



Press Releases

Valvoline Inc. Reports Fourth-Quarter and Fiscal Year 2023 Results

Delivers 17th year of consecutive system-wide same-store sales growth and 8 percent increase to store count

Full-year highlights

- Sales from continuing operations of \$1.4 billion grew 17%, while system-wide same-store sales (SSS) increased 11.9% -- the 17th consecutive year of system-wide SSS growth
- Reported income from continuing operations of \$199 million grew 82% and earnings per diluted share (EPS) of \$1.23 increased 102%
- Continuing operations adjusted EBITDA of \$380 million increased 20% and adjusted EPS of \$1.18 increased 62%
- Returned \$1.5 billion in cash to shareholders via share repurchases

Fourth-quarter summary

- Sales from continuing operations of \$390 million grew 16%, while system-wide SSS increased 10.0%
- Reported income from continuing operations of \$75 million grew 505% and EPS of \$0.53 increased 657%
- Continuing operations adjusted EBITDA of \$109 million increased 25% and adjusted EPS of \$0.39 increased 86%
- Net store additions total 48 (26 franchised and 22 company-operated) bringing total system-wide additions for the year to 137 and total store count to 1,852

LEXINGTON, Ky., Nov. 9, 2023 /PRNewswire/ -- Valvoline Inc. (NYSE: VVV), the quick, easy, trusted leader in preventive automotive maintenance, today reported financial results for its fourth fiscal quarter ended September 30, 2023. All comparisons in this press release are made to the same prior-year periods unless otherwise noted.

"Fiscal year 2023 was a transformational year for Valvoline as it was our first year as a pure-play retail business," said Lori Flees, President & CEO. "Our system-wide store sales grew nearly 20% to \$2.8 billion driven by an 11.9% increase in system-wide same-store sales."

"On top of delivering strong top and bottom-line growth for the year, we completed the sale of Global Products, returned \$1.5 billion to shareholders through share repurchases and completed a leadership transition," continued Flees. "With our transition to a pure-play retail services provider complete, we believe we are well positioned for long-term shareholder value creation by growing our core business, adding to the network and expanding services for an evolving car parc."

Continuing Operations - Operating Results

(In millions, except store counts)	Q4 results	YoY growth	FY results	YoY growth
Net revenues	\$ 390.0	16 %	\$ 1,443.5	17 %
Operating income	\$ 70.2	4 %	\$ 247.2	12 %
Income from continuing operations ^(a)	\$ 75.0	505 %	\$ 199.4	82 %
EPS ^(a)	\$ 0.53	657 %	\$ 1.23	102 %
Adjusted EPS ^(b)	\$ 0.39	86 %	\$ 1.18	62 %
Adjusted EBITDA ^(b)	\$ 109.2	25 %	\$ 380.0	20 %
System-wide store sales ^(b)	\$ 738.3	15 %	\$ 2,761.8	17 %
	Q4 results	Quarter change	FY results	YoY change
System-wide stores ^(b)	1,852	+48	1,852	+137
Company-operated stores	876	+22	876	+86
Franchised stores ^(b)	976	+26	976	+51
	Q4 - YoY growth		FY - YoY growth	
System-wide SSS ^(b)		10.0 %		11.9 %

(a) Includes the effects of certain unusual, infrequent or non-operational activity not directly attributable to the underlying business, which management believes impacts the comparability of operational results between periods ("key items"). These key items are delineated within Table 6 - Non-GAAP Reconciliation - Income from Continuing Operations and Diluted Earnings per Share.

(b) Refer to Key Business Measures, Use of Non-GAAP Measures, Table 4 - Retail Stores Operating Information, Table 6 - Non-GAAP Reconciliation - Income from Continuing Operations and Diluted Earnings per Share, and Table 7 - Non-GAAP Reconciliation - Adjusted Net Revenues and EBITDA from Continuing Operations for management's definitions of the metrics presented above and reconciliation to the corresponding GAAP measures, where applicable.

