Brown-Forman Corporation
Annual Meeting of Stockholders | July 27, 2017
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.

<u>“Underlying change” in income statement measures.</u> We present changes in certain income statement measures, or line items, that are adjusted to an “underlying” basis. We use “underlying change” for the following income statement measures: (a) underlying net sales and (b) underlying operating income. To calculate these measures, we adjust, as applicable, for (a) acquisition and divestiture activity, (b) foreign exchange, and (c) estimated net changes in distributor inventories. We explain these adjustments below.

- *“Acquisitions and divestitures.”* This adjustment removes (a) transaction-related costs for the acquisitions and divestitures, (b) the gain on the sale for these divestitures, and (c) operating activity for the acquisitions and divestitures for the non-comparable periods. We believe that these adjustments allow us to understand better our underlying results on a comparable basis. The effects of the following acquisitions and divestitures have been excluded for the periods indicated: acquisition of Casa Herradura (fiscal 2008–fiscal 2009), sale of Bolla and Fontana Candida Italian wines to Gruppo Italiano Vini (fiscal 2009–fiscal 2010), sale of our Hopland-based wine business to Viña Concha y Toro S.A. (fiscal 2011–fiscal 2013), sale of Southern Comfort and Tuaca brands and related assets to Sazerac Company, Inc. (fiscal 2016–fiscal 2017), and acquisition of The BenRiach Distillery Company Limited (fiscal 2017).
- *“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. To eliminate the effect of foreign exchange fluctuations when comparing across periods, we translate current year results at prior-year rates.
- *“Estimated net change in distributor inventories.”* This adjustment refers to the estimated net effect of changes in distributor inventories on changes in our income statement line items. For each period compared, we use depletion information provided by our distributors to estimate the effect of distributor inventory changes in our income statement line items. We believe that adjusting for the effect of varying levels of distributor inventories on changes in our income statement line items allows us to understand better underlying results and trends.

We use the non-GAAP measures “underlying change” for the following reasons: (a) to understand our performance from period to period on a consistent basis and to compare our performance to that of our competitors; (b) in connection with management incentive compensation calculations; (c) in our planning and forecasting processes; and (d) in communications concerning our financial performance with the board of directors, stockholders, and investment analysts. We have provided schedules that reconcile each of our non-GAAP “underlying change” measures to changes calculated using the nearest GAAP measure for each in the tables below. We have consistently applied the adjustments within our reconciliations in arriving at each non-GAAP measure.

<u>“Return on average invested capital.”</u> This measure refers to the sum of net income and after-tax interest expense, divided by average invested capital. Average invested capital equals assets less liabilities, excluding interest-bearing debt, and is calculated using the average of the most recent 13 month-end balances. After-tax interest expense equals interest expense multiplied by one minus our effective tax rate. We use this non-GAAP measure because we consider return on average invested capital to be a meaningful indicator of how effectively and efficiently we use capital invested in our business.

<u>“Adjusted” measures for operating income and net income.</u> We provide “Adjusted operating income” and "Adjusted net income" to identify the effects of certain divestitures and similar corporate transactions on reported operating

income and net income; these effects are expected not to be part of our sustainable results or trends. This measure removes, as applicable, the gains on sale, net of transaction-related costs and applicable taxes. In the tables below, the following items are removed from reported operating income and net income to determine “Adjusted operating income” and "Adjusted net income": (a) in fiscal 2011, a $53 million gain on sale of our Hopland-based wine business; and (b) in fiscal 2016, a $485 gain on sales of our Southern Comfort and Tuaca brands and related assets.

Reconciliation of Non-GAAP Adjusted Operating Income, Net Income, and ROIC

Non-GAAP Adjusted Operating Income Reconciliation and Related Growth Calculations

$ millions

Fiscal year ended April 30,		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Reported net sales[1]	{a}	2,582	2,481	2,469	2,586	2,723	2,849	2,991	3,134	3,089	2,994
Reported operating income	{a}	685	661	710	855	788	898	971	1,027	1,533	989
Less: Adjustment	{b}				53					485	
Adjusted operating income	{b}	685	661	710	802	788	898	971	1,027	1,048	989
Adjusted operating margin[2]	{b}	26.5%	26.6%	28.8%	31.0%	29.0%	31.5%	32.5%	32.8%	33.9%	33.0%

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

2 - Adjusted operating margin is equal to adjusted operating income divided by reported net sales

{a} Consolidated income statement

{b} Adjustment (adjusted) to remove the effect of gains on sale of business

Non-GAAP Adjusted Net Income Reconciliation and ROIC Calculation

$ millions

Fiscal year ended April 30,		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Reported net income	{a}	440	435	449	572	513	591	659	684	1,067	669
Reported after-tax interest expense[1]	{b}	33	25	20	20	21	25	18	18	32	42
Reported net income and after-tax interest expense		473	460	469	592	534	616	677	702	1,099	711
Less: Adjustment	{c}				38					358	
Adjusted net income and after-tax interest expense		473	460	469	554	534	616	677	702	741	711
Average invested capital	{d}	2,747	2,893	2,825	2,711	2,803	2,834	3,131	3,196	3,221	3,680
Adjusted ROIC[2]	{c}	17.2%	15.9%	16.6%	20.4%	19.1%	21.7%	21.6%	22.0%	23.0%	19.3%

1 - After-tax interest expense equals interest expense from the consolidated income statement multiplied by one minus our effective tax rate also from the consolidated income statement

2 - Adjusted ROIC is equal to adjusted net income and after-tax interest expense, divided by average invested capital

{a} Consolidated income statement

{b} Consolidated income statement and accompanying notes

{c} Adjustment (adjusted) to remove the effect of gains on sale of business multiplied by one minus our effective tax rate

{d} Selected financial data

Reconciliation of Non-GAAP Underlying Changes

Reconciliation of underlying net sales[1] growth to GAAP net sales[1] growth

	Percentage change versus prior fiscal year									
Fiscal year ended April 30,	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Change in reported net sales[1]	17 %	(3)%	1 %	6 %	6%	5 %	4%	4 %	(2)%	(3)%
Acquisitions and divestitures	(7)%		1 %		2%	2 %			1 %	3 %
Foreign exchange	(4)%	5 %		(2)%		1 %	1%	3 %	6 %	2 %
Estimated net change in distributor inventories		1 %	(1)%		1%	(1)%	1%	(1)%		1 %
Change in underlying net sales[1]	6 %	3 %	1 %	4 %	9%	8 %	6%	6 %	5 %	3 %

1 - Changes in net sales are calculated on net sales excluding excise taxes for fiscal 2017; we changed to this "net basis" of presentation at the beginning of fiscal 2017

Reconciliation of underlying operating income growth to GAAP operating income growth

	Percentage change versus prior fiscal year									
Fiscal year ended April 30,	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Change in reported operating income	14 %	(4)%	7 %	20 %	(8)%	14 %	8%	6 %	49 %	(35)%
Acquisitions and divestitures	(3)%	(4)%	4 %	(7)%	12 %	1 %			(46)%	35 %
Foreign exchange	(5)%	4 %	1 %	(3)%	3 %	1 %		6 %	4 %	4 %
Estimated net change in distributor inventories		2 %	(2)%	(1)%	1 %	(3)%	3%	(3)%	1 %	3 %
Other, net	2 %	6 %	(4)%	(3)%	1 %					
Change in underlying operating income	8 %	4 %	6 %	6 %	9 %	13 %	11%	9 %	8 %	7 %