Brown-Forman Corporation, Q1 2012, Earnings Call 2011-08-31

Presentation

Operator

Good morning. My name is Crystal, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter Fiscal 2012 Earnings Conference Call. — ***Operator Instructions*** — Thank you. Mr. Ben Marmor, you may begin your conference.

Ben Marmor

Thank you. Good morning, everyone, and thank you for joining us for Brown-Forman's Fiscal 2012 First Quarter Earnings Call. This is Ben Marmor. Joining me today are Paul Varga, our President and Chief Executive Officer; Don Berg, Executive Vice President, Chief Financial Officer; and Jane Morreau, Senior Vice President, Finance. Don will begin our call this morning with a few remarks about our quarter, our guidance and recent trends, then we will open up the call for questions.

As always, 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 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 fiscal 2012 first quarter. The release can be found on our website under the title – under the section titled

Investor Relations. We have listed in the press release 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, Form 8-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 and the reason management believes they provide useful information to investors regarding the company's financial conditions and results of operations are contained in the press release. And with that, I will turn the call over to Don.

Donald Berg

Thanks, Ben. Good morning, everyone. This morning, we issued our fiscal 2012 first quarter earnings release and reaffirmed our expectations for the fiscal year. In many ways, this is a continuation of the improving performance story we've been seeing over the last year or so. With this first quarter, we believe there are 4 key takeaways.

First, we believe the year is off to a good start, particularly as it relates to our net sales and operating income performance. Overall, we are about where we expected to be on an underlying basis, although the mix is a bit different. Once again, our geographic diversification played an important role in our results. Our international sales grew quite well with underlying sales up 8%. Our underlying U.S. sales growth was similar at 7%. Together, they netted to a 7% organic growth rate, a notable improvement over our fiscal 2011 full year trend of 4%.

For operating income, our 7% underlying growth improved compared to the fiscal 2011 growth of 6%. So in total, we continue to be pleased with this direction in our trends.

A second key takeaway is that our growth continues to be fairly broad-based, especially geographically as well as from innovation. I'll expand on this more in a moment.

A third takeaway is that although foreign exchange rates improved reported results for our first quarter when compared to the prior year, they are still relatively in line with the rates we used for the fiscal 2012 guidance that we provided in June. Therefore, our position within the guidance range has not shifted much due to changes in foreign exchange rates.

The last key takeaway relates to our guidance. Incorporating my previous comments on foreign exchange, and considering that the quarter's performance was generally in line with expectations and given how early we are in the fiscal year, we confirmed our full year guidance of $3.45 to $3.85 per share. We also kept unchanged our underlying operating income guidance of mid- to high-single digits.

Let me spend a few minutes talking about our sales performance. Starting with our international markets, Germany continued its strong growth where we believe we are benefiting from the route to consumer change made last year when we began directly selling to the trade in this important market.

We also believe this particular quarter benefited some from a buy-in, in advance of an August 1 price increase. Sales in Russia were also up as we cycle against weak comparisons in the prior-year period where the business was slowed in advance of some route to consumer changes there. Brazil showed strong net sales growth due to higher realized price due to our route to consumer change last year, which enables us to capture the margin we previously paid to our outside distributor. France, the U.K. and Turkey all continued to have strong underlying trends. And if you look at our emerging markets altogether, they grew at a double-digit rate.

We experienced net sales declines during the quarter in Poland due largely to a slowing premium vodka category. Spain continued to show weakness with soft consumer takeaway trends related to the difficult economic conditions. And also, we saw modest sales declines in Australia, which we believe is largely a result of competitive pricing activity in the market.

Moving on to our portfolio. Our performance was led by the strong growth of Jack Daniel's Tennessee Whiskey internationally where the brand saw solid gains with Turkey, Germany and France among the strongest growers. The brand also returned to growth in the United States, where we believe we have the opportunity to further improve the brand's trends.

Jack Daniel's RTDs performed very well for the quarter due to gains in Germany and Mexico, as well as geographic expansion of various expressions in the U.S., Poland, South Africa and Japan.

Let me spend a little time talking about Jack Daniel's Tennessee Honey. As you all know, the brand was launched in the U.S. in late March. It is off to what we believe is a great start and the results, so far, are encouraging with excellent initial reception from both the trade and consumers. This brand is playing in an exciting and emerging category within the U.S. spirits business.