Balance Sheet and Cash Flow

- Cash, cash equivalents and short-term investments balance of \$757 million; total debt of \$1.6 billion

- Full-year operating cash flow from continuing operations of \$353 million and free cash flow of \$173 million
- Returned \$1.5 billion in cash to shareholders in fiscal 2023 via share repurchases with \$212 million remaining on the existing share repurchase authorization at year end
- Included in net interest expense is income of \$11 million and \$44 million earned during the quarter and fiscal year, respectively, on invested net proceeds from the sale of Global Products

Outlook

"I want to thank our talented team of over 10,000 and our strong franchise partners for the hard work that delivered these results in fiscal 2023" said Flees. "We continue to deliver best-in-class performance relative to high-growth retail peers."

Flees continued, "As we enter fiscal 2024, we expect to deliver results in line with our long-term growth algorithm, with top line sales of \$1.6 - \$1.7 billion and adjusted EBITDA of \$420 - \$460 million. We anticipate system-wide same store sales growth of 6-9%. In addition, we plan to add 140-170 stores to the network, with 55-70 coming from franchisees."

Information regarding the Company's outlook for fiscal 2024 is provided in the table below:

	Outlook		
System-wide SSS growth	6	—	9 %
System-wide store additions	140	—	170
Net revenues	\$1.6	—	\$1.7 billion
Adjusted EBITDA	\$420	—	\$460 million
Capital expenditures	\$185	—	\$215 million
Adjusted EPS	\$1.40	—	\$1.65

Valvoline's outlook for adjusted EBITDA and adjusted EPS are non-GAAP financial measures that are expected to be impacted by items affecting comparability. Valvoline is unable to reconcile these forward-looking non-GAAP financial measures to the comparable GAAP measures estimated for fiscal 2024 without unreasonable efforts, as the Company is currently unable to predict with a reasonable degree of certainty the type and extent of certain items that would be expected to impact these GAAP measures in fiscal 2024 but would not impact non-GAAP adjusted results.

Conference Call Webcast

Valvoline will host a live audio webcast of its fiscal fourth quarter 2023 conference call today, November 9, 2023, at 9 a.m. ET. The webcast and supporting materials will be accessible through Valvoline's website at <http://investors.valvoline.com>. Following the live event, an archived version of the webcast and supporting materials will be available.

Key Business Measures

Valvoline tracks its operating performance and manages its business using certain key measures, including system-wide, company-operated and franchised store counts and SSS; and system-wide store sales. Management believes these measures are useful to evaluating and understanding Valvoline's operating performance and should be considered as supplements to, not substitutes for, Valvoline's net revenues and operating income, as determined in accordance with U.S. GAAP.

Net revenues are influenced by the number of service center stores and the business performance of those stores. Stores are considered open upon acquisition or opening for business. Temporary store closings remain in the respective store counts with only permanent store closures reflected in the activity and end of period store counts. SSS is defined as net revenues by U.S. stores (company-operated, franchised and the combination of these for system-wide SSS), with new stores, including franchised conversions, excluded from the metric until the completion of their first full fiscal year in operation as this period is generally required for new store sales levels to begin to normalize.

Net revenues are limited to sales at company-operated stores, in addition to royalties and other fees from independent franchised and Express Care stores. Although Valvoline does not recognize store-level sales from franchised stores as net revenues in its Statements of Consolidated Income, management believes system-wide and franchised SSS comparisons, store counts, and total system-wide store sales are useful to assess market position relative to competitors and overall store and operating performance.

Use of Non-GAAP Measures

The following non-GAAP measures are included herein: Adjusted net revenues; EBITDA, adjusted EBITDA, and adjusted EBITDA margin; adjusted net income and adjusted diluted earnings per share; and free cash flow and discretionary free cash flow. Refer to the tables herein for management's definition of each non-GAAP measure and reconciliation to the most comparable U.S. GAAP measure.

