and Nine Months Ended November 2, 2018				
	Gross Margin	SG&A	Depreciation & Amortization	Operating Income	Diluted Earnings Per Share
Non-GAAP items:					
Orchard Supply Hardware charges		✔	✔	✔	✔
U.S. & Canada closing charges		✔		✔	✔
Mexico impairment charges		✔		✔	✔
Non-core activities charges	✔	✔		✔	✔

The following measures are presented for comparison of operating performance for the three and nine months ended November 1, 2019, and November 2, 2018:

	Three Months Ended		Nine Months Ended	
Adjusted Gross Margin (in millions)	**November 1, 2019**	**November 2, 2018**	**November 1, 2019**	**November 2, 2018**
Gross Margin, As Reported	**$ 5,640**	**$ 5,377**	**$ 17,962**	**$ 18,009**
Non-core charges	—	5	—	5
Mexico adjustments	—	—	(11)	—
Adjusted Gross Margin	**$ 5,640**	**$ 5,382**	**$ 17,951**	**$ 18,014**
Gross Margin, % of sales	**32.44%**	**30.88%**	**32.01%**	**32.36%**
Adjusted Gross Margin, % of Sales	**32.44%**	**30.91%**	**32.02%**	**32.36%**

	Three Months Ended		Nine Months Ended	
Adjusted SG&A (in millions)	**November 1, 2019**	**November 2, 2018**	**November 1, 2019**	**November 2, 2018**
SG&A, As Reported	**$ 3,772**	**$ 3,997**	**$ 11,682**	**$ 12,315**
Orchard Supply Hardware charges	—	(28)	—	(258)
U.S. & Canada closing charges	—	(121)	—	(121)
Mexico impairment charges	—	(22)	—	(22)
Non-core activities charges	—	(9)	—	(9)
Mexico adjustments	—	—	(38)	—
2019 Canada restructuring	(53)	—	(53)	—
Adjusted SG&A	**$ 3,719**	**$ 3,817**	**$ 11,591**	**$ 11,905**
SG&A, % of sales	**21.69%**	**22.95%**	**20.82%**	**22.13%**
Adjusted SG&A, % of sales	**21.39%**	**21.92%**	**20.67%**	**21.39%**

	Three Months Ended		Nine Months Ended	
Adjusted Depreciation & Amortization (in millions)	**November 1, 2019**	**November 2, 2018**	**November 1, 2019**	**November 2, 2018**
Depreciation & Amortization, As Reported	**$ 310**	**$ 423**	**$ 924**	**$ 1,108**
Orchard Supply Hardware charges	—	(95)	—	(95)
Adjusted Depreciation & Amortization	**$ 310**	**$ 328**	**$ 924**	**$ 1,013**
Depreciation & Amortization, % of sales	**1.79%**	**2.43%**	**1.65%**	**1.99%**
Adjusted Depreciation & Amortization, % of sales	**1.79%**	**1.88%**	**1.65%**	**1.82%**

Adjusted Operating Income (in millions, except percentage data)	Three Months Ended November 1, 2019	Three Months Ended November 2, 2018	Nine Months Ended November 1, 2019	Nine Months Ended November 2, 2018
Operating Income, As Reported	**$ 1,558**	**$ 957**	**$ 5,356**	**$ 4,586**
Orchard Supply Hardware charges	—	123	—	353
U.S. & Canada closing charges	—	121	—	121
Mexico impairment charges	—	22	—	22
Non-core activities charges	—	14	—	14
Mexico adjustments	—	—	27	—
2019 Canada restructuring	53	—	53	—
Adjusted Operating Income	**$ 1,611**	**$ 1,237**	**$ 5,436**	**$ 5,096**
Operating Margin, As Reported	**8.96%**	**5.50%**	**9.54%**	**8.24%**
Adjusted Operating Margin	**9.26%**	**7.11%**	**9.70%**	**9.16%**

Adjusted Diluted Earnings Per Share	Three Months Ended November 1, 2019 Pre-Tax Earnings	Tax [1]	Net Earnings	Three Months Ended November 2, 2018 Pre-Tax Earnings	Tax [1]	Net Earnings
Diluted Earnings Per Share, As Reported			**$ 1.36**			**$ 0.78**
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
Mexico adjustments	—	—	—	—	—	—
2019 Canada restructuring	0.07	(0.02)	0.05	—	—	—
Adjusted Diluted Earnings Per Share			**$ 1.41**			**$ 1.04**

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

Adjusted Diluted Earnings Per Share	Nine Months Ended November 1, 2019 Pre-Tax Earnings	Tax [1]	Net Earnings	Nine Months Ended November 2, 2018 Pre-Tax Earnings	Tax [1]	Net Earnings
Diluted Earnings Per Share, As Reported			**$ 4.80**			**$ 3.83**
Orchard Supply Hardware charges	—	—	—	0.44	(0.11)	0.33
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
Mexico adjustments	0.03	(0.10)	(0.07)	—	—	—
2019 Canada restructuring	0.07	(0.02)	0.05	—	—	—
Adjusted Diluted Earnings Per Share			**$ 4.78**			**$ 4.30**

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

The following measures are presented to support the Company's Business Outlook for fiscal 2019:

