Valvoline

First-Quarter Fiscal 2022 Earnings

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SAFE HARBOR

Forward-Looking Statements

Certain statements in this presentation, other than statements of historical fact, including estimates, projections and statements related to Valvoline's business plans and operating results, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 Form 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.

Regulation G: Adjusted Results

Information regarding Valvoline's definitions, calculations and reconciliation of non-GAAP measures can be found in the Appendix.

1Q22 KEY OPERATING HIGHLIGHTS

VVV

31%

Growth in total sales

flat

Growth in reported net income

5%

Growth in adjusted[1] EBITDA

2%

Growth in reported EPS

12%

Growth in adjusted[1] EPS

Retail Services

24.7%

Growth in system-wide SSS[1]

7%

Growth in system-wide units[1]

40%

Growth in adjusted[1] EBITDA

Global Products

28%

Growth in sales

13%

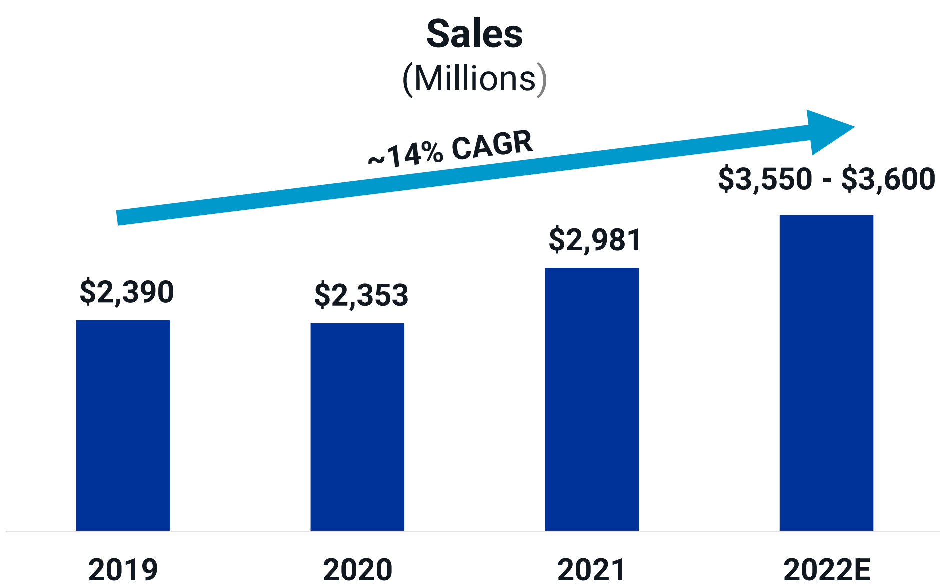
Growth in volume[1]

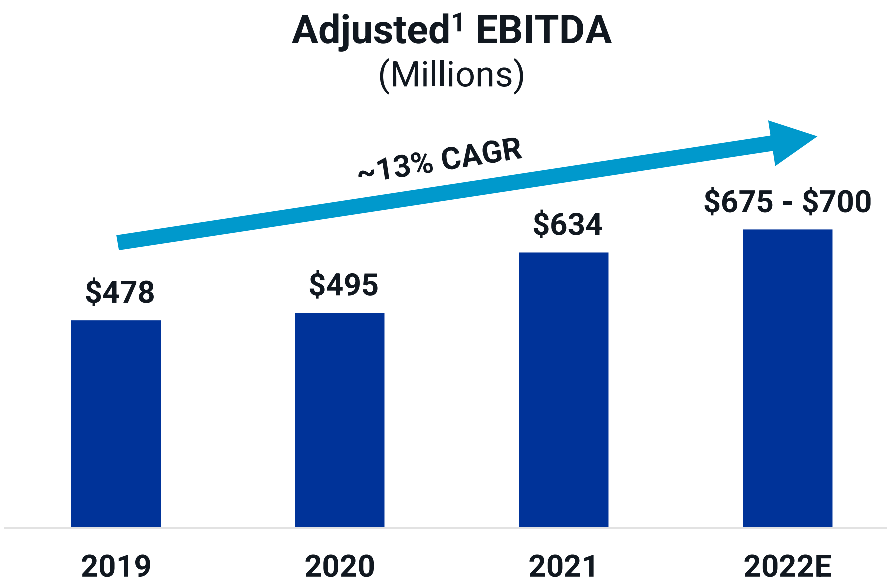
$52M

Discretionary free cash flow[1] generation

1. For a discussion of management's use of Key Business Measures and a reconciliation of adjusted amounts to amounts reported under GAAP, please refer to the Appendix.

