Brown-Forman Corporation, Q3 2025, Earnings Call 2025-03-05

Presentation

Operator

Hello, and welcome to Brown-Forman Corporation Third Quarter and Year-to-Date Fiscal 2025 Earnings Conference Call. — ***Operator Instructions*** — I would now like to turn the conference over to Sue Perram, Vice President, Director, Investor Relations. You may begin.

Susanne Perram

Thank you, and good morning, everyone. I would like to thank each of you for joining us today for Brown-Forman's Third Quarter and Year-to-Date Fiscal Year 2025 Earnings Call. Joining me today are Lawson Whiting, President and Chief Executive Officer; and Leanne Cunningham, Executive Vice President and Chief Financial Officer. This morning's conference call contains forward-looking statements based on our current expectations. Numerous risks and uncertainties may cause actual results to differ materially from those anticipated or projected in these statements. Many of the factors that will determine future results are beyond the company's ability to control or predict. You should not place undue reliance on any forward-looking statements, and except as required by law, the company undertakes no obligation to update any of these statements, whether due to new information, future events or otherwise.

This morning, we issued a press release containing our results for the third quarter and 9 months ended January 31, 2025, in addition to posting presentation materials that Lawson and Leanne will walk through momentarily. Both the release and the presentation can be found on our website under the section titled Investors, Events and Presentations. In the press release, we have listed a number of the risk factors you should consider in conjunction with our forward-looking statements.

Other significant risk factors are described in our Form 10-K and Form 10-Q reports filed with the Securities and Exchange Commission. During this call, we will be discussing certain non-GAAP financial measures. These measures, a reconciliation to the most directly comparable GAAP financial measures and the reasons management believes they provide useful information to investors regarding the company's financial condition and results of operations are contained in the press release and investor presentation. With that, I would like to turn the call over to Lawson.

Lawson Whiting

Thank you, Sue, and good morning, everyone. Thank you for joining us today as we share our third quarter and year-to-date results for fiscal 2025. When we shared our first half fiscal 2025 results in December, I ended my prepared remarks with these words. We're still operating in a highly dynamic environment with many uncertainties. Even so with all we know today, we continue to expect our second half to be stronger than the first. I'm proud to say that we executed our plan and delivered sequentially stronger top and bottom line results as we entered the second half of the year. January was the fifth consecutive month of positive 3-month rolling organic net sales trends. This trend returns our year-to-date fiscal 2025 results to growth, bringing organic net sales in line with and organic operating income ahead of our full year expectations. The operating environment continues to be incredibly dynamic and many uncertainties remain, particularly on the topic of tariffs. Taking everything into consideration as we know it today and based on our year-to-date performance, we're again reaffirming our full year organic net sales and organic operating income outlook for fiscal 2025. Now let me provide a bit of perspective on our year-to-date fiscal 2025 results. I'll start with the performance of our brands, and then Leanne will share more about our geographic performance, other financial highlights and our 2025 outlook. Our reported net sales decreased 4% in the 9 months of fiscal 2025, while organic net sales grew 2% after adjusting for the divestitures of Finlandia and Sonoma-Cutrer in the prior fiscal year, the negative effect of foreign exchange and the business model change for Jack Daniel's Country Cocktails. From a brand perspective, Woodford Reserve and Jack Daniel's Tennessee Whiskey were the 2 largest drivers of organic net sales growth in the year-to-date period. Based on takeaway results of the top 20 total distilled spirits brands in the United States from the past 13 weeks, Woodford Reserve is 1 of only 4 brands that are currently growing. Specifically, Woodford Reserve continued to accelerate with organic net sales growth of 10%, driven by higher volumes as well as positive price mix. Results were once again led by the growth of Woodford Reserve Distiller Select, the #1 super premium American whiskey globally. Woodford Reserve Double Oak continued to deliver double-digit growth. If you look at the same top 20 brands from 6 months ago, Woodford Reserve was 1 of only 2 brands in growth. So we are seeing some green shoots in the U.S. spirits market. In addition, within U.S. whiskey, the super premium and above price tiers are the only growth contributors, largely driven by innovation. We believe that our strategic approach to innovation with our craft and luxury expressions, for instance, adapting barrel finishes and grain recipes position us to capitalize on growth opportunities in this category. Our latest introductions, which launched in early February, include Woodford Reserve Batchproof, a limited edition offering and Woodford Reserve Double Double Oak, both products have a suggested retail price above $100. Similar to Woodford Reserve Double Oaked, Woodford Reserve Double Double Oaked was once a limited edition offering. Consumer demand for the product was consistently strong and in keeping with our consumer strategy, we have made this expression a permanent member of the Woodford Reserve family of brands. Jack Daniel's Tennessee Whiskey built on its momentum in the first half of fiscal 2025 and once again accelerated sequentially. I'm very pleased to say that organic net sales for Jack Daniel's Tennessee Whiskey increased 2% for the year-to-date period. We're continuing to focus on both short-term acceleration and long-term brand building to engage a new generation of legal drinking age consumers while remaining intently focused on retaining our core consumers. As we have shared previously, we're engaging with consumers through our McLaren Formula 1 sponsorship, music sponsorships, new media campaigns and an evolved on-premise strategy to drive acceleration. In the on-premise, for example, we're increasing investment in all major markets and have dedicated resources to create a team of brand ambassadors called the Jack Pack in key markets across the U.S. The Formula 1 2025 season kicks off in Australia in a few weeks and then it heads to China at the end of March. This season, we will further evolve our approach to our McLaren sponsorship by refining the Jack's Garage experience designed to enhance the brand's cultural relevance through a fusion of racing, music and influencers in key markets around the world. Music has been an important part of Jack Daniel's relevance in pop culture. The brand's connection to music began all the way back in 1892 when Jack Daniel formed the Silver Cornet brand to engage with people in Lynchburg Town Square. Through the decades, many musicians such as Frank Sinatra to most recently Chibuzi have been friends of Jack, and we will continue to focus on building authentic connections like these with each of our consumers. We'll also continue to connect with consumers through music during the busy spring and summer concert and music festival season, which provides ideal venues for consumers to trial and to enjoy the Jack & Coke RTD. RTDs remain a leading growth category within total distilled spirits, driven by consumer trends that favor convenience and flavor with the Jack & Coke RTD continuing to gain global attention. In the United Kingdom, Jack & Coke recently received the 2025 Product of the Year Award in the premixed spirit category. This award is based on consumer votes and is considered the U.K.'s biggest accolade for product innovation. Innovation, particularly flavors and formats, is important in the RTD category. The Jack & Coke Cherry limited time offering in the U.S. performed well and now is available in the United Kingdom. For those of you in the U.S., you should begin to see a variety pack on shelf in the upcoming weeks, featuring Jack & Coke, Jack & Coke Cherry and Jack & Coke Vanilla in time for the seasonally stronger spring and summer months. Also within our RTD portfolio, New Mix continued its impressive growth with a double-digit organic net sales increase in 12 of the past 13 quarters. The brand is well positioned and continues to gain market share in Mexico. In addition, New Mix will launch a new flavor, New Mix Pikosito Tamarindo in the spring. This launch reflects the culinary richness of Mexico and positions us to capitalize on the growing consumer demand for bolder and more refreshing flavors. It's important to balance tradition and innovation as we adapt to changing consumer trends in the country while maintaining our commitment to quality and authenticity. We believe our innovation opportunities will generate interest and attention not only for our portfolio of RTDs, but for our portfolio of full strength brands as well. There are a few other brands that I know are of interest to many of you. The 2 newest brands in our portfolio, Diplomático and Gin Mare, are performing well. Diplomático delivered very strong double-digit organic net sales growth led by France and Czechia, along with the travel retail channel in Germany. Organic net sales for Gin Mare increased double digits, driven by Germany, Spain and the travel retail channel. In fiscal 2023, when we acquired Diplomático and Gin Mare, the brands had a strong European presence that both aligned with our route-to-consumer investments and provided opportunities for growth in the United States. We continue to ensure both Diplomático and Gin Mare have the focus and dedicated resources to drive their growth by placing the brands in our emerging brands portfolio in both Europe and the United States. While our tequila brands, El Jimador and Herradura, improved sequentially, they continue to face challenges in the U.S. and in Mexico, their 2 largest markets. The environment for the tequila category in the U.S. remains competitive with an increasing number of brands, while Mexico's economy has faced a challenging macro environment. Tequila Herradura is a 155-year-old brand, and we have been celebrating its heritage as the world's first Reposado across consumer communications as well as highlighting its craftsmanship, heritage and authenticity. The launch of Herradura Cristal in Mexico, which builds upon the region's Cristalino trend is off to a strong start. For El Jimador, the softness in the