Internally, we've debated what we should actually call it, the flavored whiskey category, the flavored brown spirits category. But what we do agree on is that, thus far, it has been exciting for the Jack Daniel's trademark, and for the U.S. business. According to the latest Nielsen trends, in its first 4 months of sales, Jack Daniel's Tennessee Honey was larger than the 4-month sales for Evan Williams Honey, Wild Turkey American Honey and Red Stag combined.

Nielsen data also reveals that Tennessee Honey is driving most of the growth of the Jack Daniel's trademark in the U.S. To illustrate, last year in the first quarter, the Jack Daniel's Family Nielsen takeaway for net sales was a minus 1%. Using the same Nielsen source for this year's first quarter, the Family was up over 10%. All expressions, Jack Daniel's Tennessee Whiskey, Gentlemen Jack and Single Barrel are all growing and have all shown acceleration in Nielsen's versus last year's first quarter. So we are encouraged by the impact the Tennessee Honey is having on the rest of the Jack Daniel's family.

To date, we have seen no signs of significant cannibalization, and we believe that the brand has provided a nice halo for the rest of the Jack Daniel's portfolio. We also believe that the brand is attracting new consumers and new occasions into the franchise.

Let me also provide a little more color on the strength of Jack Daniel's global performance in the quarter. The Family of Brands net sales were up double digits on an underlying basis. Some of this acceleration and growth is the result of expanding our RTD offerings, our continued geographic expansion and the initial success of Honey. Some of this performance was specific to the quarter. For example, we did experience some retail inventory builds in advance of certain price increases. There were some markets such as Russia with soft comps, and we believe we are towards the end of the initial distribution push and trial phase of Honey. Thus, over the balance of the year, we do expect some moderating trends and giveback around the world for the trademark. All of these factors have been considered in our guidance.

Looking at other aspects of our portfolio, performance was mixed as gains for several brands, including Chambord Vodka, Herradura, Sonoma-Cutrer and Woodford Reserve were offset by declines in some brands including Southern Comfort, Korbel and el Jimador. As with Jack Daniel's, we are using innovation as one of the key initiatives to reverse the trends of some of the softer performers. For example, we are particularly pleased with Herradura. Last fiscal year, we introduced a new package, and performance in both the U.S. and Mexico has accelerated with the first quarter's net sales growing at double digits.

For Southern Comfort, we continue to see good growth for its lime-flavor extension, and we are about to launch a pepper version in the U.S. in a partnership with Tabasco, another iconic Louisiana brand. In addition, we are introducing lime and RTD extensions into new overseas markets, and we have other plans for the future, both in terms of flavor expansions as well as additional geographic development.

So in summary, we are off to a good start, our international growth continues with an 8% underlying first quarter performance, the Jack Daniel's Family of Brands performance has accelerated, and based on its first quarter performance and recognizing how early we are in the fiscal year, we are reiterating our guidance of $3.45 to $3.85 per share for the year.

So with that, let me open the call for any questions.

Question and Answer

Operator

— ***Operator Instructions*** — Your first question is from the line of Vivien Azer with Citigroup.

Vivien Azer

My first question has to do with the top line growth. I'm wondering whether you could quantify for us what your sales growth in the quarter would have looked like x the sell-in of Honey?

Paul Varga

Sure. Vivian, we don't really disclose on a brand-for-brand basis. But I think when you look at that overall top line growth, a few points did come from all of the different innovation that we've been doing around the globe. And I think about it that way.

Vivien Azer

Fair enough. I've been really impressed with the category growth that we've been seeing in Nielsen on – for bourbon and the acceleration that you guys highlighted in your own results. I'm just wondering, does that at all change your outlook for your growth in the U.S. that you talked about last quarter?

Paul Varga

Well, Vivian, it's – I mean, we think it's a help. Clearly, depending upon how you're measuring the impact of some of the flavored whiskey and reductions, that's one, of course, new and exciting area to it. But the ultra-premium and superpremium expressions in what we think are American whiskey and bourbon continue to do extremely well too. So I think it's been building over the last couple of years. And of course, some of the new introductions associated with flavored entries are adding even more fuel to it. But if you just look at almost any of the metrics around whether it's bourbon in North American whiskey, what you're seeing is in relatively short order, over the last couple of years, they've started to compete at or above the level of distilled spirit growth.