GROWTH IS ACCELERATING





Outstanding double-digit top- and bottom-line growth

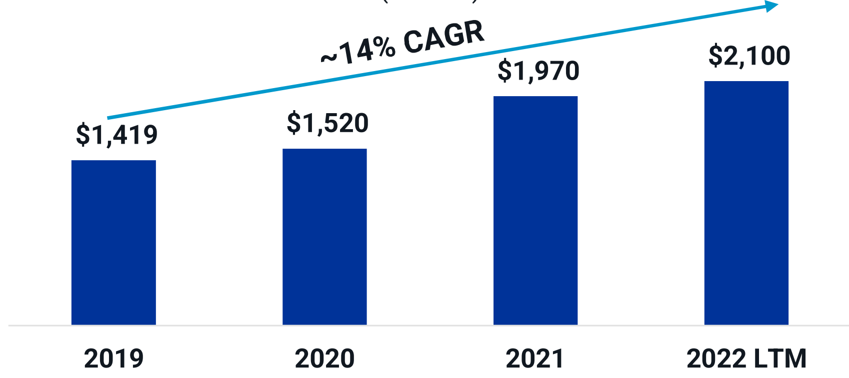
1. For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to the Appendix.

Segment Highlights

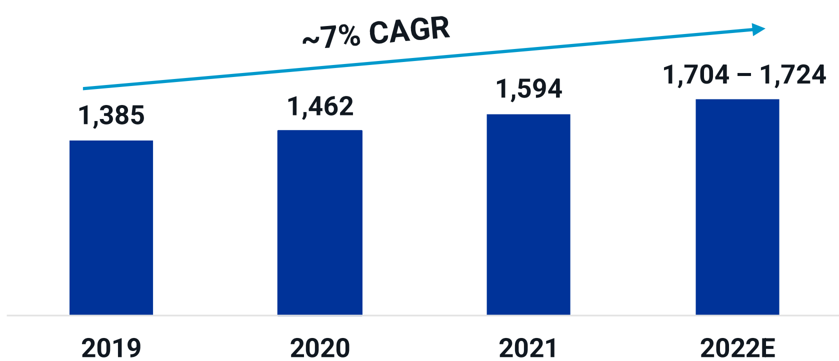
RETAIL SERVICES
15 CONSECUTIVE YEARS OF SSS GROWTH

(Millions, except store count)	1Q22	YoY	vs. 1Q20
Segment Sales	$346	36%	59%
SSS[1] Growth (system-wide)	N/A	24.7%	28.8%[3]
Store Count[1] (system-wide)	1,635	7%	16%
Adjusted[2] EBITDA	$98	40%	72%

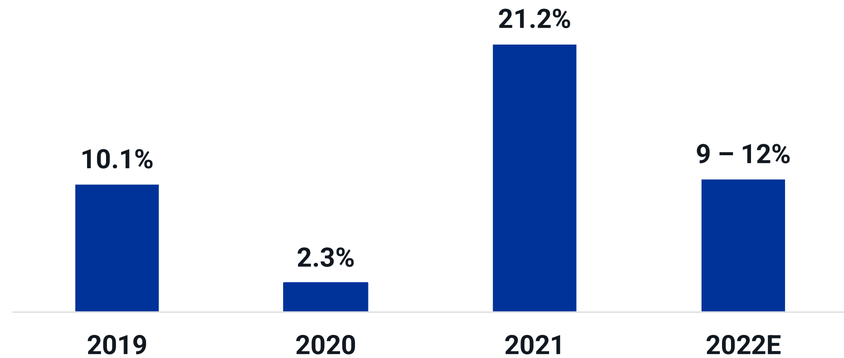
System-Wide Store Sales[1]
(Millions)



System-Wide Unit Count[1]

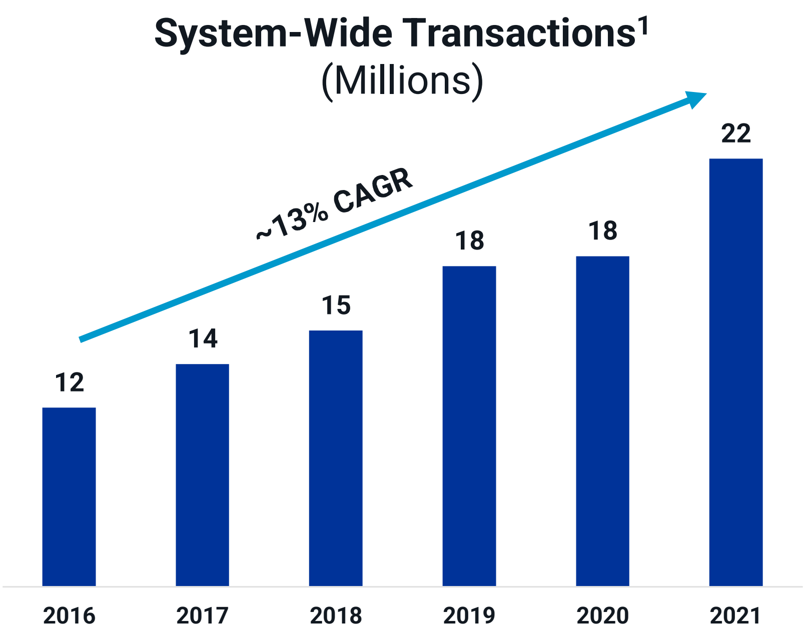


System-Wide Same Store Sales[1] (SSS) Growth



1. Refer to the Appendix for further information regarding management's use of key business measures.
2. For a reconciliation of adjusted amounts to amounts reported under GAAP, please refer to the Appendix.
3. Versus 1Q20 same stores base.

