# Brown-Forman, Q1 2022, Earnings Call
# 2021-09-01

**Presentation**

**Operator**

Hello. Thank you for standing by, and welcome to the Brown-Forman Corporation First Quarter Fiscal 2022 Earnings Conference Call. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Sue Perram, Director of Investor Relations. Please go ahead.

**Susanne J. Perram**

Thank you, and good morning, everyone. I would like to thank each of you for joining us today for Brown-Forman's First Quarter Fiscal 2022 Earnings Call. Joining me today are Lawson Whiting, President and Chief Executive Officer; and Leanne Cunningham, Senior 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 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 first quarter fiscal year 2022, 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 & Presentations. In the press release, we have listed a number of the risk factors that 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 conditions 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 E. Whiting**

Well, thank you, Sue, and good morning, everyone. I'm pleased to share our first quarter results with you as we delivered another quarter of solid growth. As we've seen for many months now, the pandemic has created ups and downs and twists and turns that have produced a lot of volatility, a lot of uncertainty and even changes in our seasonality. As we indicated on our last conference call, in this quarter, we benefited from the reopening of the on-premise channel, the return of tourism and the lapping of softer comparisons during the early months of the pandemic.

And once again, I do want to extend my appreciation to the 4,700 Brown-Forman employees that delivered the results that we will review with you today. They're actively engaged in building an environment where we can bring our best selves to work, which enables us to maximize our collective and individual potential and increase our productivity, our creativity and our innovation. So above all, I would like to say thank you to the people of Brown-Forman.

The last 18 months have been an exercise in endurance and you have demonstrated nothing but excellence. You are our greatest asset.

So now let's turn our attention to the headlines of our first quarter. Most notably, our continued momentum on the top line growth with very broad geographical growth, the overall health of our brand portfolio with many brands contributing to solid organic growth. We really don't have a tail anymore that would be a drag on our growth rate. And unfortunately, we continue to see pressure on our gross margin.

I'll start with the top line, where our overall underlying performance was a plus 18%. When factoring in the 3% underlying top line growth we achieved in Q1 of fiscal '21, our 2-year average growth rate, which we calculated by adding the growth in the first quarter of 2021 with the growth rate this quarter and then divided by 2, it was nearly 11%. The gains this quarter were driven by Jack Daniel's Tennessee Whiskey returning to growth with underlying net sales of plus 21% or 6% on a 2-year average basis. As we shared with you last fiscal year, JDTW was negatively affected by the restrictions and closures in the on-premise due to its huge presence in this channel when compared to other spirits brands. So last fiscal year was a tough year for JDTW, but as we shared with you, we believe that the disruptions were circumstantial and temporary. The first quarter performance in fiscal '22 reaffirmed that belief as the sales growth was strong.

Also earlier this week, we were excited. We announced the launch of a Jack Daniel's 10-year-old Tennessee Whiskey, the distillery's first age stated whiskey in more than 100 years. It's already getting some really rave reviews. But I mentioned it just because it is one example of our continued focus on brand innovation and a celebration both of our world-class whiskey-making expertise and the brand's really storied history. The rest of the Jack Daniel's family also delivered solid results, led by double-digit underlying net sales increase from the Jack Daniel's flavors and Jack Daniel's RTDs continue to grow on top of extremely high comparisons. And on a 2-year average basis, we've delivered 20% in increase in underlying net sales growth as consumers continue to look for convenient ways to enjoy mixed cocktails and spirits-based beverages at home.

In addition to Jack, the rest of our brand portfolio remains well positioned to continue to benefit from the growth in the American whiskey and tequila categories as well as the premiumization trend. Our premium bourbons grew underlying net sales 36% in the first quarter, led by Woodford Reserve and Old Forester. And our tequila portfolio produced 23% underlying net sales growth, with our full-strength tequila growing underlying net sales by nearly 50%, which more than offset a decline in new mix as the brand lapped the exceptional growth in the first quarter of fiscal 2021, driven by the temporary interruption in Mexico's beer supply chain.