Vivien Azer

Yes, absolutely. My last question has to do with the investment spending. It is clearly paying off. It did come in a little bit higher than I had been looking for in the quarter. I was wondering if you could help us think about how flexible you are in terms of your investment spending. If you're seeing it working? Can you double down in relatively short order on kind of – through television, I've been noticing a lot of kind of 15- and 30-second spots, which I would imagine are pretty easy to buy. Just in terms of helping us think about kind of the flow of investment spending for the rest of the year.

Paul Varga

Well, I mean, the examples you gave are perfect examples of the way we've been looking at it for the last couple of years. I mean, to really look at it, to get the intended impact, both short and long term. Sometimes, devices like 15s and 30s help. I mean, a lot of what you would have observed here more recently were very much associated with either new launches like Tennessee Honey or just new ideas, new creative ideas to support, for example, Jack Daniel's had some incremental media in the quarter. But we think there's a lot of the A&P spending, and it's on a percentage change for the first quarter, is – it's not likely to repeat itself through the course of the fiscal year. I mean, we just – it just happens to match up with the launch, which is very normal when you're having a pretty good-sized launch like Tennessee Honey. You're going to invest in a lot of ways to support it, which we did starting with the first quarter of this year.

Operator

Your next question is from the line of Lauren Torres with HSBC.

Lauren Torres

I was just hoping you could talk a little bit more about this acceleration you're seeing in the U.S.? Recently, we heard similar comments from Diageo. They were talking about premium and superpremium brands doing quite well. Just curious what you're seeing from price points, maybe by channel? If you think that this acceleration is sustainable? I know we still see these high unemployment numbers. So just curious what you think is really driving this? And I guess just thinking out more than this quarter, is this type of growth and acceleration sustainable?

Donald Berg

It's a good question. I mean, certainly, what we've been seeing similar things to what you are referring to. If you look at some of the NABCA data, and you look at what's happening along price points, I mean you do see kind of at that ultra-premium level and superpremium level, some of the higher growth rates. You see a little bit of a mixed bag, kind of in the middle. I mean, they're all growing nicely at this juncture. On-premise seems to be now growing, kind of at a 1% rate on a 12-month basis when you look at NABCA, so it's an improvement. It's probably not as healthy as what we would like you to see, but it's certainly better than what we were seeing over the course of the past 2 to 3 years. And so that's all very encouraging. There is a lot of obvious uncertainty out there from the standpoint of what a lot of the things are happening in the economy today are going to translate to down the road. And we do keep our eye on consumer confidence levels, and they bounce around quite a bit, and they've taken a bit of a dip here more recently. And so there still continues to be concern on the horizon. We hope it can be sustainable. We're obviously coming into the important holiday period here, and so we'll keep our eyes closely focused on that. But we're encouraged by what we've seen up to this point in time.

Paul Varga

I think I might add just one. I mean, it just feels, to us, I mean, because these numbers jump around when you look at the on versus off-premise growth. It just feels better, I think, in terms of stability of some of this on-premise. It's not roaring back, but it's better for sure in my view than it was a couple of years ago. It's been slow to come back, I think, I mean, because it's been a few years here that it's been soft. And that has – that might have an impact as well on sustained recovery. All the indicators Don talked about, I think, have an influence on that. The other thing that I think is in this U.S. market is the surge of just new ideas and innovation that have come to the market. And on some level, you have to look at the numbers closely, you wonder if that is adding to the market, in fact, growing the market in addition to just swapping share out between brand trademarks. And so a lot of the reports over the last several quarters have shown that new products and innovation as a percentage of the total growth have been rising so I think innovation can play a role in it. And of course, you always worry then, is that do you get over – does the market get stuffed with innovative products. But I do believe in the last couple of years, it's adding to the growth, and it's because consumers have an interest in it.

Lauren Torres

And you mentioned too, we're getting close to the holiday season or the selling season. So I know we had rather a promotional or high-level promotional activity last couple of years heading into holidays. Are you kind of concerned that we'll see something similar this year? Or has, in general, for yourself and maybe the industry, have you seen things a bit more rational and you think that's what we'll see heading into this holiday season?