RETAIL SERVICES
DRIVERS OF SHARE GAINS



Key Takeaways

- Continued shift in consumer preference for convenience and extending vehicle life
- Data-driven digital marketing capabilities to drive customer acquisition
- High satisfaction with superior in-store experience to drive customer retention
- Unit growth via acquisitions, new builds and franchise additions

We are gaining significant market share

1. Transactions measured as system-wide oil changes.

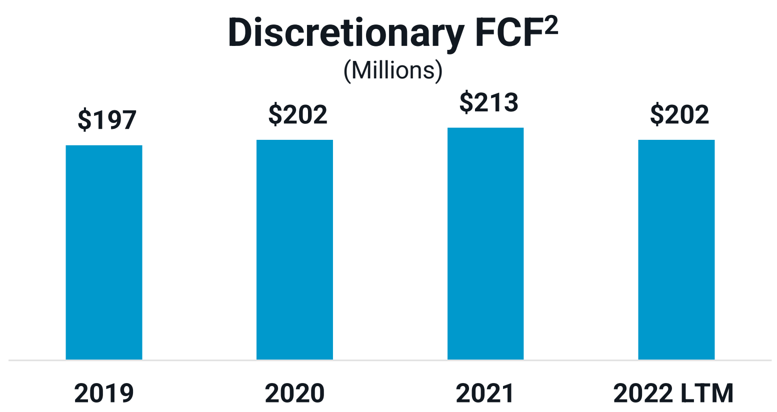
RETAIL SERVICES
EV SERVICES OFFERING

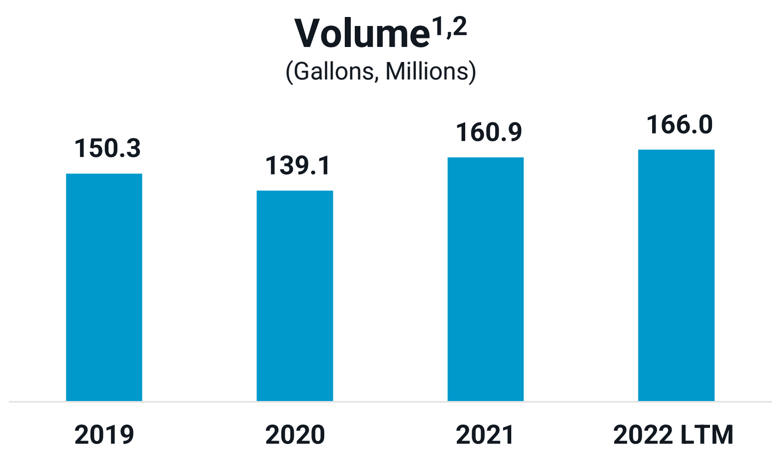
Key Takeaways

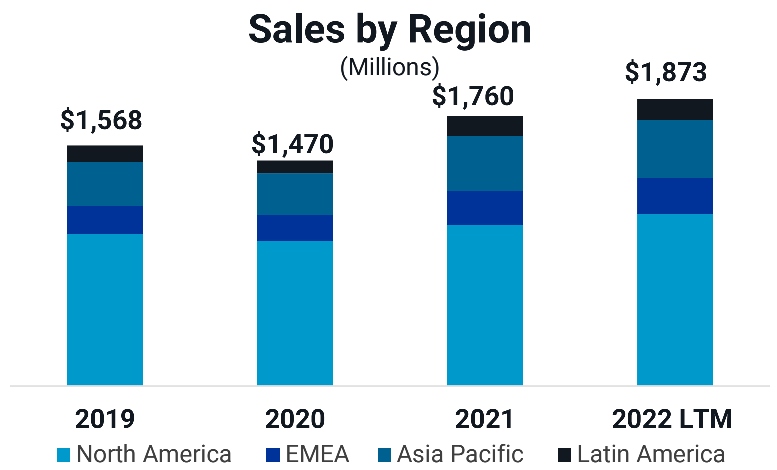
- Pilot for EV services under way, to be expanded in Summer 2022
- Key services focused on inspection and maintenance:
  - Tire rotation, cabin air filter, wiper replacement, 12V battery replacement, key FOB battery replacement, state safety inspection
- Additional services to be evaluated during pilot