Given the strength of our brands, we're able to focus on value growth and revenue growth management initiatives. As a part of these initiatives, we recently increased prices in the U.S. on Woodford Reserve, Old Forester, el Jimador, Herradura and Chambord and we informed our distributor partners that we are increasing the price of Jack Daniel's over the next few months. We also delivered broad-based growth across geographies. The U.S. delivered another strong quarter with 16% underlying net sales growth. Our developed international markets also grew underlying net sales in the double digits and the reopening in the on-premise channel as well as a rebound in tourism were substantial contributors to growth. In aggregate, we also experienced strong growth in our emerging international markets as well as travel retail as we cycle the effect of easy comparisons and more markets return to growth and recover from the pandemic.

We continue to focus on delivering strong top line growth and have a solid start to our fiscal year. Our underlying gross profit increased 17% for the quarter, just slightly behind our top line growth rate. Having said that, we've been facing some challenging cost headwinds for several years now and then you combine those headwinds with the impact of tariffs, and it has resulted in a gross margin contraction. In the first quarter, gross margin was down 70 basis points year-over-year, but we believe the rate of decline is slowing.

As the on-premise reopens and premiumization trends continue, we're seeing a reversal of the mix headwinds we experienced last year related to channel, size and portfolio. But this positive price/mix was more than offset by the continued cost pressures largely related to agave. Over the past couple of years, we have projected agave cost would begin to decline late in calendar 2021 or early calendar '22. While the price of agave has stabilized below its peak, demand for tequila has increased, given the continued growth in the U.S. and a faster-than-expected rebound in Mexico. So the relief in agave costs will be lower than expected this year.

Also, as noted in our June call, we're still experiencing many challenges in our supply chain. This is particularly true for key packaging materials, most notably glass, and transportation constraints such as shipping container availability. Leanne will talk more about this in just a few minutes.

Before I move on from gross margins, I'll share that we remain cautiously optimistic that the U.S. can reach a resolution on the underlying trade disputes with the U.K. and EU by the end of the year, which would result in the removal of tariffs on American whiskey. While we've been hopeful for some time about this, we believe there continues to be a reason for this optimism. The EU and the U.S. have publicly stated their commitment to this time line. And moreover, the U.K. is conducting a review of its retaliatory tariffs, which we hope will highlight that American whiskey bears a disproportionate share of this overall tariff burden.

In summary, we had a strong start to the year and remain optimistic for continued improvement in the operating environment, yet we also acknowledge the potential for volatility due to the impacts of the evolving pandemic as well as the related impacts of the global supply chain imbalances. In the last 18 months, our resilience and agility has been tested time and time again. And through it all, we have persevered because our priorities have remained the same, keeping our people and our business healthy. This will remain our focus and guide as we navigate future uncertainty.

We continue to believe we will emerge stronger and better. History has already told us that Brown-Forman is resilient in the face of adversity. Our people respond brilliantly under pressure, and our values will guide us to the right decisions.

So with that, I'll turn the call over to Leanne who will provide more detail on our first quarter fiscal '22 results.

**Leanne Cunningham**

Thank you, Lawson, and good morning, everyone. As Lawson reviewed our headlines for the quarter, I will provide additional details on our business results and our outlook for fiscal 2022.

Starting with our top line. Compared to fiscal 2021, our reported net sales were up 20% for the quarter. Additionally, we had strong double-digit underlying top line growth, reflecting an increase in distributor inventory levels in the United States, partially offset by the sale of Early Times, Canadian Mist and Collingwood brands during the first quarter of fiscal 2021. The increase in distributor inventory is due to the lapping of the reduction related to the buildup in the early stages of the pandemic, which was in our first quarter of fiscal 2021, as well as a build ahead of price increases Lawson mentioned.

Although even with the increase in the quarter, we believe distributor inventory levels are still below their pre-pandemic levels due to the various supply chain challenges. From an underlying net sales growth perspective, we experienced broad-based growth across all of our geographic clusters of the United States, developed international markets and emerging markets as well as our travel retail channel. The U.S. business, which represents half of our underlying net sales, remained strong, growing underlying net sales 16%. Jack Daniel's Tennessee Whiskey was the single largest contributor to growth, followed by our premium bourbon and tequila brands. The reopening of the on-premise, which continues to approach pre-pandemic levels, as well as the Kentucky Derby's return to its same spot on the first Saturday in May fueled volume gains. In addition, net sales benefited from continued portfolio premiumization mix and favorable channel and size mix.

In the off-premise channel, we continue to experience solid growth compared to the same period 2 years ago, even as the on-premise continue to reopen. The on-premise recovery accelerated during the quarter as vaccination rates increased and restrictions were eased or removed. If you look at OpenTable trends through mid-August, they are only slightly below their pre-pandemic levels.