Paul Varga

It's certainly – it's too early to tell what we're going to be seeing in the holidays, but certainly more recently, things have been far more rational than what they were. And one of the other encouraging things is again, when you kind of look at the NABCA data, and you look at what's happening in the price mix arena, there has been a little bit of improvement there. So I mean, overall, the industry's growing at around a 4%, 4.5% rate and somewhere around 1% to 1.5% of it's coming from price mix. We think a lot of it is coming through mix based on comments we were talking about earlier, in terms of starting to see some of the improved trading up. But it does look like it's a much more healthy environment than what we were seeing a year or 2 ago where there was some pretty heavy promotional discounting going on.

Operator

Our next question is from the line of Tim Ramey with D.A. Davidson.

Timothy Ramey

I was hoping you might give us a little bit more color on the decline in gross margin. I would have – and anything can happen in a given quarter, I know, but over time, I assume that the sales of the Hopland winery assets will be positive to mix on gross margin. Can you give us any more clarity around that?

Jane Morreau

Yes, Tim, this is Jane. In terms of the quarter, and I think it's actually something that we signaled at our year and. We were starting to see cost pressures coming at us, not only from fuel prices, which have stabilized a bit recently, but higher fuel prices, higher glass cost and higher corn prices. And so it is coming in that line item on cost and we expected it to pressure us this year, despite the fact that – you're right in noting that the Hopland brands went away, but we are seeing higher cost, we expect it to be sustained for the balance of the year. So we were expecting to have somewhat of a lower, I guess, gross profit, or gross profit margin percent growth.

Timothy Ramey

Got it. And then also, just on the buy-in in Germany, is there any sense of how big the impact of a trade load might have been there?

Paul Varga

In terms of numbers of months or weeks? I mean, I would actually…

Timothy Ramey

Or just how it contributed to sales growth perhaps? If…

Paul Varga

It's fairly typical, but depending upon – it would vary by customer and actually, the thing I found sort of encouraging about the fact we were disclosing to you all that we had buy-ins, in fact, there were buy-ins in advance of a price increase. So oftentimes, we all have been curious about the pricing environment out there. Well, there's one such example where the prices were going up and it was a buy-in, but I don't have any estimate of numbers of cases or months or weeks.

Jane Morreau

Germany alone is not a big deal. We were trying to signal was – there was a lot of activity going on in the quarter.

Operator

Your next question is from the line of Ian Shackleton with Nomura.

Ian Shackleton

Two questions. You flagged up some price increase in markets like Germany. I just wondered whether you were doing much in the U.S. ahead of the holiday season, because I guess you'd have to be moving now really. And the second question is from a wholesaler sentiment point of view, I guess we've heard some talk about wholesalers feeling less confident in the last few weeks. Are you seeing any adjustment to their stock levels?

Paul Varga

Well, — ***indiscernible*** — as it relates to pricing, Ian, we have seen a little bit in the United States, market by market, and some instance side-by-side, there's a few where because of competitive activity, you've seen a little bit more discounting. I know for a fact the Tequila business for el Jimador has experienced this, it's just really competitive in terms of pricing, a lot of the key markets for tequila too. It varies brand by brand, and I think even within brands, sometimes by size as a lot of retail activity skews sometimes the larger sizes. But versus a year ago, we are attempting to find more opportunities to get those front-line prices up where we can get them. But we're not in an environment where you can take just what I call wholesale, large percentage price increases we would have all seen in the mid-2005, 2006-type period. I'll let Don comment on the distributors. We just had a distributor partnership meeting here a couple of weeks ago where we had, and we periodically do this. And I would've gone totally the opposite way from which you were picking up in terms of their enthusiasm. And they have been – they were really excited about some of the new activity that we've been putting in the market and innovation, but just generally, we felt like they were observing a little bit of bounce in the on-premise, they were feeling okay about the business. They also would declare, it's really competitive out there, as it always is. But I wasn't picking up in my conversations with them, any waning sentiments about the U.S. And I'll let Don…

Donald Berg

I'll agree with Paul. I mean, I haven't heard anything that would indicate anything other than a fairly nice level of confidence actually. And if anything, we've actually seen, at the distributor level, a slight pickup in their inventories, which, I'm not sure if I would attribute that to confidence coming in at the holiday period coming up or if it's just kind of just normal course of business, it's probably more the latter than the former. But certainly, we're not hearing any kind of voices of concern out there.

Paul Varga

Of course, our inventories would be up with them just because of the introduction of Tennessee Honey. I mean, that's just a new product they didn't have last year, and with some of the innovation, at times you're putting in a little bit in advance of the introduction anyway. So with our company, I think this year, they would have a little higher inventories because of the introduction of Tennessee Honey.