GLOBAL PRODUCTS
DRIVING SHARE GAINS AND STEADY CASH GENERATION

(Millions, except store count)	1Q22	YoY	vs. 1Q20
Segment Sales	$512	28%	32%
Volume[1] (gallons)	43.1	13%	19%
Adjusted[2] EBITDA	$77	(18)%	-%
Discretionary FCF[2]	$52	(17)%	2%



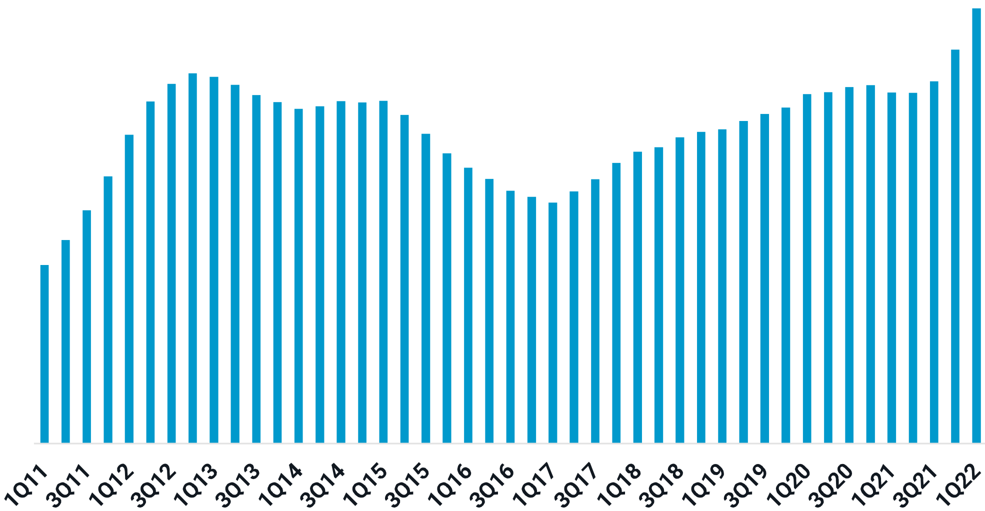




1. Includes 2.4 million gallons in Q1 fiscal 2022 sold to Valvoline's unconsolidated joint-venture with Cummins in China.
2. For a discussion of management's use of Key Business Measures and a reconciliation of adjusted amounts to amounts reported under GAAP, please refer to the Appendix.

GLOBAL PRODUCTS
MACRO FACTORS & OUTLOOK ON MARGINS

North America Sales per Gallon
1Q11 – 1Q22 (LTM by Quarter)



Raw materials

- Short-term pressure: Primarily base oil & additive cost increases
- VVV Action: Continued pass-through pricing

Supply-chain challenges

- Short-term pressure: Increased logistics costs, low inventory levels
- VVV Action: Leverage R&D capabilities and broad supplier network

GLOBAL PRODUCTS
DRIVERS OF SHARE GAINS

Key Takeaways

- Growth in international markets
    - Developing and optimizing channels
    - Expanding our platform offerings
    - Building the Valvoline brand
- Strength in DIY
    - New distribution at top retailers & sub-channels
    - Outperforming competition in ability to supply
    - Continued innovation in synthetics

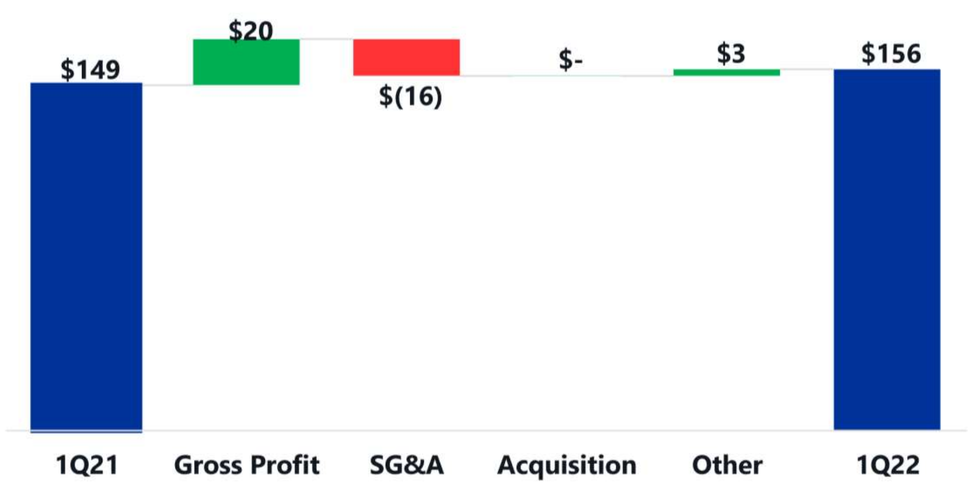
1. Market share measured as Valvoline's lubricant volume as a percentage of global lubricant volume per IHS Markit in markets where Valvoline participates.

