

Brown-Forman Corporation

Brown-Forman Investor Day | December 14, 2016

Appendix: Non-GAAP Financial Measures

We use certain financial measures in the accompanying presentations that are not measures of financial performance under GAAP. These non-GAAP measures, which are defined below, should be viewed as supplements to (not substitutes for) our results of operations and other measures reported under GAAP. The non-GAAP measures we use in the accompanying presentations may not be defined and calculated by other companies in the same manner.

Non-GAAP Adjusted Operating Income

We provide “Adjusted operating income” to identify the effect of our divestitures and similar corporate transactions on reported operating income; this effect is expected not to be part of our sustainable results or trends. This measure removes, as applicable, (a) the gains on sale, net of transaction-related costs, for our divestitures, and (b) income recorded in respect of other corporate transactions. In the table below, the following items are removed from reported operating income to determine “Adjusted operating income”: (a) in fiscal 2006, \$44 million from (1) a payment received in connection with a third party's cancellation of our distribution rights for Glenmorangie, (2) a payment from a third party in respect of that party's termination of a joint venture agreement with us, and (3) a gain on sale of the Jekel winery; (b) in fiscal 2011, a \$53 million gain on sale of our Hopland-based wine business; and (c) in fiscal 2016, a \$485 gain on sales of our Southern Comfort and Tuaca brands and related assets.

Non-GAAP Underlying Change

We present changes in certain income statement line items that are adjusted to an “underlying” basis, which we believe assists in understanding both our performance from period to period on a consistent basis, and the trends of our business. Non-GAAP “underlying” measures include changes in (a) underlying net sales, (b) underlying advertising expenses, (c) underlying selling, general, and administrative (SG&A) expenses, and (d) underlying operating income. To calculate these measures, we adjust, as applicable, for (a) the impact divestiture activity, (b) foreign currency exchange, (c) estimated net changes in distributor inventories. We explain these adjustments below:

- “Divestitures.” In fiscal 2011, we sold our Hopland-based wine business to Viña Concha y Toro S.A. for \$234 million in cash, which resulted in a gain of \$53 million. In fiscal 2016, we sold our Southern Comfort and Tuaca brands and related assets to Sazerac Company, Inc. for \$543 million in cash, which resulted in a gain of \$485 million. This adjustment removes (a) the gains on sale, net of transaction-related costs, for these divestitures, and (b) operating activity of the divested businesses for the non-comparable periods in the years presented. We believe that these adjustments allow us to understand better our underlying results on a comparable basis.
- “Foreign exchange.” We calculate the percentage change in our income statement line items in accordance with GAAP and adjust to exclude the cost or benefit of currency fluctuations. Adjusting for foreign exchange allows us to understand our business on a constant dollar basis, as fluctuations in exchange rates can distort the underlying trend both positively and negatively. (In this appendix and the accompanying presentations, “dollar” always means the U.S. dollar unless stated otherwise.) To eliminate the effect of foreign exchange fluctuations when comparing across periods, we translate current-period results at prior-period rates.
- “Estimated net change in distributor inventories.” This measure refers to the estimated net effect of changes in distributor inventories on changes in our measures. For each period being compared, we estimate the effect of distributor inventory changes on our results using depletion information provided to us by our distributors. We believe that this adjustment reduces the effect of varying levels of distributor inventories on changes in our measures and allows us to understand better our underlying results and trends.

We use “underlying” measures to assist us in measuring our performance from period to period on a consistent basis and, specifically: (a) in comparing our performance to that of our competitors, (b) in connection with management incentive compensation calculations, (c) in our planning and forecasting, and (d) in communications with the board of directors, analysts, and investors concerning our financial performance. We have provided reconciliations of the

non-GAAP measures adjusted to an “underlying” basis to their nearest GAAP measures in the tables below and have consistently applied the adjustments within our reconciliations in arriving at each non-GAAP measure.

Reconciliation of Non-GAAP Adjusted Operating Income

Non-GAAP Adjusted Operating Income Reconciliation and Related Growth Calculations

\$ millions	Net sales ¹	Operating Income ¹			Compound Annual Growth Rate for Period to 2016			
		Net sales, net of excise taxes ²	Operating Income	Less; Adjust. ³	Adjusted Operating Income ³	Period (Years)	Net sales, net of excise taxes ²	Operating Income
1981 {a}	500	138	—	138	35	5 %	7%	6%
1991 {b}	749	215	—	215	25	6 %	8%	7%
2006 {c}	1,944	563	(44)	519 {d}	10	5 %	11%	7%
2011 {c}	2,586	855	(53)	802 {e}	5	4 %	12%	5%
2015 {a}	3,135	1,027	—	1,027	1	(1)%	49%	2%
2016 {a}	3,089	1,533	(485)	1,048 {f}				

1 Refers to previously presented GAAP "as reported" disclosures (sourced as noted in {a}, {b}, and {c})

2 Net sales are presented net of excise taxes; we changed to this "net basis" of presentation at the beginning of fiscal 2017