Donald Berg

And for those, Ian, just to be clear, I mean, those comments that we're making of that distribution tier, any of that impact comes out in our calculation of underlying sales. And when we report overall underlying sales of 7%, that already excludes any of those inventory impacts at the distributor level.

Ian Shackleton

Okay. One of the points you may have answered, unfortunately, you broke up for us, but on A&P for the year, sorry, advertising for the year, are we expecting a more normal increase, presuming the Honey uplift will be there for a couple of quarters, but will start to mitigate as we go into the second half, will it?

Paul Varga

That's a correct assumption, yes.

Donald Berg

Yes.

Operator

Your next question is from the line of Ann Gurkin with Davenport.

Ann Gurkin

I wanted to start with Australia, can you give me any more detail about volume, price mix, pricing, anything else?

Donald Berg

Sure. For – on the overall sales, our price mix was about 1.5 percentage points. We think it was mostly mix. And then the rest would be volume, that's gearing against a 7% underlying net sales rate.

Jane Morreau

That's for the whole company?

Donald Berg

The whole company.

Paul Varga

Were you asking specifically about price mix in Australia?

Ann Gurkin

In Australia, yes.

Paul Varga

Okay. But we broke up too. I think I heard it the same way Don did. I mean, I would have to go look to see what price mix was and I'll check. I mean, we can talk a little bit about, we just – I mean, part of it is, we had taken some pricing down in the Australian market. And so that would have had a positive impact on price. But that is a really competitive particularly RTD market. So I think part of the impact there is just reaction to the price increases that we were taking back in the spring. And as always, with a particularly competitive marketplace like the Australian RTD, you look at that and see what you can do to do your best balancing in price and volume, we do that in every market everywhere. But it was – it had a softer quarter as a result of that.

Ann Gurkin

Okay. Great. And then with respect to innovation, can you help me understand how you think about pricing that innovation versus the underlying brand? Are you going to use pricing? Will you increase prices on innovation to kind of raise the bar? Can you help me understand that strategy?

Paul Varga

Yes, I mean, I'll tell you. There's a couple of different influences, and I know – I don't want this to sound like a copout but it really varies, expression by expression. And it will be dependent a little bit on pricing, somewhat on formulation too. Oftentimes, some of the innovation can be at lower proof levels than the parent trademark, and that has to do – that'll, of course, have an impact on gross profit. When you move into where a lot of the RTD innovation has been, of course, you've got a, I mean, really different sort of price volume relationship there, and you have to look at it a couple of different ways. That's why in our schedules, we've provided on a nonliter and an equivalent basis, so there's adjustment factors we make around the world for per case profitability and actual what the size of the business is. So we're looking at that regularly. I mean, we try, because anytime, depending upon the line **— *indiscernible* —**, you're always sensitive to whether or not you're going to be cannibalizing. So in your efforts to formulation or putting the product out in the market, you want it to be either where it's neutral or at best for you, particularly with these premium line extensions, you want it to be favorable to the extent that somebody trades an occasion from the parent. So we look at that awfully close. But I would say it varies depending upon the trademark and whether it's a full strength or an RTD.

Ann Gurkin

That's just our experience that companies that innovate, bring out great new products, kind of use that often to raise the pricing more, to raise and improve the mix and so I was just curious if you were using that philosophy or...

Paul Varga

Yes, I'll give you an example. The Jack Daniel's Tennessee Honey in the United States is a 70 proof product versus Jack Daniel's Tennessee Whiskey which is an 80. And their line price, I mean, it will vary market by market, but they were targeted to be line price with one another. So that'll give you an indication that you got a favorable overall cost structure basically the same price. So that does improve mix between the 2.

Ann Gurkin

Fair enough. And then the domestic spirits industry for the calendar year, do you think it should be up in the range of 4% to 4.5%, is that a fair target or?

Paul Varga

Are you – the sales dollars or volumetric?

Ann Gurkin

The domestic volume for the U.S. spirits industry.

Paul Varga

Volumes, that sounds like – I mean, it just sounds, — ***indiscernible*** — pick it up from what I've been seeing in terms of numbers, but maybe dollars. I mean, it will depend. We look at a bunch of different sources, and we've been seeing that it always depends on what the mix of activity is here in the last 4 months, whether it's more premium or less premium. But I mean, my guess would be something in the 4% to 5% range on dollars for the industry would be great.