Non-GAAP measures include adjustments from results based on U.S. GAAP that management believes enables comparison of certain financial trends and results between periods and provides a useful supplemental presentation of Valvoline's operating performance that allows for transparency with respect to key metrics used by management in operating the business and measuring performance. These non-GAAP measures have limitations as analytical tools and should not be considered in isolation from, an alternative to, or more meaningful than, the financial results presented in accordance with U.S. GAAP. The financial results presented in accordance with U.S. GAAP and the reconciliations of non-GAAP measures should be carefully evaluated. The manner used to compute the non-GAAP information used by management may differ from the methods used by other companies and may not be comparable.

Refer to the Appendix at the end of this release for descriptions of the adjustments that depart from the computations in accordance with U.S. GAAP.

About Valvoline Inc.

Valvoline Inc. (NYSE: VVV), is the quick, easy, trusted leader in automotive preventive maintenance. Valvoline Inc. is creating shareholder value by driving the full potential in our core business, accelerating network growth and innovating to meet the needs of the evolving car parc. With more than 1,850 service centers throughout North America, Valvoline Inc. and our franchise partners keep customers moving with

our 4.6 out of 5 star* rated service that includes 15-minute stay-in-your-car oil changes; battery, bulb and wiper replacements; tire rotations; and other manufacturer recommended maintenance services. In fiscal year 2023, Valvoline's network delivered approximately 27 million services to generate \$1.4 billion in revenue from \$2.8 billion in system-wide store sales, marking 17 years of consecutive system-wide same-store sales growth. At Valvoline Inc., it all starts with our people, including our more than 10,000 team members and strong, long-standing franchise partners. We are proud to be a ten-time winner of the [BEST Award](#)

for training excellence and a top-rated franchisor in our category by [Entrepreneur](#) and [Franchise Times](#). To learn more, or to find a service center near you, visit vioc.com

Forward-Looking Statements

Certain statements herein, other than statements of historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include, without limitation, benefits and synergies of the sale of Global Products; future opportunities for the remaining stand-alone retail business; and any other statements regarding Valvoline's future operations, financial or operating results, capital allocation, debt leverage ratio, anticipated business levels, dividend policy, anticipated growth, market opportunities, strategies, competition, and other expectations and targets for future periods. Valvoline has identified some of these forward-looking statements with words such as "anticipates," "believes," "expects," "estimates," "is likely," "predicts," "projects," "forecasts," "may," "will," "should," and "intends," and the negative of these words or other comparable terminology. These forward-looking statements are based on Valvoline's current expectations, estimates, projections, and assumptions as of the date such statements are made and are subject to risks and uncertainties that may cause results to differ materially from those expressed or implied in the forward-looking statements. Additional information regarding these risks and uncertainties are described in the Company's filings with the Securities and Exchange Commission (the "SEC"), including in the "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures about Market Risk" sections of Valvoline's most recently filed periodic reports on Forms 10-K and 10-Q, which are available on Valvoline's website at <http://investors.valvoline.com/sec-filings> or on the SEC's website at <http://www.sec.gov>. Valvoline assumes no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future, unless required by law.

TM Trademark, Valvoline Inc., or its subsidiaries, registered in various countries

SM Service mark, Valvoline Inc., or its subsidiaries, registered in various countries

* Based on a survey of more than 900,000 Valvoline Instant Oil ChangeSM customers annually

FOR FURTHER INFORMATION

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Valvoline Inc. and Consolidated Subsidiaries

Table 1

Statements of Consolidated Income

(In millions, except per share amounts - preliminary and unaudited)