1Q22 Earnings

FIRST QUARTER RESULTS

(Millions, except per-share data)	1Q22	YoY	1Q20
Sales	$858	31%	41%
Gross Profit	$244	7%	16%
Adjusted[1] Gross Profit	$250	8%	19%
Operating Income	$121	(2)%	16%
Adjusted[1] Operating Income	$131	2%	27%
Net Income	$87	-%	19%
Adjusted[1] EBITDA	$156	5%	31%
Earnings per Diluted Share (EPS)	$0.48	2%	23%
Adjusted[1] EPS	$0.48	12%	41%

YoY Changes in Adjusted[1] EBITDA
(Millions)



1. For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to the Appendix.

FIRST QUARTER RESULTS – ADJUSTED EBITDA MARGINS

Retail Services

(Millions)	1Q22	YoY	vs. 1Q20
Segment Sales	$346	36%	59%
Adjusted[1] EBITDA	$98	40%	72%
Adjusted[2] EBITDA Margin	28.3%	70 bps	220 bps

Key Takeaways

- Mature stores leveraging topline growth offset by new store ramp
- Raw material cost pass-through impacting short-term margins

Global Products

(Millions)	1Q22	YoY	vs. 1Q20
Segment Sales	$512	28%	32%
Adjusted[1] EBITDA	$77	(18)%	- %
Adjusted[2] EBITDA Margin	15.0%	(860) bps	(480) bps

Key Takeaways

- Continued progress passing through significant raw material cost increases from 2021
- Transitory supply-chain costs impact short-term margins with improvement in H2 2022

1. For reconciliation of adjusted amounts to amounts reported under GAAP, please refer to the Appendix.
2. Adjusted EBITDA margin is determined as Adjusted EBITDA divided by sales.

CAPITAL LIGHT MODEL DRIVES SIGNIFICANT FREE CASH FLOW

(Millions)	1Q22
Cash Flow from Operating Activities	$32
Less: Maintenance Capital Expenditures	$6
Discretionary Free Cash Flow	$26
Less: Growth Capital Expenditures	$29
Free Cash Flow	$(3)
Maintenance Capital Expenditures % of Sales	0.7%

Note: Discretionary Free Cash Flow and Free Cash Flow are non-GAAP measures that have been reconciled to GAAP as presented above; for further information, please refer to Use of Non-GAAP Measures in the Appendix.

2022 GUIDANCE

	Prior Outlook	Current Outlook
Operating Items		
Total company sales growth	19 – 21%	No change
Retail Services store additions[1]	110 – 130 (7 – 8%)	No change
Retail Services SSS[1] growth	9 – 12%	No change
Adjusted[2] EBITDA	\$675 – \$700 million	No change
Retail Services	*\$440 – \$455 million*	*No change*
Global Products	*\$315 – \$330 million*	*No change*
Corporate Items		
Adjusted[2] effective tax rate	25 – 26%	24 – 25%
Adjusted[2] EPS	\$2.06 – \$2.18	\$2.07 - \$2.20
Capital expenditures	\$180 – \$200 million	No change
Free cash flow[3]	\$260 – \$300 million	No change

1. For a discussion of management's use of Key Business Measures, please refer to the Appendix.
2. Denotes a forward-looking non-GAAP financial measure that Valvoline is unable to reconcile 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 GAAP results but would not impact non-GAAP adjusted results.
3. For reconciliation of adjusted outlook amounts expected to be reported under GAAP and additional details, please refer to the Appendix.

Separation of Retail Services and Global Products

SEPARATION UPDATE

Robust demand signals in both businesses provide confidence for future performance

Market share gains expected to accelerate driven by differentiated value proposition

Substantial progress on groundwork for smooth separation

Opportunity to create significant shareholder value through two independent businesses with unique strategies, capital structures and investor bases

Separation is the Next Step in Our Transformation

SUMMARY

- Great start to FY22
- Strong FY22 outlook
  - Continue strong SSS performance and unit additions for Retail Services
  - Topline growth in Global Products, building cost recovery
  - Investments in organic growth, acquisitions and share buybacks
- Solid progress on separation related work

Appendix

RECONCILIATION OF ADJUSTED EBITDA

(In millions)	For the years ended September 30 2017	2018	2019	2020	2021
Net income	$ 304	$ 166	$ 208	$ 317	$ 420
Income tax expense	186	166	57	134	123
Net interest and other financing expenses	42	63	73	93	111
Depreciation and amortization	42	54	61	66	92
EBITDA	574	449	399	610	746
Net pension and other retirement plan (income) expenses	(138)	—	60	(59)	(126)
Net legacy and separation-related expenses (income)	11	14	3	(30)	(24)
LIFO charge (credit)	5	7	—	(15)	41
Business interruption expenses and (recovery)	—	—	6	(2)	(3)
Compensated absences and benefits change	—	—	—	(11)	—
Acquisition and divestiture-related costs (income)	—	3	(4)	2	—
Restructuring and related expenses	—	—	14	—	—
Adjusted EBITDA	$ 452	$ 473	$ 478	$ 495	$ 634