	Fiscal 2019 Lowe's Business Outlook					
	Low End of Guidance Range			High End of Guidance Range		
	Pre-Tax Earnings	Tax [1]	Net Earnings	Pre-Tax Earnings	Tax [1]	Net Earnings
Forecasted Diluted Earnings Per Share			**$ 5.35**			**$ 5.47**
Non-GAAP Adjustments						
2019 Canada restructuring	0.36	(0.01)	0.35	0.30	—	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%**

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)	Nine Months Ended November 1, 2019	FY 2019E [1]	FY 2018	FY 2017
Net Cash Provided by Operating Activities	4,111	4,500	6,193	5,065
Capital expenditures	927	1,600	1,174	1,123
Free Cash Flow	**$3,184**	**$2,900**	**$5,019**	**$3,942**

[1] *Estimate for full year fiscal 2019.*

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 earnings before interest, taxes, depreciation, amortization, share based payments, rent (inclusive of interest on operating leases subsequent to the adoption of Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*), and certain items as defined by the Company's credit facility

As of fiscal 2019, subsequent to the adoption of ASU 2016-02, *Leases (Topic 842)*, the Company defines Lease-Adjusted Debt as short-term debt, current maturities of long-term debt, longterm debt excluding current maturities, and operating lease liabilities reflected on our balance sheet. Prior to the adoption of ASU 2016-02, *Leases (Topic 842)*, the Company defined Lease-Adjusted Debt as short-term debt, current maturities of long-term debt, long-term debt excluding current maturities, and six times the last four quarters' rent.

	Four Quarters Ended	
EBITDAR (in millions)	**November 1, 2019**	**November 2, 2018**
Net Earnings	**$ 2,947**	**$ 3,692**
Interest [1]	665	620
Taxes	1,176	1,371
Depreciation and amortization [2]	1,418	1,587
Share-based payments	70	100
Rent	616	651
Certain charges[3, 4]	1,557	475
EBITDAR	**$ 8,449**	**$ 8,496**

[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 2019 include: $952M of goodwill impairment associated with the company's Canadian operations, $159M of long-lived asset impairment, discontinued project charges, and closing costs associated with Orchard Supply Hardware, $103M of long-lived asset impairment, discontinued projects, and severance-related costs associated with the Company's closure of 20 U.S. and 31 Canada locations, $250M of impairment associated with the company's decision to exit its Mexico operations, $40M of non-core activities charges, and $53M of impairment costs associated with the strategic reassessment of Canadian operations in Q3 2019.*

[4] *Certain charges for 2018 include: $257M of long-lived asset impairment and discontinued project charges associated with Orchard Supply Hardware, $130M of long-lived asset impairment, discontinued projects, and severance-related costs associated with the Company's strategic reassessment of U.S. and Canada locations, $22M of impairment associated with the Company's strategic reassessment of Mexico, and a $66M charge related to the one-time Tax Reform Bonus.*

	Four Quarters Ended	
Lease Adjusted Debt (in millions)	**November 1, 2019**	**November 2, 2018**
Short-term borrowings	637	—
Current maturities of long-term debt	574	1,117
Current operating lease liabilities	499	—
Long-term debt excluding current maturities	16,635	14,460
Noncurrent operating lease liabilities	3,942	—
Total debt	**$ 22,287**	**$ 15,577**
6 times rent[1]	—	3,904
Lease adjusted debt	**$ 22,287**	**$ 19,481**
EBITDAR	**$ 8,449**	**$ 8,496**
Lease adjusted debt to EBITDAR	**2.64**	**2.29**

[1] *In Q3 2018 our credit facility was amended to reflect the expected adoption of ASU 842. Beginning in Q1 2019, our lease adjusted debt includes operating lease liabilities reflected on our balance sheet and the multiple of rent is no longer applicable.*

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 because it represents management's measure of how effectively the Company is using capital to generate profits. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management to calculate ROIC may differ from the methods other companies use to calculate their ROIC. We encourage you to understand the methods used by another company to calculate its ROIC before comparing its ROIC to ours.

We define ROIC as 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 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:

	Four Quarters Ended	
ROIC (in millions)	**November 1, 2019**	**November 2, 2018**
Numerator		
Net Earnings	$ 2,947	$ 3,692
Plus:		
Interest expense, net	665	620
Operating lease interest [1]	186	214
Provision for income taxes	1,177	1,371
Lease adjusted net operating profit	4,975	5,897
Less:		
Income tax adjustment [2]	1,414	1,597
Lease adjusted net operating profit after tax	$ 3,561	$ 4,300
Denominator		
Average debt and equity [3]	$ 25,106	$ 25,734
Net earnings to average debt and equity	**11.7%**	**14.3%**
Return on invested capital	**14.2%**	**16.7%**

[1] *Includes a proforma estimate of operating lease interest for periods prior to the adoption of ASU 2016-02, Leases (Topic 842).*

[2] *Income tax adjustment is defined as lease adjusted net operating profit multiplied by the effective tax rate, which was 28.4% and 27.1% for the periods November 1, 2019 and November 2, 2018, respectively.*

[3] *Average debt and 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 equity.*