	Three months ended September 30		Year ended September 30	
	2023	2022	2023	2022
Net revenues	\$ 390.0	\$ 335.4	\$ 1,443.5	\$ 1,236.1
Cost of sales	241.7	206.3	899.0	759.7
Gross profit	148.3	129.1	544.5	476.4
Selling, general and administrative expenses	70.3	62.1	264.5	244.7
Net legacy and separation-related expenses	2.0	1.6	32.8	20.5
Other loss (income), net	5.8	(1.8)	—	(9.1)
Operating income	70.2	67.2	247.2	220.3
Net pension and other postretirement plan (income) expenses	(38.6)	34.6	(27.6)	6.9
Net interest and other financing expenses	10.9	18.1	38.3	69.3
Income before income taxes	97.9	14.5	236.5	144.1
Income tax expense	22.9	2.1	37.1	34.7
Income from continuing operations	75.0	12.4	199.4	109.4
(Loss) income from discontinued operations, net of tax	(29.8)	145.3	1,216.6	314.9
Net income	<u>\$ 45.2</u>	<u>\$ 157.7</u>	<u>\$ 1,416.0</u>	<u>\$ 424.3</u>
Net earnings per share				
Basic earnings (loss) per share				
Continuing operations	\$ 0.54	\$ 0.07	\$ 1.23	\$ 0.61
Discontinued operations	(0.21)	0.82	7.53	1.76
Basic earnings per share	<u>\$ 0.33</u>	<u>\$ 0.89</u>	<u>\$ 8.76</u>	<u>\$ 2.37</u>
Diluted earnings (loss) per share				

Continuing operations	\$ 0.53	\$ 0.07	\$ 1.23	\$ 0.61
Discontinued operations	(0.21)	0.81	7.48	1.74
Diluted earnings per share	<u>\$ 0.32</u>	<u>\$ 0.88</u>	<u>\$ 8.71</u>	<u>\$ 2.35</u>

Weighted average common shares outstanding

Basic	138.2	177.4	161.6	179.1
Diluted	139.2	178.6	162.6	180.4

Valvoline Inc. and Consolidated Subsidiaries
Condensed Consolidated Balance Sheets
(In millions - preliminary and unaudited)

Table 2

	September 30 2023	September 30 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 409.1	\$ 23.4
Receivables, net	81.3	66.1
Inventories, net	33.3	29.4
Prepaid expenses and other current assets	65.5	38.0
Short-term investments	347.5	—
Current assets held for sale	—	1,464.2
Total current assets	<u>936.7</u>	<u>1,621.1</u>
Noncurrent assets		
Property, plant and equipment, net	818.3	668.6
Operating lease assets	266.5	248.1
Goodwill and intangibles, net	680.6	663.1
Other noncurrent assets	187.8	215.9
Total assets	<u>\$ 2,889.9</u>	<u>\$ 3,416.8</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 23.8	\$ 162.5
Trade and other payables	118.7	45.0
Accrued expenses and other liabilities	215.9	172.6
Current liabilities held for sale	3.9	539.3
Total current liabilities	<u>362.3</u>	<u>919.4</u>
Noncurrent liabilities		
Long-term debt	1,562.3	1,525.1
Employee benefit obligations	168.0	199.4
Operating lease liabilities	247.3	229.2
Other noncurrent liabilities	350.5	237.1
Total noncurrent liabilities	<u>2,328.1</u>	<u>2,190.8</u>
Stockholders' equity	199.5	306.6
Total liabilities and stockholders' equity	<u>\$ 2,889.9</u>	<u>\$ 3,416.8</u>

Valvoline Inc. and Consolidated Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In millions - preliminary and unaudited)

Table 3

	Year ended September 30	
	2023	2022
Cash flows from operating activities		
Net income	\$ 1,416.0	\$ 424.3
Adjustments to reconcile net income to cash flows from operating activities:		
Income from discontinued operations	(1,216.6)	(314.9)

