Q4 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, and;
3. Leverage measures.

Operating Performance

The Company has provided the following non-GAAP financial measures for comparing its operating performance for the three and twelve months ended January 31, 2020, with the respective periods ended February 1, 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 2020, the Company has provided the non-GAAP financial measure of forecasted 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 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 financial impacts from the following discrete items, not contemplated in the Company’s 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 an $82 million tax benefit in the first quarter, which was partially offset by $12 million of pre-tax operating costs associated with the exit and ongoing wind-down of the Mexico retail operations. During the second quarter of fiscal 2019, the Company recognized additional pre-tax operating losses of $14 million. For the third quarter, the pre-tax operating losses for the Mexico retail operations were insignificant. For the fourth quarter, the Company recognized additional pre-tax operating losses of $9 million. Total pre-tax operating costs and charges for fiscal year 2019 were $35 million (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. During the fourth 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 fiscal 2019, the Company recognized pre-tax operating costs and charges of $176 million, consisting of 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 year 2019 were $230 million (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 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 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 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 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 for fiscal year 2018 were $46 million (Non-core activities charges), and;

- During the fourth quarter of fiscal 2018, the Company recorded a pre-tax charge 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 Twelve Months Ended January 31, 2020				
	Gross Margin	SG&A	Depreciation & Amortization	Operating Income	Diluted Earnings Per Share
Non-GAAP items:					
Mexico adjustments	✔	✔		✔	✔
2019 Canada restructuring	✔	✔	✔	✔	✔

	Three and Twelve Months Ended February 1, 2019				
	Gross Margin	SG&A	Depreciation & Amortization	Operating Income	Diluted Earnings Per Share
Non-GAAP items:					
Canadian goodwill impairment		✔		✔	✔
Orchard Supply Hardware charges		✔	✔	✔	✔
U.S. & Canada charges		✔	✔	✔	✔
Mexico impairment charges		✔		✔	✔
Non-core activities charges	✔	✔		✔	✔
Project Specialists Interiors charge		✔		✔	✔

The following measures are presented for comparison of operating performance for the quarter and fiscal years ended January 31, 2020, and February 1, 2019:

	Three Months Ended				Year Ended			
Adjusted Gross Margin (in millions)	**January 31, 2020**		**February 1, 2019**		**January 31, 2020**		**February 1, 2019**	
Gross Margin, As Reported	**$**	**4,981**	**$**	**4,898**	**$**	**22,943**	**$**	**22,908**
Mexico adjustments		—		—		(10)		—
2019 Canada restructuring		122		—		122		—
Non-core activities charges		—		29		—		33
Adjusted Gross Margin	**$**	**5,103**	**$**	**4,927**	**$**	**23,055**	**$**	**22,941**
Gross Margin, % of sales		**31.08%**		**31.30%**		**31.80%**		**32.12%**
Adjusted Gross Margin, % of sales		**31.89%**		**31.49%**		**31.99%**		**32.17%**

	Three Months Ended				Year Ended			
Adjusted SG&A (in millions)	**January 31, 2020**		**February 1, 2019**		**January 31, 2020**		**February 1, 2019**	
SG&A, As Reported	**$**	**3,685**	**$**	**5,097**	**$**	**15,367**	**$**	**17,413**
Mexico adjustments		(9)		—		(45)		—
2019 Canada restructuring		(35)		—		(89)		—
Canadian goodwill impairment		—		(952)		—		(952)
Orchard Supply Hardware charges		—		(208)		—		(465)
U.S. & Canada charges		—		(99)		—		(221)
Mexico impairment charges		—		(222)		—		(244)
Non-core activities charges		—		(3)		—		(13)
Project Specialists Interiors charge		—		(13)		—		(13)
Adjusted SG&A	**$**	**3,641**	**$**	**3,600**	**$**	**15,233**	**$**	**15,505**
SG&A, % of sales		**22.99%**		**32.58%**		**21.30%**		**24.41%**
Adjusted SG&A, % of sales		**22.74%**		**23.01%**		**21.13%**		**21.74%**

	Three Months Ended				Year Ended			
Adjusted Depreciation & Amortization (in millions)	**January 31, 2020**		**February 1, 2019**		**January 31, 2020**		**February 1, 2019**	
Depreciation & Amortization, As Reported	**$**	**338**	**$**	**368**	**$**	**1,262**	**$**	**1,477**
2019 Canada restructuring		(19)		—		(19)		—
Orchard Supply Hardware charges		—		—		—		(96)
U.S. & Canada charges		—		(50)		—		(50)
Adjusted Depreciation & Amortization	**$**	**319**	**$**	**318**	**$**	**1,243**	**$**	**1,331**
Depreciation & Amortization, % of sales		**2.11%**		**2.35%**		**1.75%**		**2.07%**
Adjusted Depreciation & Amortization, % of sales		**2.00%**		**2.03%**		**1.73%**		**1.87%**

Adjusted Operating Income (in millions, except percentage data)	Three Months Ended		Year Ended	
	January 31, 2020	February 1, 2019	January 31, 2020	February 1, 2019
Operating Income, As Reported	**$ 958**	**$ (567)**	**$ 6,314**	**$ 4,018**
Mexico adjustments	9	—	35	—
2019 Canada restructuring	176	—	230	—
Canadian goodwill impairment	—	952	—	952
Orchard Supply Hardware charges	—	208	—	561
U.S. & Canada charges	—	150	—	271
Mexico impairment charges	—	222	—	244
Non-core activities charges	—	32	—	46
Project Specialists Interiors charge	—	13	—	13
Adjusted Operating Income	**$ 1,143**	**$ 1,010**	**$ 6,579**	**$ 6,105**
Operating Margin, As Reported	**5.98%**	**(3.63)%**	**8.75%**	**5.64%**
Adjusted Operating Margin	**7.15%**	**6.45 %**	**9.13%**	**8.56%**