Ann Gurkin

And with that – in that 1% or 1.5% mix, is that fair?

Paul Varga

I mean, I'd have to study it. But yes, if we go back on it, we have still continued to see benefits from mix and pricing of slightly above the volumetric growth.

Operator

Your next question comes from the line of Kevin Dreyer with GAMCO Asset Management.

Kevin Dreyer

I was just curious if you could quantify at all the impact of the pipeline fill of Tennessee Honey in the quarter.

Paul Varga

In terms, there's a – let me just answer it this way. There's a couple of different ways we think about it, but most of which we don't disclose. I mean, what I will say on it is that the inventory builds between, that we would be taking out in the data we provide to you, Tennessee Honey is captured in there, and those would be the initial inventory build at the wholesale level that we would strip out between our reported top line growth and our underlying top line growth. So all of our estimate of that pipeline build is in there, and we don't disclose what kind of estimates we would be making on retail inventory.

Kevin Dreyer

Okay, fair enough. Also just at the consumer level, curious especially towards the end of the quarter in July, in late July, maybe early August, are you seeing any change at all in the U.S. consumer? Maybe in the on-premise or people pulling back at all? Obviously, you seem pretty positive about your overall U.S. business.

Paul Varga

Well, it just started to improve here in the last few months so that's why you're picking up in both our reported results, but also maybe in our tone. I mean, for us, I mean, I'd have to comment on us. I mean, I think part of this, is we are participating in something that U.S. segment or the U.S. distilled spirits industry had been seeing prior to us. So we were actually, in my view, in some ways playing catch-up to where a couple of our competitors were out in front of us. And we're really pleased that we've, so far, got some initial good reaction to this, what I'll call just interest in varied drinking occasions, and flavors are playing a big role in that, and the consumer and trade both seem kind of interested in this area. So that's why we've talked a little bit about it. And the thing that I find most encouraging about what we're seeing from Tennessee Honey, it's why we've actually had a hard time defining one specific segment for it, is that it's really tapping into a range of ways that the consumer's using it. Meaning, it's basically being consumed both straight and mixed. Who is using it? We're getting a wide variety of demographic interest in the brand. Even where, it's both on and off premise so far that we've seen. And I think it'll be interesting to see as the months go, I mean one thing that's been encouraging to us is that we introduced a whiskey-based product in the warm weather months of the U.S., and it'll be interesting to see, normally people would skew whiskey-based products toward the cold weather months. So it's almost having some success in some ways, and people might have stereotyped it as being seasonal, this is a counter-seasonal introduction, and it's done pretty well. So far, it's showing great range, which means it may be tapping into a lot of different occasions and a lot of different consumer segments, and we'll just have to see where it goes. But it makes it a challenge to say, "Well, what is this segment?" But it's clearly one of the new things in the last 2 years in the U.S. that is creating some excitement, not just for us but for other companies as well.

Operator

Your next question is from the line of Thomas Russo with Gardner Russo and Gardner.

Thomas Russo

Paul, 2 questions. The first has to do with an observation. Last night, I met with a couple in New York, who have historically been French wine snobs. And they described to me their quest to find yet the next small batch bourbon out of Williamsburg, Brooklyn or up the Hudson. So they also, for some reason, not only would taste bourbon, but also they are now singing rye whiskey's praises. I would have guessed neither of these trends 3 years ago. And I wonder whether within Brown-Forman, you have any portfolio items that you can sort of use to reposition to address this quest or also just your views in general about the pressures maybe felt by that crest and artisanal spirits category that seems to grow?

Paul Varga

That's a real **— *indiscernible* —** I was mentioning earlier, the super premium and ultra-premium expressions are causing a lot – I didn't segment it down to what I think you're calling the artisanal or the micro-distiller, there's a lot of action in that area all over the country. And I actually like to think that Woodford Reserve at Brown-Forman was the original, and it's doing very, very well for the company both here in the U.S. and in selected international markets. And at times, we have a Masters collection that is added to that, that has tapped into the expression such as rye and other more – even that would be offshoots of the base Woodford brand that are basically these artisanal expressions. And so, we've had some of that. We've done it at times with Old Forester. There, I think for a whiskey company, you have to stay alert to these possibilities. And it's one that we've been looking at from a variety of different angles. But we've also – we have taken note of both the rye growth in key markets around the U.S. and also the creation of some of these micro distilleries. So it's something we'll always continue to look at. That area, even through the most difficult economic times, stayed pretty strong. That's real ultra-premiums and superpremium. Of course, you always have to make those products well in advance of their time in the market. So that's always one of the factors for the aged products. But it's a pretty exciting area.

