Appendix

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 does not provide a reconciliation for non-GAAP estimates on a forward-looking basis where it is unable to provide a meaningful or accurate calculation or estimation of reconciling items without unreasonable effort, including timing of and deal-related transaction costs associated with the sale of our Canadian retail business.

The Company's non-GAAP financial measures are intended to provide better visibility to the following:

1. Operating performance, and
2. Capital/asset productivity measures.

Operating performance

The Company has provided a comparison to the non-GAAP financial measures of adjusted operating income and adjusted operating margin for fiscal years 2020, 2019, and 2018, and adjusted diluted earnings per share for fiscal 2018. These measures exclude the impacts of certain discrete items, as further described below, to assist the user in further understanding the Company's operational performance comparisons to fiscal years 2020, 2019, and 2018.

Fiscal 2020 Impacts

For fiscal 2020, the Company recognized financial impacts from the following discrete item, not contemplated in the Company’s Business Outlook for fiscal 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, the Company recognized pre-tax operating costs of $45 million related to inventory write-downs and other closing costs in fiscal 2020 (Canada restructuring).

Fiscal 2019 Impacts

For fiscal 2019, the Company recognized financial impacts from the following discrete items, not contemplated in the Company’s Business Outlook for fiscal 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 of fiscal 2019. In addition, the Company recognized $35 million of pre-tax operating costs for the fiscal year 2019 associated with the exit and ongoing wind-down of the Mexico retail operations (Mexico adjustments).

- During the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations. As a result of this review and related actions, the Company recognized pre-tax operating costs and charges of $230 million, consisting of inventory liquidation, long-lived asset impairment, 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 (Canada restructuring).

Operating performance

Fiscal 2018 Impacts

For fiscal 2018, the Company recognized financial impacts from the following discrete items, not contemplated in the Company's Business Outlook for fiscal 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 $561 million associated with long-lived asset impairment and discontinued projects, accelerated depreciation and amortization, severance, and lease obligation costs in fiscal year 2018 (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 $271 million associated with long-lived asset impairment, severance, lease obligation costs, and accelerated depreciation in fiscal year 2018 (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. The Company recognized $244 million associated with long-lived asset impairment in fiscal year 2018 (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, the Company recognized pre-tax charges of $46 million primarily associated with long-lived asset impairment and inventory write-downs in fiscal year 2018 (Non-core activities charges).
- During fiscal year 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).

Operating performance

The following measures are presented for comparison of operating performance for the fiscal years ended January 29, 2021, January 31, 2020, and February 1, 2019:

Adjusted Operating Income (in millions, except percentage data)	Year Ended January 29, 2021	Year Ended January 31, 2020	Year Ended February 1, 2019
Net Sales, As Reported	**$ 89,597**	**$ 72,148**	**$ 71,309**
Operating Income, As Reported	**$ 9,647**	**$ 6,314**	**$ 4,018**
Canada restructuring	45	230	—
Mexico adjustments	—	35	—
Canadian goodwill impairment	—	—	952
Orchard Supply Hardware charges	—	—	561
U.S. and Canada charges	—	—	271
Mexico impairment charges	—	—	244
Non-core activities charges	—	—	46
Project Specialists Interiors charge	—	—	13
Adjusted Operating Income	**$ 9,692**	**$ 6,579**	**$ 6,105**
Operating Margin, % of sales	**10.77 %**	**8.75 %**	**5.64 %**
Adjusted Operating Margin, % of sales	**10.82 %**	**9.13 %**	**8.56 %**

Operating performance

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

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

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 analysts and 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:

Capital/asset productivity measures

ROIC (in millions, except percentage data)	Year Ended January 28, 2022	January 29, 2021	January 31, 2020	February 1, 2019
Numerator				
Net Earnings	$ 8,442	$ 5,835	$ 4,281	$ 2,314
Plus:				
Interest expense, net	885	848	691	624
Operating lease interest [1]	160	171	195	206
Loss on extinguishment of debt	—	1,060	—	—
Provision for income taxes	2,766	1,904	1,342	1,080
Lease adjusted net operating profit	12,253	9,818	6,509	4,224
Less:				
Income tax adjustment [2]	3,024	2,416	1,554	1,344
Lease adjusted net operating profit after tax	$ 9,229	$ 7,402	$ 4,955	$ 2,880
Denominator				
Average debt and shareholders' (deficit)/equity [3]	$ 26,109	$ 26,686	$ 24,950	$ 25,713
Net Earnings to Average Debt and Shareholders' (Deficit)/Equity	**32.3 %**	**21.9 %**	**17.2 %**	**9.0 %**
Return on Invested Capital	**35.3 %**	**27.7 %**	**19.9 %**	**11.2 %**

[1] *Includes a proforma estimate of operating lease interest for the fiscal year ended February 1, 2019, 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 24.7%, 24.6%, 23.9%, and 31.8% for the years ended January 28, 2022, January 29, 2021, January 31, 2020, and February 1, 2019, respectively.*

[3] *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.*

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