Depreciation and amortization	88.8	71.4
Deferred income taxes	33.6	18.0
(Gain) loss on pension and other postretirement plan remeasurements	(41.6)	43.9
Stock-based compensation expense	12.2	14.4
Other, net	11.9	4.2
Change in operating assets and liabilities	48.7	(126.9)
Operating cash flows from continuing operations	353.0	134.4
Operating cash flows from discontinued operations	(393.8)	149.8
Total cash (used in) provided by operating activities	(40.8)	284.2
Cash flows from investing activities		
Additions to property, plant and equipment	(180.5)	(132.0)
Acquisitions of businesses, net of cash acquired	(36.3)	(50.7)
Purchases of investments	(440.4)	—
Proceeds from maturities of short-term investments	80.0	—
Other investing activities, net	—	11.8
Investing cash flows from continuing operations	(577.2)	(170.9)
Investing cash flows from discontinued operations	2,620.9	(36.7)
Total cash provided by (used in) investing activities	2,043.7	(207.6)
Cash flows from financing activities		
Proceeds from borrowings, net of issuance costs	921.0	23.0
Repayments on borrowings	(920.9)	(38.1)
Repurchases of common stock	(1,524.8)	(142.6)
Cash dividends paid	(21.8)	(89.2)
Other financing activities	(19.0)	(16.0)
Financing cash flows from continuing operations	(1,565.5)	(262.9)
Financing cash flows from discontinued operations	(108.1)	44.0
Total cash used in financing activities	(1,673.6)	(218.9)
Effect of currency exchange rate changes on cash, cash equivalents and restricted cash	(0.1)	(5.2)
Increase (decrease) in cash, cash equivalents and restricted cash	329.2	(147.5)
Cash, cash equivalents and restricted cash - beginning of period	83.9	231.4
Cash, cash equivalents and restricted cash - end of period	\$ 413.1	\$ 83.9

Valvoline Inc. and Consolidated Subsidiaries
Retail Stores Operating Information
(Preliminary and unaudited)

Table 4

	Three months ended September 30		Year ended September 30		
	2023	2022	2023	2022	
Sales information					
System-wide store sales - in millions ^(a)	\$ 738.3	\$ 641.9	\$ 2,761.8	\$ 2,360.2	
<i>Year-over-year growth^(a)</i>	15.0 %	15.7 %	17.0 %	19.8 %	
<u>Same-store sales growth^(b)</u>					
Company-operated	9.1 %	8.5 %	11.9 %	11.4 %	
Franchised ^(a)	10.8 %	9.8 %	11.9 %	15.5 %	
System-wide ^(a)	10.0 %	9.2 %	11.9 %	13.7 %	
	Number of stores at end of period				
	Fourth Quarter 2023	Third Quarter 2023	Second Quarter 2023	First Quarter 2023	Fourth Quarter 2022
Company-operated	876	854	832	813	790
Franchised ^(a)	976	950	949	933	925
	September 30				
	2023	2022			
System-wide store count ^(a)	1,852	1,715			
<i>Year-over-year growth^(a)</i>	8.0 %	7.6 %			

- (a) Measures include Valvoline franchisees, which are independent legal entities. Valvoline does not consolidate the results of operations of its franchisees.
- (b) Valvoline determines SSS growth as sales by U.S. stores, with new stores, including franchised conversions, excluded from the metric until the completion of their first full fiscal year in operation.

Valvoline Inc. and Consolidated Subsidiaries
System-wide Retail Stores
(Preliminary and unaudited)

Table 5

	Company-operated				
	Fourth Quarter 2023	Third Quarter 2023	Second Quarter 2023	First Quarter 2023	Fourth Quarter 2022
Beginning of period	854	832	813	790	772
Opened	14	12	13	17	12
Acquired	8	8	6	5	3
Net conversions between company-operated and franchised	—	2	—	2	3
Closed	—	—	—	(1)	—
End of period	876	854	832	813	790
	Franchised ^(a)				
	Fourth Quarter 2023	Third Quarter 2023	Second Quarter 2023	First Quarter 2023	Fourth Quarter 2022
Beginning of period	950	949	933	925	918
Opened	26	3	16	11	10
Acquired	—	—	—	—	—
Net conversions between company-operated and franchised	—	(2)	—	(2)	(3)
Closed	—	—	—	(1)	—
End of period	976	950	949	933	925
Total system-wide stores ^(a)	1,852	1,804	1,781	1,746	1,715

- (a) Measures include Valvoline franchisees, which are independent legal entities. Valvoline does not consolidate the results of operations of its franchisees.