In the e-premise channel, our market share, which is slightly above 2%, has grown 4x since the start of the pandemic. Even as the on-premise reopens and consumers begin to return to in-store shopping, e-premise remains an important channel to consumers. On a global basis, as this channel continues to develop, we are supporting its growth with the creation of the recently announced integrated marketing communications group and we are excited about the talent joining Brown-Forman as a part of this team.

Developed international markets collectively delivered strong underlying net sales growth, up double digits for the quarter with broad-based growth across the markets. The Jack Daniel's Family of Brands experienced strong growth, driven by the reopening of the on-premise as well as a rebound of tourism in markets such as Spain and Czechia, which supported Jack Daniel's Tennessee Whiskey double-digit volume growth.

Jack Daniel's RTDs continued to grow with higher volumes in Germany, where we continue to be a category leader. Jack Daniel's Tennessee Honey grew volume high single digits, led by gains in Korea and Czechia and collectively, the super-premium brands, Gentleman Jack and Jack Daniel's Single Barrel, grew volume double digits. The newest member of the Jack Daniel's family, Jack Daniel's Tennessee Apple, continues its international rollout launching in the Netherlands, Lithuania, Hungary, Slovakia and Italy and is off to a strong start in those markets. Collectively, our emerging markets continue to rebound with very strong double-digit underlying net sales growth, driven by strong underlying growth from Jack Daniel's Tennessee Whiskey, particularly in Turkey, Brazil and Chile.

Jack Daniel's flavors more than doubled in both Chile and Brazil as we benefit from the launch of Jack Daniel's Tennessee Apple, while Herradura grew triple digits in Mexico as Q1 volumes surpassed pre-pandemic levels. Finally, as expected, our Travel Retail business experienced a strong rebound, though volumes remain below their pre-pandemic levels as international airline travel and the cruise business have yet to fully recover.

Lawson shared the details on our gross margin, so I will now turn to our operating expenses. Similar to the fourth quarter of last fiscal year and as expected, we significantly increased our A&P spend, which grew over 40% on both a reported and underlying basis. We continue to support the momentum behind our iconic brands by investing in world-class advertising to drive our sales.

In the first quarter, we did lap the impacts of the early stages of the pandemic, where on-premise activations were canceled, consumer events such as the Kentucky Derby, summer festivals and sponsorships were rescheduled or canceled, and in the month of July last year, we paused on certain social media platforms.

From an absolute dollar perspective, our level of investment in Q1 more closely reflects the normal seasonalization of our spend. Our underlying SG&A investment increased double digits, driven by the timing of compensation-related expenses, non-income tax items and the cycling of lower discretionary spend during the same period last year due to the impacts related to the COVID-19 pandemic.

In total, we grew underlying operating income 15% for the first quarter. On a reported basis, operating income declined 25% due to the sale of Early Times, Canadian Mist and Collingwood brands last year. This, combined with an increase in our effective tax rate, resulted in a 41% diluted EPS decrease of $0.40 per share.

And finally, to our fiscal 2022 outlook. Even with the volatility and resurgence of COVID-19, we remain confident in our top line growth momentum. We believe our portfolio is well positioned to capitalize on the reopening of the on-premise channel, the recovery of countries heavily reliant on tourism, some degree of business and personal travel resuming and the growing premiumization trends. In aggregate, we expect strong growth in our emerging markets as well as Travel Retail, which will cycle the effect of easy comparisons as they begin to stabilize and recover. Further, we do not expect the noncore business, mainly used barrel sales, to have a material impact on our business this fiscal year.

Turning to gross margins. Currently, we are managing through the impact of global supply chain disruptions, including glass supply and challenging cost headwinds. Similar to others, we are experiencing greater-than-expected logistics cost, higher input costs on items such as grain and aluminum, agave costs that are below their peak and stable, though easing at a slower pace than previously forecasted due to higher demand within the category. In addition, with the rebound and recovery of our markets and channels, coupled with strong consumer demand for our brands, we are currently managing through glass supply constraints. We have deployed a number of risk mitigation strategies and are working actively with our suppliers and distributor partners to optimize our supply chain to meet the consumer demand.