U.S. and Mexico negatively impacted the performance of the brand globally. Even so, we remain optimistic about El Jimador's ability to introduce consumers to the mixability and versatility of 100% agave tequila. We saw very strong double-digit organic net sales growth in Australia, Brazil and France, and we continue to believe that El Jimador can grow the premium tequila category around the world. Despite the performance of our tequila brands in the short term, we believe we have the right brands to capitalize on the growth in the tequila category globally over the long term. Before turning the call over to Leanne, I want to take a moment to discuss the dynamic landscape of the beverage alcohol industry and how we are proactively adapting to an evolving operating environment with a focus on long-term growth. First, our recent route-to-consumer evolution. We continue to be pleased with our route-to-consumer change in Japan and are on schedule to launch our own distribution in Italy on May 1, 2025. And while much of our RTC focus has been on markets outside of the United States, the route-to-market landscape in the U.S. has evolved as well. As we announced last week, after thoughtful consideration, we have selected Reyes Beverage Group as our new distributor in California effective May 1, 2025. As you may recall, Reyes has been our distribution partner for Jack & Coke in California since we launched the product in the U.S. Our decision to expand our relationship with Reyes in California is a bold move that reinforces we are thoughtfully evaluating all aspects of our business in what continues to be a challenging external environment. This change will allow us to unlock new growth capabilities and leverage Reyes' exceptional operational excellence as demonstrated by their impressive growth in California for their existing beer and spirit suppliers. We believe Reyes Beverage Group will be a tremendous partner in accelerating our California business. It's also important to note that we continue to value the relationship we have built with the Republic National Distributing Company with whom we work in 23 other states across the United States and appreciate their continued collaboration and focus on our shared success. We will continue to review our route to market across the U.S. to ensure our brands are well positioned to win in the highly competitive marketplace. Another important strategic initiative I'd like to touch on are the recent changes we announced with regard to our workforce. In January, we announced a series of strategic initiatives designed to position the company for continued growth in the dynamic global spirits market, including restructuring the executive leadership team, reducing our global workforce by approximately 12% and closing the Louisville-based Brown-Forman Cooperage. We also offered an early retirement benefit to qualifying U.S. employees. This organizational evolution will simplify and streamline our organization, allowing us to become more agile and efficient as well as reinvest in the capabilities, technologies, brands and people that will drive future growth. The closure of the Cooperage in Louisville was a difficult decision as we've been producing our own barrels for almost 80 years. During this time, the Cooperage industry has evolved and external suppliers are able to provide the same high-quality barrels at scale and at a competitive price. You may recall over the last few years that we have discussed the significant impact of wood costs on our gross margin. In response to that, we've taken strategic steps to optimize our wood supply chain, including the sale of our mills and our Cooperage in Alabama in fiscal 2024. The closure of our Louisville Cooperage represents the final step in our wood supply chain strategy, which we believe will create efficiencies and allow us to further optimize our capital allocation. While we expect to incur approximately $60 million to $70 million in aggregate charges for severance and related costs associated with the workforce reduction in Cooperage closing, collectively, these actions are projected to deliver approximately $70 million to $80 million in annualized savings. In addition, we expect to receive more than $30 million in proceeds in connection with the sale of the Cooper assets. We expect to reinvest a portion of the savings to accelerate growth, and we'll provide more detail on our incremental investments in the near future. I want to express my sincere gratitude to our employees, particularly those impacted by these changes for their dedication and contributions to Brown-Forman. We're a 155-year-old company because we have evolved and changed over the decades. We're confident that these strategic initiatives will ensure the company endures for generations to come. In summary, the year-to-date fiscal 2025 organic net sales and organic operating income are back to growth within the range of our full year outlook and at the top of our industry. While we are still operating in a highly dynamic environment with many unknowns and uncertainties, based on our 9-month results and with what we know today, we continue to believe that we're positioned to achieve our full year guidance, which we have reaffirmed. I believe the combination of our strong portfolio of brands, our broad geographic reach and our resilient team of people will enable us to achieve our long-term growth potential. With that, I'll turn the call over to Leanne, and she'll provide more details on our year-to-date results.