Valvoline Inc. and Consolidated Subsidiaries
Non-GAAP Reconciliation - Income from Continuing Operations and Diluted Earnings per Share
(In millions, except per share amounts - preliminary and unaudited)

Table 6

	Three months ended September 30		Year ended September 30	
	2023	2022	2023	2022
Reported income from continuing operations	\$ 75.0	\$ 12.4	\$ 199.4	\$ 109.4
<i>Adjustments:</i>				
Net pension and other postretirement plan (income) expense ^(a)	(38.6)	34.6	(27.6)	6.9
Net legacy and separation-related expenses	2.0	1.6	32.8	20.5
Information technology transition costs	1.2	—	3.0	2.6
Suspended operations	7.6	(0.6)	7.1	0.9
Investment and divestiture-related costs	0.1	—	1.1	—
Debt extinguishment and modification costs	0.1	—	1.1	—
Total adjustments, pre-tax	(27.6)	35.6	17.5	30.9
Income tax expense (benefit) of adjustments	6.2	(10.3)	(25.6)	(8.5)
Total adjustments, after tax	(21.4)	25.3	(8.1)	22.4
Adjusted income from continuing operations ^{(b)(c)}	\$ 53.6	\$ 37.7	\$ 191.3	\$ 131.8
Reported diluted earnings per share from continuing operations	\$ 0.53	\$ 0.07	\$ 1.23	\$ 0.61
Adjusted diluted earnings per share from continuing operations ^{(c)(d)}	\$ 0.39	\$ 0.21	\$ 1.18	\$ 0.73
Weighted average diluted common shares outstanding	139.2	178.6	162.6	180.4

- (a) Includes remeasurement adjustments recorded in the fourth quarter, which resulted in a gain of \$41.6 million and a loss of \$43.9 million in fiscal 2023 and 2022, respectively.
- (b) Adjusted income from continuing operations is defined as income from continuing operations adjusted for the effects of key items.
- (c) Represents a non-GAAP measure. Refer to "Use of Non-GAAP Measures" and the Appendix for additional details.
- (d) Adjusted diluted earnings per share from continuing operations is defined as diluted earnings per share calculated using adjusted income from continuing operations.

Valvoline Inc. and Consolidated Subsidiaries

Table 7

Non-GAAP Reconciliation - Adjusted Net Revenues and EBITDA from Continuing Operations

(In millions - preliminary and unaudited)

	Three months ended September 30		Year ended September 30	
	2023	2022	2023	2022
Reported net revenues	\$ 390.0	\$ 335.4	\$ 1,443.5	\$ 1,236.1
<i>Key items:</i>				
Suspended operations	—	(0.2)	(0.2)	(11.6)
Adjusted net revenues (a) (b)	<u>\$ 390.0</u>	<u>\$ 335.2</u>	<u>\$ 1,443.3</u>	<u>\$ 1,224.5</u>
Income from continuing operations	\$ 75.0	\$ 12.4	\$ 199.4	\$ 109.4
<i>Add:</i>				
Income tax expense	22.9	2.1	37.1	34.7
Net interest and other financing expenses	10.9	18.1	38.3	69.3
Depreciation and amortization	28.1	19.3	88.8	71.4
EBITDA from continuing operations (b) (c)	<u>136.9</u>	<u>51.9</u>	<u>363.6</u>	<u>284.8</u>
<i>Key items:</i>				
Net pension and other postretirement plan (income) expense	(38.6)	34.6	(27.6)	6.9
Net legacy and separation-related expenses	2.0	1.6	32.8	20.5
Information technology transition costs	1.2	—	3.0	2.6
Suspended operations	7.6	(0.6)	7.1	0.9
Investment and divestiture-related costs	0.1	—	1.1	—
<i>Key items - subtotal</i>	<u>(27.7)</u>	<u>35.6</u>	<u>16.4</u>	<u>30.9</u>
Adjusted EBITDA from continuing operations (b) (c)	<u>\$ 109.2</u>	<u>\$ 87.5</u>	<u>\$ 380.0</u>	<u>\$ 315.7</u>
Net profit margin (d)	19.2 %	3.7 %	13.8 %	8.9 %
Adjusted EBITDA margin (b) (e)	28.0 %	26.1 %	26.3 %	25.8 %