While we expect these disruptions to persist throughout the fiscal year, we believe that the impact will become less significant in the second half of the year. As a result of these factors, we now expect our gross margin to be flat or slightly down for the fiscal year versus the slight improvement we originally anticipated.

We expect our operating investments, advertising and SG&A to be in the mid-single-digit range as we continue to invest behind our brands to support top line growth and progress various strategic initiatives, including 3 new RTCs, the expansion of our emerging brands team in select international markets focused on growing our super-premium portfolio, and increasing our digital marketing and e-commerce capabilities.

Similar to last fiscal year, we do expect the seasonality of our results to be volatile during the year, particularly in operating income. Despite these challenges and excluding any potential impact from changes in tariffs, we continue to expect both our underlying net sales and underlying operating income to grow in the mid-single-digit range. Lastly, we expect our fiscal 2022 effective tax rate to be in the range of 22% to 23%.

In summary, and as Lawson stated, we have had a strong start to fiscal 2022. While uncertainty and volatility will likely continue to be a significant part of our business environment this year, our brands are strong, our top line has momentum, and we remain well positioned with a strong balance sheet and cash flows.

This concludes our prepared remarks. Please open the line for questions.

**Question and Answer**

**Operator**

Our first question comes from Dara Mohsenian with Morgan Stanley.

**Dara Warren Mohsenian**

So can you just give us a bit more detail on the supply chain issues you mentioned? It sounds like it's more glass supply. A, is that correct? Or are the shipping and other issues also pronounced? And it sounded to me like this is more sort of creating higher costs for you guys in terms of supplying retail. It doesn't sound like it's ultimately going to have as much impact on retail sales or your ability to supply demand at retail. Is that correct?

**Leanne Cunningham**

So I'll start with that one and then Lawson can follow on. You're correct in that it is glass related largely for us. And again, similar to others in the operating environment that we're in, like many other CPG companies, we are seeing challenges across packaging material all the way through logistics services.

As you can see on Slide 4, as an example, Jack Daniel's Tennessee Whiskey rebounded strongly from a negative 10% in Q1 of '21 to a plus 21% in this current quarter. We did support that growth by drawing down some of our finished goods inventory. And with the glass suppliers, we are working closely with them to increase our capacity that's available to us and working closely with our distributor partners. We continue to deploy several of our risk mitigation teams against these strategies and closely partnering with everyone in the supply chain.

We do believe that our current guidance reflects these challenges and volatility. We believe that as we navigate through the challenges and headwinds that we will have a better understanding of this impact as we get through our next quarter. And we did state that as we believe these challenges will persist through the fiscal year, but we believe they will ease in the back half of the year. Lawson?

**Lawson E. Whiting**

Yes. I mean I think on the margin versus missed sales part of the question, I mean, our first quarter was actually -- as you can see with the numbers, the sales were obviously very, very good. So I would say, minimal impact on sales in Q1.

We're a little more cautious on Q2, to be honest. We are -- we have drawn down inventory levels across both distributors depending on the country and different wholesalers and all the way down through retail. And so there's only so much maneuvering you can do on that. And so we're at a higher risk. It hasn't happened yet, but that is one of the reasons we're a little more cautious on the guidance for the full year, is we're just not sure how much glass we're going to be able to acquire over the next -- really, it's the next few months that seem to be at risk as we've worked very hard with our glass supplier over the last, really over the summer to ensure that we're getting all the glass that we can get from them. Does that help?

**Dara Warren Mohsenian**

Great. Yes, that's very helpful. And then just maybe a bit of a short-term update. Obviously, we've had the Delta variant and rising case counts, particularly in the U.S. as well as some other large markets. So can you just give us a bit of an update on if you think you're seeing much consumer reaction to that in the U.S. or in some of the other large markets? And if demand has stayed pretty steady when you don't have severe government restrictions in place or if consumers are reacting to that? I know Leanne gave us a bit of detail on on-premise, but it'd just be helpful to have a bit more detail there and any thoughts.

**Lawson E. Whiting**

I mean, I think -- yes, I mean, as we talked about the on-premise, it certainly came back over the summer, and that's where you would have expected to see weaker results if people were really staying at home a lot more. And you're not seeing that.

What I think is almost more interesting and it's just -- we've tried to peel back the numbers and cut through the noise and understand what's happening in the off-premise because the numbers are still very, very strong in the U.S. And so you're not seeing a pullback in the off-premise. You're not really seeing an acceleration either, but they're already off of very elevated numbers anyway.