RETAIL SERVICES – Q1 RESULTS

	Three months ended December 31		
	2021	2020	2019
Sales information			
Retail Services segment sales	$ 346	$ 254	$ 218
Year-over-year growth	*36 %*	*17 %*	*15 %*
System-wide store sales [a]	$ 551	$ 421	$ 378
Year-over-year growth [a]	*31 %*	*11 %*	*15 %*
Same-store sales growth [b]			
Company-operated	22.1 %	6.1 %	6.3 %
Franchised [a]	26.8 %	6.0 %	9.9 %
System-wide [a]	24.7 %	6.0 %	8.4 %
Profitability information			
Operating income [c]	$ 81	$ 56	$ 48
Key items	—	—	—
Adjusted operating income [c]	81	56	48
Depreciation and amortization	17	14	9
Adjusted EBITDA [c]	$ 98	$ 70	$ 57
Adjusted EBITDA margin [d]	*28.3 %*	*27.6 %*	*26.1 %*
Discretionary cash flow information			
Adjusted operating income [c]	$ 81	$ 56	$ 48
Income tax expense [e]	(18)	(15)	(12)
Maintenance additions to property, plant, and equipment	(4)	(3)	(2)
Discretionary free cash flow [f]	$ 59	$ 38	$ 34

a) Measure includes 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. Retail Services stores, with new stores, including franchised conversions, excluded from the metric until the completion of their first full fiscal year in operation.
c) Segment adjusted operating income is segment operating income adjusted for key items impacting comparability. Segment adjusted operating income is further adjusted for depreciation and amortization to determine segment adjusted EBITDA. Valvoline does not generally allocate activity below operating income to its operating segments; therefore, the table above reconciles operating income to Adjusted EBITDA.
d) Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by segment sales.
e) Income tax expense estimated using the adjusted effective tax rate for the period multiplied by operating segment adjusted operating income.
f) Segment discretionary free cash flow is defined as operating segment adjusted operating income after-tax less maintenance capital expenditures

RETAIL SERVICES – STORE INFORMATION

	System-wide stores [a]				
	First Quarter 2022	Fourth Quarter 2021	Third Quarter 2021	Second Quarter 2021	First Quarter 2021
Beginning of period	1,594	1,569	1,548	1,533	1,462
Opened	32	21	17	13	18
Acquired	12	7	5	3	54
Closed	(3)	(3)	(1)	(1)	(1)
End of period	1,635	1,594	1,569	1,548	1,533

	Number of stores at end of period				
	First Quarter 2022	Fourth Quarter 2021	Third Quarter 2021	Second Quarter 2021	First Quarter 2021
Company-operated	738	719	698	673	663
Franchised	897	875	871	875	870

	December 31	
	2021	2020
System-wide store count [a]	1,635	1,533
Year-over-year growth	*7 %*	*9 %*

a) System-wide store count includes franchised service center stores. Valvoline franchises are independent legal entities, and Valvoline does not consolidate the results of operations of its franchisees.

GLOBAL PRODUCTS – Q1 RESULTS

Valvoline.

	Three months ended December 31		
	2021	2020	2019
Volume information			
Lubricant sales (gallons)	43.1	38.0	36.1
Year-over-year growth	*13 %*	*5 %*	*2 %*
Sales information			
Sales by geographic region			
North America [(a)]	$ 304	$ 235	$ 248
Europe, Middle East, and Africa ("EMEA")	67	51	47
Asia Pacific	104	83	70
Latin America [(a)]	37	30	24
Global Products segment sales	$ 512	$ 399	$ 389
Profitability information			
Operating income [(b)]	$ 70	$ 88	$ 71
Key items	—	—	—
Adjusted operating income [(b)]	70	88	71
Depreciation and amortization	7	6	6
Adjusted EBITDA [(b)]	$ 77	$ 94	$ 77
Adjusted EBITDA margin [(c)]	*15.0 %*	*23.6 %*	*19.8 %*
Discretionary cash flow information			
Adjusted operating income [(b)]	$ 70	$ 88	$ 71
Income tax expense [(d)]	(16)	(23)	(18)
Maintenance additions to property, plant, and equipment	(2)	(2)	(2)
Discretionary free cash flow [(e)]	$ 52	$ 63	$ 51

a) Valvoline includes the United States and Canada in its North America region. Mexico is included within the Latin America region.

b) Segment adjusted operating income is segment operating income adjusted for key items impacting comparability. Segment adjusted operating income is further adjusted for depreciation and amortization to determine segment adjusted EBITDA. Valvoline does not generally allocate activity below operating income to its operating segments; therefore, the table above reconciles operating income to Adjusted EBITDA.

c) Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by segment sales.