Thomas Russo

Yes. It's fragmenting quickly as well. The other question is the Jack Daniel's domestic core bottle seems to have a higher shoulder, is a more square expression. Talk a bit about how that's been rolling out both on-premise and off-premise and what's your feedback from the trade and from the consumer.

Paul Varga

Well, so far, so good. It went out – it started to roll in the spring, and we think it's largely getting into distribution by now. I mean, there's still, I'm sure depending upon the market, there's still some transition to go. So it's – but it's getting out there. I mean, if the first quarter results are any reaction to the packaging change, I would say it's a thumbs-up from consumers and the trade around the world. I mean, of course, you can tap into a lot of that these days with social media in terms of just gauging reaction, and Jack Daniel's has a wonderful following on Facebook and Twitter these days as well. And so we can get a lot of feedback. And so far, we're really pleased overall with what the reaction's been to that. You can imagine the Jack Daniel's consumer, at the same time, had the opportunity to start experiencing Tennessee Honey too so I have a feeling that with a lot of people, because that was so new, and the packaging changes were, in our view, just nice refinements to the bottle and label, that maybe Tennessee Honey's excitement overwhelmed a lot of consumers relative to the bottle.

Thomas Russo

Yes. And then by reference, the experience of repackaging Gentleman Jack was a huge home run. So just sort of phase that against the new bottle. I mean, just your expectations to what this might do in light of what happened with Gentleman Jack when you repackaged it.

Paul Varga

Well, our expectations would be quite different because there was actually a fun article in the Wall Street Journal a little while back, Tom, and it had a picture of all the Jack Daniel's packaging changes going back something like 60 years. And it was almost like a farce because it had been so relatively unchanged over that time with minor refinements. The types of packaging changes that we made to Gentleman Jack and then some of the results we're seeing here more recently from Herradura, were more dramatic in terms of before-and-after. And when you have really large changes that you think can be impactful, you'll see much bigger trend changes particularly on the little brands. And so I think the scale of the brands are quite different and so is the scale of the change.

Operator

Your next question is from the line of Mario Gabelli with Gabelli & Company.

Mario Gabelli

That was good to hear of Mr. Russo's hands-on approach to research, particularly with the French drinkers. Paul, as you're looking out over the next 3 years, one of your competitors is going through a financial engineering – splitting the company in a couple of parts, and obviously, one of those parts may be kind of a yummy for some larger corporate entity to consolidate with. As you're positioning yourself and your thought process is that – the new competitor coming into the market, would that accelerate the growth for bourbon and bourbon-related products? How do you see that? And would you need a product extension that you would buy rather than create internally if that were to happen? As you're thinking about – well, I forget the name of the company.

Paul Varga

Well it actually, the topic you're suggesting here, actually, I mean, if you think about it, Brown-Forman has always, in the marketplace, competed with Jim Beam, I mean we just directly, but now in individual brands. And so the other divisions that are being spun, we didn't focus much on anyway. So I mean, as far as we're concerned, we're going to go to market and compete against – I mean, clearly a more focused corporate entity. But in the marketplace…

Mario Gabelli

Well, let's assume Diageo buys them, and let's assume Bacardi buys them, how does that change the game plan for you down the road?

Paul Varga

Well, the way I think about it is it's one less direct salesforce in the marketplace perhaps competing against Brown-Forman's people. I mean, if a company like that gets integrated in any other company, and they don't – it sounds to me like that brand portfolio won't have as many dedicated resources to it as it does today so that's an advantage for us.

Mario Gabelli

Paul, I just had to ask and I'm delighted that I've got an insight into some of the new products courtesy of Mr. Russo.

Paul Varga

Thanks for your interest.

Operator

At this time, I'm showing there are no further questions.

Ben Marmor

Well, thank you, Crystal. We don't have any closing remarks today. I thank you, everyone, for joining us and have a great holiday weekend.

Paul Varga

Thank you, all.

Operator

This concludes today's conference call. You may now disconnect.