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 (which may be significant) without unreasonable effort, including timing of adjustments associated with the sale of the Canadian retail business.

Operating Performance

The Company has provided the non-GAAP financial measures of adjusted operating income; adjusted operating margin; and adjusted diluted earnings per share for fiscal year 2018. These measures exclude the impacts of certain items, as further described below, not contemplated in the Company's business outlook for fiscal year 2018.

Fiscal 2018 Impacts

- 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 charges).
- 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 year ended February 1, 2019:

Adjusted Operating Income (in millions, except percentage data)		**Year Ended**
		February 1, 2019
Net Sales, As Reported	**$**	**71,309**
Operating Income, As Reported	**$**	**4,018**
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	**$**	**6,105**
Operating Margin, % of sales		**5.64%**
Adjusted Operating Margin, % of sales		**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 specifically 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)	For the Periods Ended November 1, 2024	 February 1, 2019
Numerator		
Net Earnings	$ 6,853	$ 2,314
Plus:		
Interest expense, net	1,333	624
Operating lease interest[1]	172	206
Provision for income taxes	2,137	1,080
Lease adjusted net operating profit	10,495	4,224
Less:		
Income tax adjustment[2]	2,495	1,344
Lease adjusted net operating profit after tax	$ 8,000	$ 2,880
Denominator		
Average debt and shareholders' (deficit)/equity[3]	$ 25,603	$ 25,713
Net Earnings to Average Debt and Shareholders' (Deficit)/Equity	**26.8%**	**9.0%**
Return on Invested Capital	**31.2%**	**11.2%**

1 *Includes a proforma estimate of operating lease interest for the period 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 23.8% and 31.8% for the periods ended November 1, 2024, 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.*