Leanne Cunningham

Thank you, Lawson, and good morning, everyone. As Lawson mentioned, I will provide additional details on our geographic performance, other financial highlights and our fiscal 2025 outlook. As we have shared with you previously, we anticipated a return to growth for organic net sales and organic operating income in fiscal 2025, driven by gains in international markets and the benefit of normalizing distributor inventory trends on a year-over-year basis. From a geographic perspective, we saw sequential organic net sales improvement with growth in each of our geographic clusters as we began the second half. This was in line with our expectations and resulted in a return to growth in the year-to-date period. Our emerging international markets continued to lead our growth and collectively delivered an 8% organic net sales increase in the year-to-date period. This growth was led by strong double-digit growth in Turkey and Brazil, led by Jack Daniel's Tennessee Whiskey. Our business in these markets continued to benefit from the growth of the premium whiskey category. Brazil is also benefiting from our geographic expansion strategy and the launch of an additional package size for Jack Daniel's Tennessee Whiskey. In Mexico, organic net sales were flat as the challenging economic environment is impacting discretionary spending and consumers are trading down. While our RTDs and Jack Daniel's are outperforming competitors and gaining market share, our tequilas continue to underperform. As Lawson mentioned, New Mix delivered double-digit organic net sales growth, driven by a steady pricing and promotional strategy, along with increased distribution. In addition, Jack Daniel's RTDs, which include Jack and Coke, outperformed the RTD category and fueled value growth. While the current operating environment is difficult, we are committed to the development and growth of our portfolio of brands in Mexico. We are further leveraging our own distribution capabilities with William Grant & Sons and have begun distribution of Hendricks, Glenfiddich, Balvenie and Monkey Shoulder brands. William Grant & Sons is a fifth-generation family-owned company, and we believe there are strong synergies between William Grant & Sons brand portfolio and our portfolio of brands. We believe this distribution agreement will provide us additional strength to achieve greater development of the combined portfolio, particularly in the on-trade and the super premium segment. This is yet another example of how we are identifying strategic growth opportunities and moving at pace to execute in a quickly evolving operating environment. Organic net sales in the travel retail channel improved sequentially with a decline of 2% in the first 9 months of the fiscal year. Growth of Diplomático and Jack Daniel's Tennessee Whiskey were more than offset by the decline of our other super premium American whiskeys such as our exclusive global travel retail offerings, Jack Daniel's Bottled in Bond and Jack Daniel's American Single Malt, which compared against its launch in the prior year period and Jack Daniel's Single Barrel, which compared against very strong double-digit growth in the year ago period. Our developed international markets collectively delivered an organic net sales decline of 1%. As we have shared, Japan continues to benefit from our route-to-consumer change to own distribution on April 1, 2024. In South Korea, while the premium whiskey category is still experiencing growth, Jack Daniel's Tennessee Whiskey faced increased competitive activity and Jack Daniel's Tennessee Apple compared against its launch in the prior year period. The economic outlook in Germany has weakened and consumer confidence has declined in the market. Between October and January, there was a significant deceleration in spirit takeaway trends, including RTDs in Germany, which negatively impacted Jack Daniel's Tennessee Whiskey as well as the Jack Daniel's RTDs. In the United States, which grew sequentially, organic net sales decreased 1%. Double-digit growth from Woodford Reserve, Old Forester and the Jack Daniel's RTDs led by Jack and Coke were the largest growth contributors, while Jack Daniel's Tennessee Whiskey and Korbel California Champagne were the main drivers of the overall decline. Lawson highlighted the growth drivers of Woodford Reserve and the Jack Daniel's RTDs in the U.S. Therefore, I'll focus my comments on Old Forester, Jack Daniel's Tennessee Whiskey and Korbel as well as distributor inventory levels and the consumer environment. Old Forester again delivered double-digit organic net sales growth, led by strong performance of the super premium expressions. The success of these products has created a halo for the Old Forester trademark as Old Forester 86 Proof, Brown-Forman's founding brand, delivered high single-digit organic net sales growth. For Jack Daniel's Tennessee Whiskey, the brand accelerated sequentially from the first half of our fiscal year and delivered a positive 3-month organic net sales trend. We have made purposeful efforts to highlight our whiskey-making craftsmanship and credentials through innovation and specialty launches. This gives both longtime and new friends of Jack Daniel's the opportunity to explore and discover within the Jack Daniel's family. Last week, we announced the latest release in the age series, Jack Daniel's 14-year-old Tennessee Whiskey. This marks the first time in more than 100 years that Jack Daniel's has offered an expression of this age. This product joins Jack Daniel's 10-year-old and 12-year-old Tennessee Whiskey, which honors the legacy of Jack Daniel's himself and replicates the lineup of age-stated whiskeys available during his time. With the majority of the sparkling category in a downturn, Korbel outperformed its price tier, thanks to promotional efforts, but the brand did decline for the 9 months of the fiscal year. Turning to distributor inventory levels in the U.S. The environment remains unchanged with distributors continuing to target the low end of their normal range. As we shared last quarter, shipments increased for key brands such as Jack Daniel's Tennessee Whiskey and Woodford Reserve in several states ahead of the important holiday selling season. This was done to ensure supply would meet consumer demand and to mitigate the risk of an out-of-stock situation at the retail level as some retailers are continuing to target the low end of their inventory range. As typical, during the holiday selling season, distributors largely sold through the seasonal inventory build and are expected to bring shipments and depletions largely in line for this fiscal year. From a takeaway perspective, 3-month rolling value trends for total distilled spirits are down approximately 1% with recent volatility in the trends driven by year-over-year