Adjusted Diluted Earnings Per Share	Three Months Ended					
	January 31, 2020			February 1, 2019		
	Pre-Tax Earnings	Tax [1]	Net Earnings	Pre-Tax Earnings	Tax [1]	Net Earnings
Diluted Earnings Per Share, As Reported			**$ 0.66**			**$ (1.03)**
Mexico adjustments	0.01	0.01	0.02	—	—	—
2019 Canada restructuring	0.23	0.03	0.26	—	—	—
Canadian goodwill impairment	—	—	—	1.19	(0.03)	1.16
Orchard Supply Hardware charges	—	—	—	0.25	(0.05)	0.20
U.S. & Canada charges	—	—	—	0.18	(0.05)	0.13
Mexico impairment charges	—	—	—	0.28	0.01	0.29
Non-core activities charges	—	—	—	0.04	(0.01)	0.03
Project Specialists Interiors charge	—	—	—	0.02	—	0.02
Adjusted Diluted Earnings Per Share			**$ 0.94**			**$ 0.80**

[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 January 31, 2020 and February 1, 2019 were 24.68% and 24.25%, respectively.*

Adjusted Diluted Earnings Per Share	Year Ended January 31, 2020 Pre-Tax Earnings	Tax [1]	Net Earnings	February 1, 2019 Pre-Tax Earnings	Tax [1]	Net Earnings
Diluted Earnings Per Share, As Reported			**$ 5.49**			**$ 2.84**
Mexico adjustments	0.05	(0.11)	(0.06)	—	—	—
2019 Canada restructuring	0.29	0.02	0.31	—	—	—
Canadian goodwill impairment	—	—	—	1.17	(0.03)	1.14
Orchard Supply Hardware charges	—	—	—	0.68	(0.17)	0.51
U.S. & Canada charges	—	—	—	0.33	(0.08)	0.25
Mexico impairment charges	—	—	—	0.30	0.01	0.31
Non-core activities charges	—	—	—	0.06	(0.02)	0.04
Project Specialists Interiors charge	—	—	—	0.02	—	0.02
Adjusted Diluted Earnings Per Share			**$ 5.74**			**$ 5.11**

[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 year ended January 31, 2020 and February 1, 2019 were 23.88% and 24.02%, respectively.*

The following measure, along with adjusted operating income previously noted, is presented to support the Company's Business Outlook for fiscal 2020:

	Fiscal 2020 Lowe's Business Outlook: Low End of Guidance Range Pre-Tax Earnings	Tax [1]	Net Earnings	High End of Guidance Range Pre-Tax Earnings	Tax [1]	Net Earnings
Forecasted Diluted Earnings Per Share			**$ 6.38**			**$ 6.58**
Non-GAAP Adjustments						
2019 Canada restructuring	0.09	(0.02)	0.07	0.09	(0.02)	0.07
Forecasted Adjusted Diluted Earnings Per Share			**$ 6.45**			**$ 6.65**

[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 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)	FY 2020E [1]	FY 2019	FY 2018
Net Cash Provided by Operating Activities	6,500	4,296	6,193
Capital expenditures	1,600	1,484	1,174
Free Cash Flow	**$4,900**	**$2,812**	**$5,019**

[1] *Outlook for full year fiscal 2020.*

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, long-term 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.

	Year Ended	
EBITDAR (in millions)	**January 31, 2020**	**February 1, 2019**
Net Earnings	**$ 4,281**	**$ 2,314**
Interest [1]	691	624
Taxes	1,342	1,080
Depreciation and amortization [2]	1,395	1,600
Share-based payments	98	74
Rent	666	630
Certain charges[3, 4]	184	1,928
EBITDAR	**$ 8,657**	**$ 8,250**

[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: $204M of costs associated with the strategic reassessment of Canadian operations, $35M of charges associated with the company's decision to exit its Mexico operations, and ($55M) of closing costs associated with Orchard Supply Hardware .*

[4] *Certain charges for 2018 include: $952M of goodwill impairment associated with the company's Canadian operations, $452M of long-lived asset impairment, discontinued project charges, and closing costs associated with Orchard Supply Hardware, $221M 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, $244M of impairment associated with the company's decision to exit its Mexico operations, $46M of non-core activities charges, and $13M of severance costs associated with the elimination of the Project Specialists Interiors position.*

	As of	
Lease Adjusted Debt (in millions)	**January 31, 2020**	**February 1, 2019**
Short-term borrowings	1,941	722
Current maturities of long-term debt	597	1,110
Current operating lease liabilities	501	—
Long-term debt excluding current maturities	16,768	14,391
Noncurrent operating lease liabilities	3,943	—
Total debt	**$ 23,750**	**$ 16,223**
6 times rent[1]	—	3,784
Lease adjusted debt	**$ 23,750**	**$ 20,007**
EBITDAR	**$ 8,657**	**$ 8,250**
Lease adjusted debt to EBITDAR	**2.74**	**2.42**

[1] *In Q3 2018, our credit facility was amended to reflect the expected adoption of ASU 2016-02, Leases (Topic 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.*