Q1 2020 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 months ended May 1, 2020, with the respective period ended May 3, 2019: adjusted gross margin; adjusted selling, general and administrative expenses (SG&A); adjusted operating income; and 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 the first quarter of fiscal 2020 and fiscal 2019. Lowe's believes these measures are useful in helping understand actual performance relative to the original Business Outlook, as well as performance between fiscal periods.

Fiscal 2020 Impacts
For fiscal 2020, the Company has recognized financial impacts from the following discrete items, not contemplated in the Company’s Business Outlook for the first quarter of 2020:

- Beginning in the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, and in the fourth quarter of fiscal 2019, the Company announced additional actions to improve future performance and profitability of its Canadian operations. As a result of this review and related actions, in the first quarter of fiscal 2020, the Company recognized $9 million of pre-tax operating costs related to severance and other costs (2019 Canada restructuring).

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 the first quarter of 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 losses associated with the exit and ongoing wind-down of the Mexico retail operations (Mexico adjustments).

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

	Three Months Ended May 1, 2020				
	Gross Margin	SG&A	Depreciation & Amortization	Operating Income	Diluted Earnings Per Share
Non-GAAP items:					
2019 Canada restructuring		✔		✔	✔

	Three Months Ended May 3, 2019				
	Gross Margin	SG&A	Depreciation & Amortization	Operating Income	Diluted Earnings Per Share
Non-GAAP items:					
Mexico adjustments	✔	✔		✔	✔

The following measures are presented for comparison of operating performance for the quarter ended May 1, 2020, and May 3, 2019:

	Three Months Ended	
Adjusted Gross Margin (in millions)	**May 1, 2020**	**May 3, 2019**
Gross Margin, As Reported	**$ 6,513**	**$ 5,581**
Mexico adjustments	—	(9)
Adjusted Gross Margin	**$ 6,513**	**$ 5,572**
Gross Margin, % of sales	**33.10%**	**31.46%**
Adjusted Gross Margin, % of sales	**33.10%**	**31.50%**

	Three Months Ended	
Adjusted SG&A (in millions)	**May 1, 2020**	**May 3, 2019**
SG&A, As Reported	**$ 4,196**	**$ 3,862**
2019 Canada restructuring	(9)	—
Mexico adjustments	—	(22)
Adjusted SG&A	**$ 4,187**	**$ 3,840**
SG&A, % of sales	**21.32%**	**21.77%**
Adjusted SG&A, % of sales	**21.28%**	**21.71%**

	Three Months Ended	
Adjusted Operating Income (in millions)	**May 1, 2020**	**May 3, 2019**
Operating Income, As Reported	**$ 1,991**	**$ 1,417**
2019 Canada restructuring	9	—
Mexico adjustments	—	12
Adjusted Operating Income	**$ 2,000**	**$ 1,429**
Operating Margin, % of sales	**10.12%**	**7.99%**
Adjusted Operating Margin, % of sales	**10.16%**	**8.08%**

Adjusted Diluted Earnings Per Share	Three Months Ended					
	May 1, 2020			May 3, 2019		
	Pre-Tax Earnings	Tax [1]	Net Earnings	Pre-Tax Earnings	Tax [1]	Net Earnings
Diluted Earnings Per Share, As Reported			**$ 1.76**			**$ 1.31**
2019 Canada restructuring	0.01	—	0.01	—	—	—
Mexico adjustments	—	—	—	0.01	(0.10)	(0.09)
Adjusted Diluted Earnings Per Share			**$ 1.77**			**$ 1.22**

[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 May 1, 2020 and May 3, 2019 were 25.04% and 22.94%, respectively.*

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)	Three Months Ended May 1, 2020	FY 2019	FY 2018
Net cash provided by operating activities	$ 4,450	$ 4,296	$ 6,193
Capital expenditures	(328)	(1,484)	(1,174)
Free Cash Flow	**$ 4,122**	**$ 2,812**	**$ 5,019**

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 May 1, 2020	Four Quarters Ended May 3, 2019
Net Earnings	**$ 4,572**	**$ 2,372**
Interest [1]	733	626
Taxes	1,583	972
Depreciation and amortization [2]	1,428	1,554
Share-based payments	83	93
Rent	661	622
Certain charges[3, 4]	248	1,901
EBITDAR	**$ 9,308**	**$ 8,140**

[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 2020 include: $213M of costs associated with the strategic reassessment of Canadian operations, $23M of charges associated with the company's decision to exit its Mexico operations, and $12M of closing costs associated with Orchard Supply Hardware.*

[4] *Certain charges for 2019 include: $952M of goodwill impairment associated with the company's Canadian operations, $412M 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, $261M of impairment associated with the company's decision to exit its Mexico operations, $42M of non-core activities charges, and $13M of severance costs associated with the elimination of the Project Specialists Interiors position.*

Lease Adjusted Debt (in millions)	As of May 1, 2020	As of May 3, 2019
Short-term borrowings	$ 1,000	$ —
Current maturities of long-term debt	604	1,008
Current operating lease liabilities	506	500
Long-term debt excluding current maturities	20,200	16,542
Noncurrent operating lease liabilities	3,915	4,064
Lease adjusted debt	**$ 26,225**	**$ 22,114**
EBITDAR	**$ 9,308**	**$ 8,140**
Lease adjusted debt to EBITDAR	**2.82**	**2.72**