But if you take -- my preferred way to look at that really is take -- just take the Nielsen data as an example and take the full year, the 52-week results, and do a 2-year stack on that. The numbers are still really -- I mean, they're still in the low double digits, and the 13-week is better than the 52-week. So there is enough evidence out there that I think gives us some confidence that overall consumer takeaway remains strong and remains elevated above where it was pre-pandemic.

**Dara Warren Mohsenian**

Great. And that's helpful.

**Lawson E. Whiting**

We've had good U.S. results, I was just going to say, than some of our competitors. And so the -- just particularly the U.S. market is a healthy place these days.

**Dara Warren Mohsenian**

Okay. And I guess it doesn't sound like August is a big change so far. Obviously, there's a lot of volatility, but it sounds like, in general, that strength in consumer spending is continuing?

**Lawson E. Whiting**

As far as we can tell, it's only September 1. So I haven't seen August yet, but it's pretty good. Yes.

**Operator**

Our next question comes from Vivien Azer with Cowen.

**Vivien Nicole Azer**

Lawson, I was wondering if you could expand a little bit, please, on your commentary around the price increases on Jack Daniel's and perhaps contrast them with the last round of pricing that you chose, which I think was 2013?

**Lawson E. Whiting**

Gosh, was it that long ago? Yes. I mean, look, a step back over the last -- well, even go back 20 years, pricing in the U.S. spirits business, and I'd also say, food in general, was -- in the 2000s time frame was very, very strong. The financial crisis hit in 2008 and '09-ish and that pricing went away and it really never came back. You referenced 2013 because that was an era when American whiskey really took off and the supply was short of it. And we were -- we, as the sort of market leaders, were able to get a lot of pricing through.

But you're right, we have been pretty -- it's been pretty flattish over the last few years, particularly as a lot of our competitors got more aggressive. And we found ourselves in a challenging spot. So fast forward to this year or really the last few months, not only -- I mean, there are costs that are flowing through, you have seen those, and that's one reason to be a little more aggressive with price. But the competitive set now in this time, unlike a few years ago, is starting to go up, too. And so we got more aggressive both in American whiskey and tequila and a couple of other brands too because we could, and we want to be pricing leaders. We've been saying that for a while, and it's been challenging, but it feels good that finally, we're getting some of this to flow through.

**Vivien Nicole Azer**

Absolutely. That's helpful. And just my follow-up, you guys have announced that you're launching your first age expression for Jack Daniel's. I'm curious to hear your expectations for contribution to the top line, which I expect are probably a little bit muted, just given the glass supply issues you guys are contending with. But anything about that product launch would be great.

**Leanne Cunningham**

We would project that to be smaller in fiscal 2022 as it would -- we'll just be launching it in the U.S. and then supply, again, will be limited for a period of time as we grow into this expression. But it does allow us to continue to ladder up the premiumization for Jack Daniel's Tennessee Whiskey and innovate around that.

**Operator**

Our next question comes from Andrea Teixeira with JPMorgan.

**Andrea Faria Teixeira**

So my question is the RTDs. Obviously, we saw a nice lift during COVID and pro forma has been continuing to invest -- you continue to invest behind them. So I was wondering if you can comment about the recent slowdown perhaps, obviously, you're not in hard seltzers per se. But does it give you any pause on devoting some of these resources to the segment? And do you see perhaps the second leg of the distillate space RTD sourcing growth from the hard seltzers?

And likewise, do you see -- some of these beer and hard seltzer brands, how do you see them moving into spirits and some of the spirits brands and even nonalcoholic into RTDs? Do you see these lines blurring between brands and segments? Or do you think this is sustainable? Is that something that Brown-Forman could be looking to do more of going forward?

**Lawson E. Whiting**

Yes. So I mean, I'll start. Leanne, you can certainly add in. Look, RTDs have been a huge business for Brown-Forman for a long time. And so many folks are focusing on the U.S. market and seltzers, I get it, where the vast majority of our RTs are outside of the United States. It's a very big business for us, something in the range of -- it's about 18 million cases or so outside of the United States compared to only 3 million-ish inside. So very different.