timing comparisons. The premiumization trend continues in the U.S. whiskey and tequila categories with higher-priced tiers, particularly in the $40 and above tier growing in value and gaining share. Moving on to the rest of the P&L. In the year-to-date fiscal 2025, our reported and organic gross profit decreased 6% and 1%, respectively. This resulted in 150 basis points of gross margin contraction to 59.4%. However, gross margin improved sequentially as expected. We continue to benefit from favorable price mix, the Jack Daniel's Country Cocktail business model change and the positive impact from our portfolio evolution, which had been obscured by the transition services agreements related to Finlandia and Sonoma-Cutrer. These benefits were more than offset by higher costs and the negative impact of foreign exchange. As we have shared in prior quarters, we expect higher cost in the fiscal year due to the impact of inflation on our input costs and lower production volumes as we work to return our finished goods inventories to more normal levels. Operating expenses in the 9 months of fiscal 2025 were lower compared to the year ago period, largely due to a 6% decrease in organic advertising expense, which is related to the phasing of our brand-building investments, particularly for Jack Daniel's Tennessee Whiskey and Jack Daniel's Tennessee Apple in the current fiscal year as well as comparison against the launch of Jack Daniel's and Coca-Cola RTD in the United States in the year ago period and a 4% decrease in organic SG&A investment led by lower compensation and benefit expenses. As Lawson mentioned in his comments, as a result of our recently announced strategic workforce initiatives, we expect to incur approximately $60 million to $70 million of expenses consisting primarily of approximately $27 million to $32 million in severance and other employee-related costs and approximately $33 million to $38 million in other restructuring costs, including costs related to the Cooperage facility closure. Through January 31, 2025, we have incurred $33 million in restructuring and other charges, which also includes $4 million in other charges associated with the early retirement benefit. We expect the initiatives to be substantially implemented in fiscal 2025 with the remainder expected to be completed by the end of fiscal 2026. In total, reported operating income decreased 13% and organic operating income grew 5% in the 9 months of fiscal 2025. In addition, as we have shared with you last quarter, it was announced that the Duckhorn portfolio would be acquired. With completion of the merger on December 24, 2024, we received cash of $350 million in exchange for our 21.4% ownership interest in Duckhorn and recognized a $78 million gain on the sale of our investment in Duckhorn. In summary, the above results collectively led to a 4% diluted earnings per share decrease to $1.53. Now let's turn to our fiscal 2025 outlook. The operating environment is increasingly volatile due to geopolitical uncertainties and the global macroeconomic conditions, particularly with regards to the tariff environment. we continue to expect that the behavior of the consumer and the level of trade inventories will not change significantly during the remainder of this fiscal year. Based on our year-to-date fiscal 2025 results and the currently known factors, we anticipate a return to growth for organic net sales. We continue to expect organic net sales growth in the 2% to 4% range, guiding closer to the lower end of the range. We continue to believe this growth will be driven by our pricing strategy, along with the benefit from price mix through the evolution of our portfolio and our revenue growth management activities, our emerging markets, innovation and sequential improvement of our developed international markets with the breadth of our growth across numerous geographies. easier comparisons in the second half of fiscal 2025 as we compare against the significant slowdown in total distilled spirits trends as well as trade inventory reductions and the benefit of the full year growth of Gen Mare and Diplomático, which have had very strong results in the year-to-date period. The benefit of price mix will remain a tailwind for reported gross margin, but costs continue to be higher in fiscal 2025, leading to an expectation that full year reported gross margin will be consistent with the year-to-date fiscal 2025. As we have shared, we expected the benefit from lower agave prices to be more than offset by the impact of inflation on our input costs and lower production volumes. Costs have remained higher than planned, particularly for our tequila brands. For these brands, we still expect to benefit from lower agave prices for the full year. Though based on their current performance, it will take longer than expected to work through our higher cost inventory. Our outlook for organic operating expenses continues to reflect investment behind our brands with an acceleration in our advertising expense in the year-to-go period. We now expect a significant reduction in SG&A related to lower compensation-related expenses, coupled with our recently announced strategic workforce initiatives. Based on the above, we continue to forecast organic operating income growth in the range of 2% to 4%, guiding to the upper end of the range. the low and high end of our organic net sales and organic operating income ranges are based on numerous scenarios with the greatest influence from weaker or stronger consumer demand in key markets such as the United States and changes in distributor inventory levels. We continue to expect our estimated capital expenditures outlook to be in the range of $180 million to $190 million, and we are updating our effective tax rate outlook from a range of approximately 21% to 23% to approximately 20% to 22%. In summary, during the 9 months of fiscal 2025, we continue to deliver against our expectations. Our financial performance has sequentially improved with our organic net sales and organic operating income returning to growth in the year-to-date period. These results reflect the strength of our brands and the immense agility of our team members as we have been operating in a highly dynamic environment, which created unusual comparisons. As we near the completion of another fiscal year in our 155-year history, we remain confident in our ability to strategically navigate a highly volatile operating environment to deliver on our near-term goals while remaining focused on executing against our long-term strategy, which is to ensure that Brown-Forman will endure for decades and generations. This concludes our prepared remarks. Please open the line for questions.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question comes from the line of Lauren Lieberman with Barclays.

