

Brown-Forman Corporation

Brown-Forman Investor Day | December 12, 2018

Appendix: Non-GAAP Financial Measures

We use certain 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, (b) underlying advertising expenses, (c) underlying selling, general, and administrative (SG&A) expenses, (d) underlying operating expenses¹, and (e) underlying operating income. To calculate these measures, we adjust, as applicable, for (a) acquisitions and divestitures, (b) foreign exchange, (c) estimated net change in distributor inventories, and (d) in fiscal 2018, the establishment of our charitable foundation. 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: 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 and remove 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 change in distributor inventories on changes in our income statement line items. For each period compared, we use volume information from our distributors to estimate the effect of distributor inventory changes on our income statement line items. We believe that this adjustment reduces the effect of varying levels of distributor inventories on changes in our income statement measures and allows us to understand better our underlying results and trends.
- *"Foundation."* In the fourth quarter of 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" for the following reasons: (a) to understand our performance from period to period on a consistent basis; (b) to compare our performance to that of our competitors; (c) to determine management incentive compensation calculations; (d) to plan and forecast; and (e) to 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.

¹Operating expenses include advertising expense, SG&A expense, and other expense (income), net.

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.

Aggregations.

From time to time, to explain our results of operations or to highlight trends and uncertainties affecting our business, we aggregate markets according to stage of economic development as defined by the International Monetary Fund (IMF). Below, we define geographic aggregations used in this presentation.

Geographic Aggregations.

In the tables below we include the following aggregations:

- "*Developed International*" markets are "advanced economies" as defined by the IMF, excluding the United States. Our largest developed international markets are the United Kingdom, Australia, and Germany. This aggregation represents our sales of branded products to these markets.
- "*Emerging*" markets are "emerging and developing economies" as defined by the IMF. Our largest emerging markets are Mexico and Poland. This aggregation represents our sales of branded products to these markets.

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

Non-GAAP Adjusted Operating Income Reconciliation and Related Margin Calculations

<i>\$ millions</i>		Net sales ¹	Operating Income ¹					
		Net sales, net of excise taxes ²	Operating Income	Less: Adjust. ³	Adjusted Operating Income ³	Operating Margin	Adjusted Operating Margin ³	
2016	{a}	3,089	1,533	485	1,048	{b}	49.6%	33.9%
2018	{a}	3,248	1,039	70	1,109	{c}	32.0%	34.1%

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

2 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

3 Adjustment (adjusted) to remove the effect of gains or expense related to corporate transactions (as noted in {b} and {c})

{a} Consolidated income statement

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

{c} Excludes charitable foundation contribution

Non-GAAP Adjusted Operating Expense Reconciliation and Related Margin Calculations

<i>\$ millions</i>		Net sales ¹	Operating Expense ³					
		Net sales, net of excise taxes ²	Operating Expense ³	Less: Adjust. ⁴	Adjusted Operating Expense ⁴	Operating Expense as % of Net Sales	Adjusted Operating Expense as % of Net Sales ⁴	
2018	{a}	3,248	1,179	70	1,109	{b}	36.3%	34.1%

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

2 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

3 Operating expenses include advertising expense and SG&A expense

4 Adjustment (adjusted) to remove the effect of gains or expense related to corporate transactions (as noted in {b})

{a} Consolidated income statement

{b} Excludes charitable foundation contribution

Non-GAAP Adjusted Return on Average Invested Capital¹

Fiscal year	Return on Average Invested Capital (ROIC) ¹		
	ROIC	Less: Adjust. ²	Adjusted ROIC ²
2016	34.1%	11.1%	23.0%

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.

1

2 Adjustment (adjusted) to exclude 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				
	2014	2015	2016	2017	2018
Change in reported net sales ¹	5%	5 %	(1)%	(3)%	8 %
Acquisitions and Divestitures	—%	— %	1 %	3 %	— %
Foreign exchange	1%	3 %	5 %	2 %	(1)%
Estimated net change in distributor inventories	1%	(1)%	— %	1 %	(1)%
Other	—%	— %	— %	— %	— %
Change in underlying net sales ¹	7%	7 %	5 %	3 %	6 %

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

Reconciliation of underlying advertising growth to GAAP advertising growth

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2014	2015	2016	2017	2018
Change in reported advertising	7%	—%	(4)%	(8)%	8 %
Acquisitions and Divestitures	—%	—%	2 %	8 %	— %
Foreign exchange	1%	4%	5 %	2 %	(3)%
Change in underlying advertising	8%	4%	2 %	2 %	6 %

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				
	2014	2015	2016	2017	2018
Change in reported SG&A	5%	2%	(1)%	(3)%	15 %
Foreign exchange	1%	2%	4 %	1 %	(2)%
Foundation contribution	—%	—%	— %	— %	(11)%
Change in underlying SG&A	6%	4%	2 %	(2)%	3 %

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				
	2014	2015	2016	2017	2018
Change in reported operating income	8%	6 %	49 %	(35)%	5 %
Divestitures - gain on sale	—%	— %	(47)%	35 %	— %
Change in adjusted operating income	8%	6 %	2 %	— %	5 %
Divestiture - operating activity	—%	— %	1 %	— %	— %
Foreign exchange	—%	6 %	4 %	4 %	(2)%
Estimated net change in distributor inventories	3%	(3)%	1 %	3 %	(2)%
Foundation contribution	—%	— %	— %	— %	7 %
Change in underlying operating income	11%	9 %	8 %	7 %	8 %

Note: Totals may differ due to rounding

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

Reconciliation of underlying net sales¹ growth to GAAP net sales¹ growth: United States

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2014	2015	2016	2017	2018
Change in reported net sales ¹	5%	10 %	3%	(3)%	7 %
Acquisitions and Divestitures	—%	— %	1%	5 %	— %
Foreign exchange	—%	— %	—%	— %	— %
Estimated net change in distributor inventories	2%	(2)%	2%	2 %	(2)%
Change in underlying net sales¹	7%	8 %	6%	4 %	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 net sales¹ growth to GAAP net sales¹ growth: Developed International Markets

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2014	2015	2016	2017	2018
Change in reported net sales ¹	1%	1 %	(1)%	(3)%	7 %
Acquisitions and Divestitures	—%	— %	— %	3 %	— %
Foreign exchange	3%	6 %	7 %	3 %	(3)%
Estimated net change in distributor inventories	3%	(2)%	— %	— %	2 %
Change in underlying net sales¹	6%	5 %	6 %	4 %	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 net sales¹ growth to GAAP net sales¹ growth: Emerging Markets

Fiscal year ended April 30,	Percentage change versus prior fiscal year				
	2014	2015	2016	2017	2018
Change in reported net sales ¹	9%	(1)%	(12)%	(7)%	18 %
Acquisitions and Divestitures	—%	— %	— %	1 %	— %
Foreign exchange	—%	7 %	17 %	— %	(3)%
Estimated net change in distributor inventories	—%	2 %	(4)%	10 %	(2)%
Change in underlying net sales¹	9%	8 %	1 %	4 %	13 %

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