d) Income tax expense estimated using the adjusted effective tax rate for the period multiplied by operating segment adjusted operating income. (e) Segment discretionary free cash flow is defined as operating segment adjusted operating income after-tax less maintenance capital expenditures

KEY ITEMS AFFECTING INCOME

(In millions, except per share data - preliminary and unaudited)	First Quarter Impact			
		Total		
	Operating Income	Pre-tax	After-tax	Earnings per share
Fiscal 2022				
Pension & OPEB income	$ —	$ 9	$ 7	$ 0.04
Net legacy and separation-related expenses	(3)	(3)	(2)	(0.01)
LIFO charge	(6)	(6)	(5)	(0.03)
Information technology transition costs	(1)	(1)	(1)	—
Total	$ (10)	$ (1)	$ (1)	$ —
Fiscal 2021				
Pension & OPEB income	$ —	$ 13	$ 10	$ 0.05
Net legacy and separation-related expenses	(1)	(1)	(1)	—
LIFO charge	(4)	(4)	(3)	(0.02)
Business interruption recovery	1	1	1	0.01
Total	$ (4)	$ 9	$ 7	$ 0.04

RECONCILIATION OF NON-GAAP DATA – GROSS PROFIT AND OPERATING INCOME

(In millions - preliminary and unaudited)	Three months ended December 31					
	Gross profit			Operating income		
	2021	2020	2019	2021	2020	2019
As reported	$ 244	$ 228	$ 211	$ 121	$ 124	$ 104
Adjustments:						
LIFO charge (credit)	6	4	(1)	6	4	(1)
Legacy and separation-related expenses	—	—	—	3	1	(1)
Information technology transition costs	—	—	—	1	—	—
Business interruption recovery	—	—	—	—	(1)	—
Restructuring and related expenses	—	—	—	—	—	1
As adjusted	$ 250	$ 232	$ 210	$ 131	$ 128	$ 103

RECONCILIATION OF NON-GAAP DATA – ADJUSTED EBITDA

	Three months ended December 31		
	2021	2020	2019
Adjusted EBITDA - Valvoline			
Net income	$ 87	$ 87	$ 73
Add:			
Income tax expense	26	30	24
Net interest and other financing expenses	17	20	16
Depreciation and amortization	25	21	16
EBITDA [(a)]	155	158	129
Key items:			
Net pension and other postretirement plan income	(9)	(13)	(9)
Net legacy and separation-related expenses (income)	3	1	(1)
LIFO charge (credit)	6	4	(1)
Information technology transition costs	1	—	—
Business interruption recovery	—	(1)	—
Restructuring and related expenses	—	—	1
Key items - subtotal	1	(9)	(10)
Adjusted EBITDA [(a)]	$ 156	$ 149	$ 119
Segment Adjusted EBITDA			
Retail Services	$ 98	$ 70	$ 57
Global Products	77	94	77
Segment Adjusted EBITDA [(b)]	175	164	134
Corporate	(19)	(15)	(15)
Total Adjusted EBITDA [(a)]	156	149	119
Net interest and other financing expenses	(17)	(20)	(16)
Depreciation and amortization	(25)	(21)	(16)
Key items	(1)	9	10
Income before income taxes	$ 113	$ 117	$ 97

(a) EBITDA is defined as net income, plus income tax expense, net interest and other financing expenses, and depreciation and amortization. Adjusted EBITDA is EBITDA adjusted for key items, as described in "Use of Non-GAAP Measures" within this press release.

(b) Segment adjusted EBITDA represents the operations of the Company's two operating segments, including expenses associated with each segment's utilization of indirect resources. The costs of corporate functions, in addition to corporate and non-operational matters, or key items, are not included in segment adjusted EBITDA. The table above reconciles segment adjusted EBITDA to consolidated pre-tax income.

RECONCILIATION OF NON-GAAP DATA – NET INCOME AND DILUTED EARNINGS PER SHARE

(In millions, except per share amounts - preliminary and unaudited)	Three months ended December 31 2021	2020	2019
Reported net income	$ 87	$ 87	$ 73
Adjustments:			
Net pension and other postretirement plan income	(9)	(13)	(9)
Net legacy and separation-related expenses (income)	3	1	(1)
LIFO charge (credit)	6	4	(1)
Information technology transition costs	1	—	—
Business interruption recovery	—	(1)	—
Restructuring and related expenses	—	—	1
Total adjustments, pre-tax	1	(9)	(10)
Income tax (expense) benefit of adjustments	—	2	2
Income tax adjustments	—	—	—
Total adjustments, after tax	1	(7)	(8)
Adjusted net income [a]	$ 88	$ 80	$ 65
Reported diluted earnings per share	$ 0.48	$ 0.47	$ 0.39
Adjusted diluted earnings per share [b]	$ 0.48	$ 0.43	$ 0.34
Weighted average diluted common shares outstanding	182	186	189

(a) Adjusted net income is defined as net income adjusted for key items. Refer to "Use of Non-GAAP Measures" in this press release for management's definition of key items.
(b) Adjusted diluted earnings per share is defined as earnings per diluted share calculated using adjusted net income.