- (a) Adjusted net revenues are reported net revenues adjusted for key items.
- (b) Represents a non-GAAP measure. Refer to "Use of Non-GAAP Measures" and the Appendix for additional details.
- (c) EBITDA from continuing operations is defined as income from continuing operations, plus income tax expense, net interest and other financing expenses, and depreciation and amortization attributable to continuing operations. Adjusted EBITDA from continuing operations is EBITDA adjusted for key items attributable to continuing operations.
- (d) Net profit margin is defined as reported income from continuing operations divided by reported net revenues.
- (e) Adjusted EBITDA margin is defined as Adjusted EBITDA from continuing operations divided by adjusted net revenues.

Valvoline Inc. and Consolidated Subsidiaries

Table 8

Non-GAAP Reconciliation - Free Cash Flows from Continuing Operations

(In millions - preliminary and unaudited)

	Year ended September 30	
	2023	2022
Free cash flow (a)		
Total cash flows provided by operating activities from continuing operations	\$ 353.0	\$ 134.4
<i>Adjustments:</i>		
Additions to property, plant and equipment from continuing operations	(180.5)	(132.0)
Free cash flow from continuing operations (b)	<u>\$ 172.5</u>	<u>\$ 2.4</u>

	Year ended September 30	
	2023	2022
Discretionary free cash flow ^(c)		
Total cash flows provided by operating activities from continuing operations	\$ 353.0	\$ 134.4
<i>Adjustments:</i>		
Maintenance additions to property, plant and equipment from continuing operations	(29.5)	(19.3)
Discretionary free cash flow from continuing operations ^(b)	\$ 323.5	\$ 115.1

- (a) Free cash flow from continuing operations is defined as operating cash flows from continuing operations less capital expenditures of the continuing operations and certain other adjustments attributable to continuing operations, as applicable.
- (b) Represents a non-GAAP measure. Refer to "Use of Non-GAAP Measures" and the Appendix for additional details.
- (c) Discretionary free cash flow from continuing operations is defined as operating cash flows from continuing operations less maintenance capital expenditures of the continuing operations and certain other adjustments attributable to continuing operations, as applicable.

Valvoline Inc. and Consolidated Subsidiaries

Appendix - Description of Non-GAAP Measures and Adjustments

EBITDA Measures

Management believes EBITDA measures provide a meaningful supplemental presentation of Valvoline's operating performance between periods on a comparable basis due to the depreciable assets associated with the nature of the Company's operations, as well as income tax and interest costs related to Valvoline's tax and capital structures, respectively.

Free Cash Flow and Discretionary Free Cash Flow

Management uses free cash flow and discretionary free cash flow as additional non-GAAP metrics of cash flow generation. By including capital expenditures and certain other adjustments, as applicable, management is able to provide an indication of the ongoing cash being generated that is ultimately available for both debt and equity holders as well as other investment opportunities. Free cash flow includes the impact of capital expenditures, providing a supplemental view of cash generation. Discretionary free cash flow includes maintenance capital expenditures, which are routine uses of cash that are necessary to maintain the Company's operations and provides a supplemental view of cash flow generation to maintain operations before discretionary investments in growth. Free cash flow and discretionary free cash flow have certain limitations, including that they do not reflect adjustments for certain non-discretionary cash flows, such as mandatory debt repayments.