3 Adjustment (adjusted) to remove the effect of gains or income related to corporate transactions (as noted in {d}, {e}, and {f})

{a} Consolidated income statement

{b} Income statement for beverages segment

{c} Consolidated income statement; continuing operations

{d} Excludes the following gains: (a) payment received in connection with a third party's cancellation of our distribution rights for Glenmorangie, (b) a payment from a third party in respect of that party's termination of a joint venture agreement with us, and c) pre-tax gain on sale of the Jekel winery

{e} Excludes gain on sale of Hopland-based wine brands

{f} Excludes gain on sale of Southern Comfort & Tuaca

Reconciliation of Non-GAAP Underlying Changes

Reconciliation of underlying net sales¹ growth to GAAP net sales¹ growth

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2012	2013	2014	2015	2016
Change in reported net sales ¹	5%	5 %	5%	5 %	(1)%
Divestitures	3%	3 %			1 %
Foreign exchange		1 %	1%	3 %	5 %
Estimated net change in distributor inventories	1%	(1)%	1%	(1)%	
Change in underlying net sales ¹	9%	8 %	7%	7 %	5 %

1 - Net sales are presented net of excise taxes; we changed to this "net basis" of presentation at the beginning of fiscal 2017

Reconciliation of underlying advertising growth to GAAP advertising growth

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2012	2013	2014	2015	2016
Change in reported advertising	8%	3%	7%	—%	(4)%
Divestitures	1%	1%			2 %
Foreign exchange		2%	1%	4%	5 %
Change in underlying advertising	9%	6%	8%	4%	2 %

Note: Totals may differ due to rounding

Reconciliation of underlying SG&A growth to GAAP SG&A growth

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2012	2013	2014	2015	2016
Change in reported SG&A	6 %	7%	5%	2%	(1)%
Foreign exchange	(1)%	1%	1%	2%	4 %
Other	1 %				
Change in underlying SG&A	6 %	8%	6%	4%	2 %

Note: Totals may differ due to rounding

Reconciliation of underlying operating income growth to GAAP operating income growth

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2012	2013	2014	2015	2016
Change in reported operating income	(8)%	14 %	8%	6 %	49 %
Divestitures - gain on sale	6 %				(47)%
Change in adjusted operating income	(2)%	14 %	8%	6 %	2 %
Divestiture - operating activity	6 %	1 %			1 %
Foreign exchange	3 %	1 %		6 %	4 %
Estimated net change in distributor inventories	1 %	(3)%	3%	(3)%	1 %
Other, net	1 %				
Change in underlying operating income	9 %	13 %	11%	9 %	8 %

Reconciliation of Non-GAAP Underlying Change in Net Sales for Select Brands

Reconciliation of underlying net sales¹ growth to GAAP net sales¹ growth: Woodford Reserve

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2012	2013	2014	2015	2016
Change in reported net sales ¹	21 %	28%	24%	34 %	28 %
Foreign exchange	— %	1%	—%	— %	1 %
Estimated net change in distributor inventories	1 %	—%	2%	(2)%	(3)%
Change in underlying net sales ¹	21 %	29%	26%	32 %	27 %

1 - Net sales are presented net of excise taxes; we changed to this "net basis" of presentation at the beginning of fiscal 2017

Note: Totals may differ due to rounding

Reconciliation of underlying net sales¹ growth to GAAP net sales¹ growth: Old Forester

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2012	2013	2014	2015	2016
Change in reported net sales ¹	(3)%	3 %	32 %	42 %	53 %
Foreign exchange	— %	— %	— %	— %	— %
Estimated net change in distributor inventories	1 %	7 %	(12)%	(3)%	(1)%
Change in underlying net sales ¹	(2)%	10 %	20 %	39 %	52 %

1 - Net sales are presented net of excise taxes; we changed to this "net basis" of presentation at the beginning of fiscal 2017

Reconciliation of underlying net sales¹ growth to GAAP net sales¹ growth: Herradura

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2012	2013	2014	2015	2016
Change in reported net sales ¹	10 %	15 %	— %	24 %	1%
Foreign exchange	3 %	1 %	1 %	2 %	9%
Estimated net change in distributor inventories	(3)%	(1)%	3 %	(5)%	5%
Change in underlying net sales ¹	9 %	15 %	4 %	21 %	16%

1 - Net sales are presented net of excise taxes; we changed to this "net basis" of presentation at the beginning of fiscal 2017

Note: Totals may differ due to rounding

Reconciliation of underlying net sales¹ growth to GAAP net sales¹ growth: el Jimador

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2012	2013	2014	2015	2016
Change in reported net sales ¹	(4)%	2 %	—%	9 %	(3)%
Foreign exchange	1 %	1 %	1%	4 %	9 %
Estimated net change in distributor inventories	3 %	(2)%	3%	(5)%	2 %
Change in underlying net sales ¹	1 %	1 %	4%	8 %	7 %

1 - Net sales are presented net of excise taxes; we changed to this "net basis" of presentation at the beginning of fiscal 2017

Note: Totals may differ due to rounding