RECONCILIATION OF NON-GAAP DATA – FREE CASH FLOW

Free cash flow [a]	Three months ended December 31 2021		Three months ended December 31 2020	
Total cash flows provided by operating activities	$	32	$	79
Adjustments:				
Additions to property, plant and equipment		(35)		(35)
Free cash flow	$	(3)	$	44

Discretionary free cash flow [b]	Three months ended December 31 2021		Three months ended December 31 2020	
Total cash flows provided by operating activities	$	32	$	79
Adjustments:				
Maintenance additions to property, plant and equipment		(6)		(5)
Discretionary free cash flow	$	26	$	74

Free cash flow [a]	Fiscal year 2022 Outlook			
Total cash flows provided by operating activities	$	460	– $	480
Adjustments:				
Additions to property, plant and equipment		180	–	200
Free cash flow	$	260	– $	300

(a) Free cash flow is defined as cash flows from operating activities less capital expenditures and certain other adjustments as applicable.
(b) Discretionary free cash flow is defined as cash flows from operating activities less maintenance capital expenditures and certain other adjustments as applicable.

USE OF NON-GAAP MEASURES

To supplement the financial measures prepared in accordance with U.S. GAAP, certain items within this press release are presented on an adjusted basis. These non-GAAP measures, presented on both a consolidated and operating segment basis, have limitations as analytical tools and should not be considered in isolation from, or as 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 non-GAAP information used by management may not be comparable to similar measures disclosed by other companies, because of differing methods used in calculating such measures.

This presentation includes the following non-GAAP measures: segment adjusted operating income, consolidated EBITDA, consolidated and segment adjusted EBITDA, consolidated adjusted net income and earnings per share, consolidated free cash flow, and consolidated and segment discretionary free cash flow. Refer to this Appendix for management's definition of each non-GAAP measure and reconciliation to the most comparable U.S. GAAP measure.

Management believes the use of non-GAAP measures on a consolidated and operating segment basis provides a useful supplemental presentation of Valvoline's operating performance and allows for transparency with respect to key metrics used by management in operating the business and measuring performance. 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, and income tax and interest costs related to Valvoline's tax and capital structures, respectively.

Adjusted profitability measures enable comparison of financial trends and results between periods where certain items may vary independent of business performance. These adjusted measures 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 and associated impacts of related indemnities; the separation of Valvoline's businesses; significant acquisitions or divestitures; restructuring-related matters; tax reform legislation; debt extinguishment and modification costs; and other matters that are non-operational or unusual in nature, including the following:

- Net pension and other postretirement plan expense/income - includes several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets, as well as those that are predominantly legacy in nature and related to prior service to the Company from employees (e.g., retirees, former employees and current employees with frozen benefits). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) actuarial gains/losses, and (iv) amortization of prior service cost/credit. Significant factors that can contribute to changes in these elements include changes in discount rates used to remeasure pension and other postretirement obligations on an annual basis or upon a qualifying remeasurement, differences between actual and expected returns on plan assets, and other changes in actuarial assumptions, such as the life expectancy of plan participants. Accordingly, management considers that these elements may be more reflective of changes in current conditions in global financial markets (in particular, interest rates), outside the operational performance of the business, and are also primarily legacy amounts that are not directly related to the underlying business and do not have an immediate, corresponding impact on the compensation and benefits provided to eligible employees for current service. Adjusted profitability measures include the costs of benefits provided to employees for current service, including pension and other postretirement service costs.

- Changes in the last-in, first out (LIFO) inventory reserve - charges or credits recognized in Cost of sales to value certain lubricant inventories at the lower of cost or market using the LIFO method. During inflationary or deflationary pricing environments, the application of LIFO can result in variability of the cost of sales recognized each period as the most recent costs are matched against current sales, while preceding costs are retained in inventories. LIFO adjustments are determined based on published prices, which are difficult to predict and largely dependent on future events. The application of LIFO can impact comparability and enhance the lag period effects between changes in inventory costs and related pricing adjustments.

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.

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; system-wide store sales; and lubricant volumes sold. 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 sales and operating income, as determined in accordance with U.S. GAAP.

Sales in the Retail Services reportable segment 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 sales by U.S. Retail Services 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.

Retail Services sales are limited to sales at company-operated stores, sales of lubricants and other products to independent franchisees and Express Care operators and royalties and other fees from franchised stores. Although Valvoline does not recognize store-level sales from franchised stores as sales 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 segment operating performance.

Management believes lubricant volumes sold in gallons by its consolidated subsidiaries is a useful measure in evaluating and understanding the operating performance of the Global Products segment. Volumes sold in other units of measure, including liters, are converted to gallons utilizing standard conversions.