Lauren Lieberman

So we took a look back at a bunch of transcripts and conversations from the craft boom of the, I guess, what would be like 2014 to 2018, '19 kind of period. And look back at a lot of those things that the company talked about, look back at your business performance and Jack Daniel's continued to grow nicely in the U.S. despite sort of all of this activity in craft.

And something we get a lot of questions about outside of the – how much are people drinking or not is the likelihood of there being a wave of smaller players hitting the market in the next year or 2 with all this excess whiskey that seems to be out there. So I just kind of wanted to maybe Lawson take a step back and think about how you are or are not preparing for an environment where we come back to having a litany of small brands out there, lots of noise and activity, celebrities throw their name on whiskey and how you think about the relative health of the Jack Daniel's and Woodford Reserve brands, frankly, I guess, in the Forester today versus where you were back in kind of 2015 to 2017.

Lawson Whiting

That's a good question, Lauren. So I can't remember what I said last week, let alone 10 years ago, but I will take a stab at it. So look, you're right, there was that wave of smaller – I don't love the word craft, but generally entrepreneurial-led brands that exploded in that time frame as some bulk suppliers really got much, much bigger in that business. When you go back before that time frame, like pre-2010, there really wasn't – it was not easy. There was a huge barrier to entry in the American whiskey category because it was dominated by 5 or 6 companies, including us, and we weren't selling any of our extra whiskey. So that did change things.

But fast forward to today, in terms of industry supply and I mean, the number I've been running with in terms of "craft brands, their market share only got to 3% or 4%. It still seems to be in that range. And I have read that there's more closing that are opening right now by quite a bit. And so I don't consider the industry supply issue to be a battle against the craft brands. It's more all the big players. And you know them all. It's all the ones, all the big – well, they're both public and private companies that would be in there. So now we also know or have been told that these are rational players. These are big, for the most part, big companies that have cut back on the supply. I mean they're slowing down. They're either not opening some new plants that were scheduled to be opening or they are slowing down and furloughing some people, all those kind of things.

So the industry is doing what it naturally is supposed to do, which is to cut back on some of that supply and getting it back in line. And look, it doesn't take very long to get it back in line when everybody starts doing that. I'd even say, if we went back 2 years ago, if you remember, Lauren, I can remember being at your conference, we were reaffirming our guidance at that time, and we missed it. But Back then, we were more scared that we were going to be short, not long. So that situation is dynamic. It changed pretty quickly, and we'll see where we lay out.

Leanne Cunningham

And then to your point on Jack Daniel's performance in health, what we would say is the trend as we've been in this fiscal year, they've definitely been improving sequentially as we've gone through the year from down 6% in Q1, flat in the first half and now to organic growth of plus 2% in the year-to-date period. We see our positive 3-month rolling organic net sales trend. Some of this, yes, is driven by our Japan investment in our own distribution as well as markets like Turkey, where the premium whiskey category continues to grow. And then in the U.S., and I'm sure we'll talk about this more, just it continues to accelerate sequentially also in the U.S. And then if there's anything else you want to add, Lawson on brand health.

Lawson Whiting

Well, look, I mean, the Jack Daniel's brand, I mean, look, it's been a very competitive few years, and it's been challenging. We have made a lot of changes to the Jack Daniel's, I'll call it, brand toolbox to really emphasize different things. And so we're focusing a lot heavier on music right now. So activation, say, at global music festivals, we do a lot of that kind of thing. We have kind of a neat thing where we host songwriters several times a year down in Lynchburg, Tennessee, and they stay on the property and that has had something to do with or at least we think it has something to do with all the song mentions that Jack Daniel's has exploded actually in the last couple of years. So that helps and gives you some confidence that we will remain relevant with a big chunk of our audience. The McLaren, we talked a little bit about this on the call.

We're redefining the way we do Jack's Garage experience, which is the music culture and fusion of racing in there, and we bring it all together. And those have been, I think, pretty successful and we're taking – we're doing new on-premise things. Leanne also talked about that a bit. So there's a lot going on. There's a lot changing. And look, the trends, particularly in the U.S., have not turned like we would have wanted by now, but we continue to get really nice growth out of our emerging markets, which is really pulling the company along and pulling the brand along right now.

Operator

Next question comes from the line of Nadine Sarwat with Bernstein.

Nadine Sarwat

And 2 questions from me. I think in your prepared remarks, you called out the competitive environment for tequila in the U.S. at the moment. in light of some of the price movements we've seen from your competitors, can you talk to your approach on pricing when it comes to your tequila portfolio in the U.S.? And how do you think about that balance of volume versus price when it comes to driving sales growth. And the second question, you called out U.S. spirits market value growth, I think, minus 1 sort of bumping along in the same range versus the last time we spoke. Are you seeing any changes in consumer behavior under meet that headline number that's worth calling out, thinking about it by product, price point or channel, any additional consumer insights would be helpful?

