

Brown-Forman Corporation

Annual Meeting of Stockholders | July 25, 2019

Appendix: Non-GAAP Financial Measures

We use some financial measures in this presentation that are not measures of financial performance under U.S. generally accepted accounting principles (GAAP). These non-GAAP measures, defined below, should be viewed as supplements to (not substitutes for) our results of operations and other measures reported under GAAP. Other companies may not define or calculate these non-GAAP measures in the same way.

"Underlying change" in income statement measures

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) acquisitions and divestitures, (b) a new accounting standard, (c) foreign exchange, (d) estimated net changes in distributor inventories, and (e) the establishment of our charitable foundation. We explain these adjustments below.

- *"Acquisitions and divestitures."* This adjustment removes (a) any non-recurring effects related to our acquisitions and divestitures (e.g., transaction gains or losses, transaction costs, and integration costs), and (b) the effects of operating activity related to acquired and divested brands for periods not comparable year over year (non-comparable periods). By excluding non-comparable periods, we therefore include the effects of acquired and divested brands only to the extent that results are comparable year over year. The effects of the following acquisitions and divestitures have been excluded for the periods indicated: 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).
- *"New accounting standard."* Under Accounting Standards Codification (ASC) 606, "Revenue from Contracts with Customers," we recognize the cost of certain customer incentives earlier than we did before adopting ASC 606. Although this change in timing did not have a significant impact on a full-year basis, there was some change in the timing of recognition across periods. Additionally, some payments to customers that we classified as expenses before adopting the new standard are classified as reductions of net sales under our new policy.
- *"Foreign exchange."* We calculate the percentage change in certain line items of the statements of operations 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 report, "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-year results at prior-year rates and remove transactional and hedging foreign exchange gains and losses from current- and prior-year periods.
- *"Estimated net change in distributor inventories."* This adjustment refers to the estimated net effect of changes in distributor inventories on changes in certain line items of the statements of operations. For each period compared, we use volume information from our distributors to estimate the effect of distributor inventory changes in certain line items of the statements of operations. We believe that this adjustment reduces the effect of varying levels of distributor inventories on changes in certain line items of the statements of operations and allows us to understand better our underlying results and trends.
- *"Foundation."* In fiscal 2018, we established the Brown-Forman Foundation (the Foundation) with an initial \$70 million contribution to support the Company's charitable giving program in the communities where our employees live and work. This adjustment removes the initial \$70 million contribution to the Foundation from our underlying SG&A expenses and underlying operating income to present our underlying results on a comparable basis.

We use the non-GAAP measures "underlying change" to: (a) understand our performance from period to period on a consistent basis; (b) compare our performance to that of our competitors; (c) calculate components of management incentive compensation; (d) plan and forecast; and (e) communicate our financial performance to the board of directors, stockholders, and investment analysts. 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.

Definitions

"Return on average invested capital." 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.

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						
	2013	2014	2015	2016	2017	2018	2019
Change in reported net sales ¹	5 %	5%	5 %	(1)%	(3)%	8 %	2%
Acquisitions and Divestitures	2 %	—%	— %	1 %	3 %	— %	—%
Foreign exchange	1 %	1%	3 %	5 %	2 %	(1)%	2%
Estimated net change in distributor inventories	(1)%	1%	(1)%	— %	1 %	(1)%	—%
New accounting standard	— %	—%	— %	— %	— %	— %	1%
Change in underlying net sales ¹	8 %	7%	7 %	5 %	3 %	6 %	5%

1 - Net sales for all periods 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 operating income growth to GAAP operating income growth

Fiscal year ended April 30,	Percentage change versus prior fiscal year						
	2013	2014	2015²	2016	2017	2018²	2019
Change in reported operating income	14 %	8%	5 %	49 %	(35)%	4 %	9 %
Divestitures - gain on sale	— %	—%	— %	(47)%	35 %	— %	—%
Change in adjusted operating income	14 %	8%	5 %	2 %	— %	4 %	9 %
Divestiture - operating activity	1 %	—%	— %	1 %	— %	— %	—%
Foreign exchange	1 %	—%	6 %	4 %	4 %	(2)%	3 %
Estimated net change in distributor inventories	(3)%	3%	(3)%	1 %	3 %	(2)%	—%
Foundation contribution	— %	—%	— %	— %	— %	7 %	(7)%
Change in underlying operating income	13 %	11%	8 %	8 %	7 %	6 %	5%

2 - We retrospectively adjusted our fiscal 2015 through fiscal 2018 operating income to reflect the impact from the adoption of the Accounting Standards Update 2017-07 (related to pension), as described in our 2019 Form 10-K. Our previously disclosed fiscal 2015 reported operating income grew 6% and underlying operating income grew 9%. Our previously disclosed fiscal 2018 reported operating income grew 5% and underlying operating income grew 8%.

Note: Totals may differ due to rounding