Adjusted Net Revenue and Profitability Measures

Adjusted net revenue and profitability measures (i.e., adjusted net income, diluted earnings per share and EBITDA) enable the comparison of financial trends and results between periods where certain items may not be reflective of the Company's underlying and ongoing operational performance or vary independent of business performance.

Key Items

The non-GAAP measures used by management exclude the impact of certain unusual, infrequent or non-operational activity not directly attributable to the underlying business, which management believes impacts the comparability of operational results between periods ("key items"). Key items are often related to legacy matters or market-driven events considered by management to not be reflective of the ongoing operating performance. Key items may consist of adjustments related to: legacy businesses, including the separation from Valvoline's former parent company, the former Global Products reportable segment, and associated impacts of related activity and indemnities; non-service pension and other postretirement plan activity; restructuring-related matters, including organizational restructuring plans, the separation of Valvoline's businesses, significant acquisitions or divestitures, debt extinguishment and modification, and tax reform legislation; in addition to other matters that management considers non-operational, infrequent or unusual in nature.

Refer to the below for descriptions of the key items that comprise the adjustments which depart from the computations in accordance with U.S. GAAP:

Net pension and other postretirement plan (income) expense: Includes several elements impacted by changes in plan assets and obligations that are primarily driven by the debt and equity markets, including remeasurement gains and losses, when applicable; and recurring non-service pension and other postretirement net periodic activity, which consists of interest cost, expected return on plan assets and amortization of prior service credits. Management considers that these elements are more reflective of changes in current conditions in global markets (in particular, interest rates), outside the operational performance of the business, and are also legacy amounts that are not directly related to the underlying business and do not have an impact on the compensation and benefits provided to eligible employees for current service.

The Company recognized remeasurement adjustments in the fourth quarter of each fiscal year, which resulted in a gain of \$41.6 million and a loss of \$43.9 million in fiscal 2023 and 2022, respectively.

Net legacy and separation-related expenses: Activity associated with legacy businesses and the separation from Valvoline's former parent company and its former Global Products reportable segment. This activity includes the recognition of and adjustments to indemnity obligations to its former parent company; certain legal, financial, professional advisory and consulting fees; and other expenses incurred by the continuing operations in connection with and directly related to these separation transactions and legacy matters. This incremental activity directly attributable to legacy matters and separation transactions is not considered reflective of the underlying operating performance of the Company's continuing operations.

Of specific note, the Company recognized \$25.7 million of pre-tax expense during the twelve months ended September 30, 2023, to reflect

its increased estimated indemnity obligation, which also resulted in an income tax benefit of \$29.0 million to reflect the release of valuation allowances in connection with the amendment of the Tax Matters Agreement with Valvoline's former parent company.

Information technology transition costs: Consists of redundant expenses incurred from duplicative technology platforms required while implementing the Company's stand-alone enterprise resource planning software system during fiscal 2023 and transitioning its data centers during fiscal 2022. These expenses are reflective of incremental costs directly associated with technology transitions and are not considered to be reflective of the ongoing expenses of operating the Company's technology platforms.

Suspended operations: Represents the results of a former Global Products business where operations were suspended during fiscal 2022 that were not sold with the Global Products business. These results included an impairment loss of \$8.1 million recognized in the fourth quarter of fiscal 2023 upon classifying the suspended operations as held for sale. These results are not indicative of the operating performance of the Company's ongoing continuing operations.

Investment and divestiture-related costs: Expense recognized to reduce the carrying value of an investment interest determined to be impaired. This cost is not considered to be reflective of the underlying performance of the Company's ongoing continuing operations.

Debt extinguishment and modification costs: Relates to the modification of the Senior Credit Agreement and includes the accelerated amortization of previously capitalized debt issuance costs, as well as third-party fees expensed in connection with the execution of the amended Senior Credit Agreement. These expenses are not considered to be indicative of the future servicing costs of the Company's ongoing debt facilities.

SOURCE Valvoline Inc.