Lawson Whiting

Yes. I mean, look, in terms of – if we're talking about the U.S. here for a second. Look, the – if we're using TDS in the U.S. as the proxy for consumer health, it's pretty flattish, flattish to down. Obviously, that's been disappointing. We would have wanted it to sort of bounce back and expected some growth a little bit faster than it's coming through. But that just hasn't happened. So I do think something that it is new at least or at least new to me, but that we have noticed recently is how much the small sizes are driving momentum and share in the U.S. market.

And the reason I bring that up is I think that's a nod to what we still claim. And I know where your headed, Nadine, but that – we still think that this is largely a cyclical versus a structural change. And the reason small sizes are doing well is more because of the cyclical inflation and it's a consumer that's pinched, and I'm sure we're going to talk more about that. But I mean, the consumer headwind there of inflation and food inflation in particular, is still there.

Pricing in tequila was the other one. Look, yes, as you said, Tequila has become more challenging in I'll say, in the last year that some of the big brands of a lot of them, including Herradura, El Jomidar into decline, and we're working very, very hard, obviously, to improve that. On the pricing side of things, though, it wasn't let me make sure I say this right. Pricing is down – okay, pricing in tequila in aggregate is down 1.7%. So some of the – and it's the big brands that have gotten a little bit more aggressive. Now 1.7% isn't super aggressive. I actually – we sort of had some concerns, it was going to be worse. And if you look at TDF, pricing, not just tequila but pricing across U.S. spirits, it's only down 0.5 point. So I would argue rational heads seem to still be ahead of – our competitors are still acting rather rationally. And while Tequila has gotten a little bit more challenging and a little bit more aggressive on price, it's just by a little bit.

Leanne Cunningham

And I'll just add on a little bit as it relates to our pricing as it relates to tequila is still a bit ahead of TDS. That's all about moving Herradura into that faster-growing price segment of that $20 to $30 range. We have been working on that price, as you heard us say for some time. Soon, we're going to be relaunching the brand with a new premium package, new communications and with some new innovations around it to support that new price positioning and that faster growing price tier.

Operator

Our next question comes from the line of Peter Grom with UBS.

Peter Grom

So I guess I wanted to just get some perspective on distributor inventories just in the context of organic sales growth. Obviously, nice to see a return to growth here in the third quarter. But there still seems to be a nice tailwind driven by the distributor inventory changes. I think it was 300 basis points for the quarter and kind of year-to-date. Leanne, like how should we be thinking about this as we look ahead? Is this just kind of a return to normal and you really wouldn't anticipate any sort of unwind as we think about the fourth quarter for '26. I know you made some comments around the U.S. that would maybe suggest some unwind there. So maybe you can elaborate on that. But – and then just if you were to kind of look at the 6% organic sales growth and think about the core component or the way you guys used to report it at 3% this quarter, do you kind of anticipate this underlying growth to continue to improve as you look ahead?

Leanne Cunningham

Yes. So I'll start with your inventory question. And I think it's really important to go back and get grounded on where we ended fiscal '24. And if you will recall, we ended fiscal '24 with depletions 6 points ahead of shipments. So as you think about where we are this year, we continue to believe that in general distributors are continuing to target the low end of their normal range of inventory. Retailers have adjusted their inventory over the period of time in response to consumer takeaway trends and the higher inflation rate.

If you look at our Schedule B that's in our earnings release, for this time, you'll see that for year-to-date, our shipments are largely in line with our depletions. And actually, our depletions are just ever so slightly ahead of our shipments. So specifically in the U.S., on the last call, we would have said just to ensure a robust holiday selling season, there were some core SKUs for Jack Daniel's, Woodford Reserve and Korbel that we needed to have at the distributor ahead of the holiday selling season. So with the just retailers carrying lower inventory levels, we didn't hit an out-of-stock situation.

So the distributors have largely sold through that seasonal inventory build. And what we expect is that when we get to the end of this fiscal year, the shipments and depletions are largely going to be in line. So we're not forecasting any significant changes in the trade inventory levels. And then your other piece was depletion-based results. depletion-based results.

So I think where we are is you're going to continue to see – we're going to continue to operate in a highly dynamic environment. We think the consumer behaviors are going to be stable. We're still going to get a full year benefit of Gin Mare and Diplomático. Again, we have our growth in emerging markets. We would have also talked about this entire year that innovation was skewed to the back half of the year. We've now launched our Woodford Double Double Oak, which the shipments have come through. We expect the depletions to follow and it's been a successful launch to date as well as our Jack Daniel's 14-year-old product as well.

Operator

Our next question comes from the line of Filippo Falorni with Citi.

Filippo Falorni

I wanted to follow up on Peter's question. Just the amount of shipments above depletion. I know there's an inventory impact in the period – in the year ago period. But how are you thinking like adding into fiscal '26, do you see any risk that there might be like a negative impact or like you feel like you're going to exit the year with a more normalized basis? And then if I can ask a different question on just the thoughts on tariffs. Obviously, there's a lot of hidden uncertainty on the topic, but particularly with the EU, the risk that the introduction of tariffs by the end of the demand, just any perspective on how you're managing the situation from an inventory standpoint? And any thoughts on pricing with response to the tariffs?

Leanne Cunningham

So I'll start with inventory, just to conclude then I'll turn it over to Lawson for tariffs. For F '26 of course, we'll be talking about that in our June call. But again, as we think about where our inventory levels are, they continue to be at the low end of their normal range. We expect that shipments and depletions largely are going to come back into line for this fiscal year. So depending on where the year ends, we'll guide more on '26 when we get to June. But right now, everything remains stable in the inventory arena.

