MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Lowe's unsecured ratings to Baa1; P-2 commercial paper rating affirmed

12 Dec 2018

New York, December 12, 2018 -- Moody's Investors Service ("Moody's") today downgraded the senior unsecured ratings of Lowe's Companies, Inc. and Lowe's Companies Canada, ULC ("Lowes") to Baa1 from A3. In addition, Moody's affirmed Lowe's Companies, Inc.'s Prime-2 short-term commercial paper rating. The ratings outlook is stable.

The rating actions follow Lowes recent announcement that it intends to materially increase its return to shareholders and raise its targeted leverage ratio to 2.75x from 2.25x at a time when it continues to experience operational challenges. Lowes will institute a 3-year $25 billion shareholder return target from 2019 through 2021 and partially fund this initiative with additional debt.

"Lowes has adopted a more aggressive financial policy that will result in significantly higher debt levels and weaker credit metrics and reduces the company's financial flexibility." stated Moody's Senior Credit Officer Bill Fahy. "However, Moody's estimates Lowe's earnings, cash flows and liquidity will remain solid as it executes various strategic initiatives intended to address these operational challenges ", stated Fahy.

Downgrades:

..Issuer: Lowe's Companies Canada, ULC

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3

..Issuer: Lowe's Companies, Inc.

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3

Outlook Actions:

..Issuer: Lowe's Companies Canada, ULC

....Outlook, Remains Stable

..Issuer: Lowe's Companies, Inc.

....Outlook, Remains Stable

Affirmations:

..Issuer: Lowe's Companies, Inc.

.... Commercial Paper, Affirmed P-2

RATINGS RATIONALE

Lowes' credit profile (Baa1, stable) benefits from its considerable scale with revenues of about $71 billion, its market position as the second largest home improvement retailer in the US and solid liquidity. Moody's also expects that the US housing market will remain favorable, and drive growth in the home improvement market. However, Lowe's operating margin is still below its pre-recession peak, and given higher operating costs and greater investment to support strategic initiatives, a material improvement in margins is not expected for several years. The ratings also reflect management's shareholder focused financial policies evidenced by a stated $25 billion three year return of capital to shareholders.

The stable outlook reflects Moody's view that Lowes will begin to realize the benefits of its strategic initiatives to fix its operational challenges over a reasonable time frame that will result in higher margins going forward. The outlook also expects credit metrics will remain in line with its 2.75 times lease adjusted debt to EBITDAR target.

Ratings could be upgraded in the event Lowe's successfully addresses its operating challenges that drive improved earnings and cash flows such that on a sustained basis debt to EBITDA falls below 2.5 times, EBITA to interest expense was sustained above 7.0 times and retained cash flow to net debt remained above 30%. An upgrade would also require a more moderate financial policy.

Ratings could be downgraded in the event the various initiatives implemented to address operating challenges failed to materialize or fell short of expectations. Specifically, ratings could be downgraded in the event debt to EBITDA approached 3.25 times or EBITA to interest expense falls below 5.5 times. The adoption of a more aggressive financial policy could also pressure ratings.

Lowe's is the nation's second-largest home improvement retailer, with 2,155 stores in the United States, Canada, and Mexico as of August 22, 2018. Annual revenues are about $71 billion.

The principal methodology used in these ratings was Retail Industry published in May 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.