Lawson Whiting

Okay. Tariffs. I didn't think we'd make it 15 minutes in this call without getting to tariffs first. But Look, just to start out with a little bit, the conversation around tariffs, one, well, it's obviously bigger than Brown-Forman, and it's bigger than our industry and every day seems to unfold a different twist on the story. So there's not that much that we can really say. I can tell our competitors and everyone that we're working with is shooting to try to get reciprocal 0 for 0 tariffs. That is our key ask, maybe that's obvious, but to try to keep this industry out of these trade wars. So we're going to continue to prepare. We've unfortunately, we've done this before. We've learned a bit, and we're committed to really trying to do the best we can for both our consumers and our stakeholders. And we think we know how to do that. So now you asked about the EU and sort of what's happening there. And look, the EU tariffs, I mean, it's a real possibility, obviously. I mean they automatically roll over on March 31.

We don't know where this thing is going. We don't know any more than you all know. The 25%, it could be 0, it could be 25%, it could be 50%, and we actually don't know yet. But we do know that the EU is trying to engage with our administration, and they've – so far, they've not announced any retaliation. So that's where it's – there's not a whole lot more we can say. this reciprocity issue, though, I think, is very, very important, and we're going to continue to push that and our competitors are doing something similar. And – but if it doesn't happen that way, if it rolls out where they're coming after American whiskey again, and we don't have a situation of reciprocity, then the market for spirits once again gets very distorted. That is a big disadvantage for us. But we really believe that that's not going to be the case, and we're going to try to continue to believe and hope that American whiskey is not involved in this big dispute. So on what we've done in preparing for this, I mean, it is – and I said this on the last quarter's call, too, it's a tough thing to talk about. It's very competitively sensitive. And so we're not going to say very much, but know that we do have measures in place, and we're obviously watching this thing about as closely as we possibly can.

Leanne Cunningham

And then the only thing that I'll add to that is, as you know, this is a highly volatile situation that we can't predict what's going to happen. So just from a financial perspective, as Lawson said, we've been executing on multiple risk mitigation plans for most of this fiscal year. And with the situation as fluid as it is, we can say that any impact on any type of tariff would be included in our F '25 guidance, and we just believe it's prudent to wait until June to share any other thoughts on the potential impact going forward.

Operator

Our next question comes from the line of Andrea Teixeira with JPM.

Drew Levine

This is Drew on for Andrea. So just following up on that thread, Leanne and Lawson the tariffs on Mexico and Canada. I think Canada is removing some products from the LCBO. So can you maybe quantify the impact that you're building in on the fourth quarter? And then separately, maybe you could shed some light on how holiday performed versus your expectations in the U.S.?

Lawson Whiting

Why don't I take the Canada piece and you can talk about the holidays a little bit. So yes, so Canada and Mexico and the EU for that matter, all – there are different situations there. So I wouldn't try to – you're not mixing them up. But I mean, recognizing Canada particularly is different than the others. So they – yes, yesterday, they removed basically American, not just beverage alcohol, but a lot of American-made products have come off the shelves in Canada, which is tough. I mean that's worse than a tariff because it's literally taking your sales away. Completely removing these – our products from the shelves, we – that's a very disproportionate response to a 25% tariff. So frustrating, and we're going to continue to try to fight for getting, as I said just a minute ago, these reciprocal to 0 for 0 tariffs is the best thing for our industry as a whole.

And we're going to see how that all plays out. Now Canada is not a massive company for Brown-Forman, and it's around 1% of our sales. So we can withstand. And it's disappointing that some of our consumers aren't going to be able to get our bottles of Jack Daniel's up there because it's a big brand in Canada and popular, but we will see how this plays out and the rumors continue to float around Canada every day. So Mexico, we're going to have to see what happens with Mexico. They haven't announced anything either as specific of what is going to happen there. And I think we'll have to see when that actually comes out into the public.

Leanne Cunningham

Yes. So then to your other part of your question, I would say, in general, the holiday selling season at the enterprise level was as we expected. Not a lot of change in consumer behavior, though, the consumer does continue to be more mindful of their spending. Many shoppers are prioritizing deals and promotion because they continue to be stretched. And this year, kind of what was different for us, and we've already talked about that is last year during kind of the end of the holiday selling season. That's when distributors began to move from the midpoint of their normal range down to the low end of their normal inventory range.

But all in all, we continue to see it was a bit more of a promotional operating environment during the holiday season. We personally, we increased our price competitive, but we didn't as any of our suppliers. And I would say the percentage of the volume sold on promotion for us was at the midpoint of our competitive set. So again, as our theme is our results continue to be in line with our expectation in the holiday season kind of unfolded as we expected.

Lawson Whiting

One thing I think it's worth going through again, and we've done this now on – I know the last few quarters is this whole argument or debate, I guess, on structural versus cyclical changes in our industry. And I do want to remind everyone, one of the points, I guess, that somehow I think is getting lost a little bit. If you back up in time – let's actually go back up 20 years. A quick summary, U.S. spirits market ran between a 4% and a 5% for literally decades. And that was based on some premiumness helping.

We had spirits taking share from wine and beer, you have population growth, you had all these things, and it made in for a multi-decade run of really, really healthy growth. You had COVID come, shot up. And then we went from kind of summer, fall of 2020 for 3 years straight, the spirits market really globally was on fire and had really, really strong growth rates.

To the point everybody will remember, we couldn't supply at all because the demand was so high. Fast forward to what has happened over the last 18 months. In the summer of '23, beginning of the fall of '23, I remember standing on Labor Day weekend proclaiming that the U.S. market was growing between 5% and 6%, still looked healthy, everything felt great. from September of '23 to December in literally 4 months, the market went from plus 6 to 0 and then it ran at a minus 2 for all of 2024. I say all that because I don't believe the big structural things that people talk about all the time, GLP-1s, cannabis and Gen Z, that does not take 6 or 8 points off the U.S. spirits market in a period of 5 months. I just don't believe that. And there's just no way that it could have that dramatic of an effect.

And I truly believe that it's still inflation that is inflation, and we talked about the some of it in our prepared remarks, but just a consumer whose pocket is lighter right now, and they're struggling through it. So I'm not trying to be naive that GLP-1s and cannabis are not a long-term headwind. I do think they're out there. I just don't think they are the driving factors of what is affecting the spirits market today. Gen Z is a little bit different in terms of headwinds.

It's – that's obviously the younger consumer who doesn't have – they're getting their first jobs out of college maybe or whatever it might be. They just don't have the money in their pockets to be able to do things. So I would – I think some of the popular press is sort of overreading into Gen Z and what they are doing. I think that Gen Z will come back. And in fact, some of our internal studies, this would be something new. I don't think we've said. Some of our own internal work when you get to sort of in that 35 and up age group, we're actually seeing per capita going up in the United States, which I don't think a lot of people have said much around that.

So look, spirit is going to continue to take share from beer and wine. I don't really see a reason why that would change. I talked about premiumization, tough right now. there's not a lot of premiumization happening, but even in the medium to longer term, we feel pretty good about that. And you've got a population boom of people turning – turning '21, at least for the U.S. and that – those numbers are improving. So there is a balance of both headwinds and tailwinds that we're dealing with.

Operator

Our next question comes from the line of Eric Serotta with Morgan Stanley.

Eric Serotta

A couple of cleanup questions. First, in terms of California and the distributor transition there, are you expecting anything unusual or visible in fourth quarter results from RNDC, I guess, selling down inventories, Sazerac building inventories? Or do they just sort of wash out or net out to something not material in the quarter? Then in terms of your finished goods inventories, I believe you spoke coming out of last fiscal year, starting this fiscal year that your finished goods were on the high side and you'd be throttling back production a little bit.

Just wondering, is that done? Are your finished goods inventories now in place that you'd like? And then lastly, emerging markets, you are putting up some pretty nice org sales growth there. Just wondering how much of that is coming from pricing versus volumes? Are you seeing some pretty big inflationary pricing in markets like Turkiye? Or is a lot of this growth coming from volumes? I'm sorry for multiple questions.

Leanne Cunningham

Okay. Great. Well, I'll start with California. We have all of our teams through RNDC, Brown-Forman and Reyes all working to have a seamless transition. Again, we believe that as we go through kind of the rest of this fiscal year that we will see a seamless transition and not a negative impact as we go through this transition. Again, we have been with Reyes and we've expanded our relationship with them, but we continue to be a huge partner with RNDC across the other 23 states.

So we're all working together to ensure that seamless transition. From a Brown-Forman finished goods question perspective, we have been working over this fiscal year, as we've talked about with lower production to adjust our finished goods raw material inventories back down to more historic levels.

We've made significant progress in that. I would like to believe we definitely have more to go. You'll see that impact somewhat muted because of our continued execution against our tariff mitigation strategies. So that will become more visible over time. And then in emerging markets, it's dependent on the market because Brazil, we have geographic expansion. For Turkiye, again, you talked about with the inflationary market there, we are taking pricing, but then it continues to be a market where the premium whiskey category continues to grow. So we have a mix, and it's just on a country-by-country basis. But I think probably one thing I will add to that is we have said over time and it came out of our Investor Day that Brown-Forman's opportunity in emerging markets was an opportunity that I think we heard from a lot of you all that we said was underappreciated. And this is a moment where we're seeing that growth come through in those markets.

Operator

Our next question comes from the line of Bonnie Herzog with Goldmansach.

Bonnie Herzog

All right. Actually I was hoping for a little bit more color on your marketing and advertising spend in the quarter, which was scaled back a little bit. And so I just – and I think about that in the context of the lift you saw in your margins and certainly EPS and near term, but just maybe help us understand the strategy behind your spend levels moving forward, especially in the context of brand building and driving the recovery that you kind of are highlighting?

Leanne Cunningham

Okay. I can let Lawson talk about brand building. I'll just talk – at the highest level, where we've always said our brand spend is generally in line with our top line growth. The key there is we always say that it assumes no impact from a change in distributor inventories or otherwise said kind of more in line with our depletion-based top line growth because we are continuing to invest, particularly in Jack Daniel's Tennessee Whiskey, and we're focused on maintaining and growing their share of voice for that long-term brand equity. And Lawson, I don't know if you want to.

Lawson Whiting

Yes. I mean, as Leanne said, we tend to have a brand expense move with our underlying sales growth. That doesn't – that – I mean, that's not particularly strong right now across much of the industry. But I think importantly, we're going to continue to invest strongly behind the brand. As you know, we had a pretty big reorg around here – almost 2 months ago. Some of that investment will go against incremental brand expense, brand investment, advertising, all that kind of stuff. We are working through that right now. We've – it's really not a factor in fiscal '25, and we're going to see what it looks like for fiscal '26. I think we'll probably talk about that more on our next conference call, but there will be incremental investments coming to support the brand growth.

Operator

Ladies and gentlemen, due to the interest of time, I would now like to turn the call back over to Sue for closing remarks.

Susanne Perram

Well, thank you. And thank you, Lawson and Leanne, and thank you to everyone for joining us today for Brown-Forman's third quarter and year-to-date fiscal year 2025 earnings call. If you have any additional questions, please contact us. We look forward to participating in the UBS Global Consumer and Retail Conference in New York next week and hope to see many of you. For those of you unable to attend, our fireside chat will be made available as a webcast accessible via the Brown-Forman corporate website under the section titled Investors, Events and Presentations.

With that, this concludes today's call.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.