Now Country Cocktails, I mean, as much as you've seen a slowdown in the seltzer world, we have not seen a material slowdown in Country Cocktails. But some of that, we know, is a benefit from switching from our own internal network in the past. They're new, they only assumed sales of the brand at the beginning of this fiscal. So it's finding all these new distribution points, and the brand is still flying. And so we've done very well with that and feel pretty good about it.

As far as seltzers taking share or impacting the spirits business, I mean, we've been trying to look at that for a while, and I'll give the same answer I've given before. It's pretty far -- the seltzer occasion and the whiskey drinker for the large part, are pretty -- it's not the same occasion in many, many ways. And it's not even really the same consumer in many ways. And so we just don't think we've seen much in the way of an impact or lost share to the seltzers. And if you really just look at the numbers, I mean, American whiskey is doing as well as it ever has in total as a category.

So I just don't -- and I'm saying that over the last few years, I just don't see that the seltzers have really taken much share at that. I mean, it feels like the seltzers are coming at vodka and tonic maybe or gin and tonic, and maybe putting a little dent in that business. But for us, that's a -- it would be a very small part of our overall portfolio.

**Andrea Faria Teixeira**

Just with -- yes. No, absolutely. That's super helpful. The other question that I have is a follow-up on JD field FOB. Sorry, just to find -- like we've seen some weaker NABCA data in July. Anything specific to call out there? Is there any pieces of that we can see in NABCA that makes you feel comfortable from your comments that this trend continues?

**Lawson E. Whiting**

Well, I'm not sure if I understood your question. Were you saying you saw some weakness in one of our brands or just in the market in general? Or you're thinking NABCA? Because what I'm looking at here, it does not have a lot of weakness in it in NABCA. I mean, it's -- once again, I'm probably not looking at the same data you are. We've got a 2-year stack in front of us here for NABCA data, and it's -- I mean, it's as strong as the Nielsen data is.

There was a little -- well, no. It actually accelerated in the 3 months compared to 12. So yes, I mean, I think overall, the market remains pretty strong. NABCA obviously has the on-premise data flowing through it. And so you're getting that reload in the on-premise that I think is, at least for now, supporting the NABCA trends.

**Andrea Faria Teixeira**

No, I was just saying the Jack Daniel's Family of Brands, but no more call-outs specifically, right, on those?

**Lawson E. Whiting**

I mean...

**Leanne Cunningham**

Yes, we're still positive and growing.

**Lawson E. Whiting**

Yes. We're still doing pretty well. I'm not sure which brand -- I'm not seeing a slowdown in the NABCA data, even for our brands. I mean there's a couple of them that are, obviously. And some of that is related to like the Gentleman Jack and Single Barrel, even our flavors, the comps are challenging for the next few months as they did so well last fiscal year. So it's not something I would say I'm concerned about.

**Operator**

Our next question comes from Bryan Spillane with Bank of America.

**Bryan Douglass Spillane**

So maybe I think it would be helpful, Lawson, just to get a sense of -- if you could give us a sense of how Brown-Forman is performing relative to the market. So I guess my question is this. Can you give us a sense of what you see the spirits market growth in -- is right now? And maybe some of the key markets, so in the U.S., maybe developed international and developing international? Just -- and how are you tracking ahead or behind the industry? Just trying to get a sense of how we should look at these results relative to what the industry is tracking. And maybe if you could give us a sense of just whether the industry right now is sort of ahead or behind what your original expectations are.

**Lawson E. Whiting**

Sure. Yes. Look, we -- it is difficult to do those comparisons right now for the obvious reasons that we have an April 30 year-end and they're June 30 or several of the big guys are June 30. And those months of May and June were so volatile in the last couple of years. And so over the short term, it's tough to dissect and you've got to use a little bit of art to make the comparisons.

But if I step back and just talk about the U.S., I mean, this is some of what I already said. We're basically -- we've been saying for a long time, the algorithm for our business has been grow the U.S. business about at TDS, a couple of points higher in our developed international and then particularly in the good years, we get well into double-digit growth in our emerging markets.

That sort of overall medium-term to longer-term growth algorithm, I think, is still very relevant. If -- the one that I have the most data on is obviously going to be the U.S., and we're right at TDS for the most part, depends on which time period you pick and all that. But I mean literally, plus or minus 1 point from TDS. And I -- as I said on one of the previous questions, the total takeaway numbers in the U.S. market remain elevated. And I'm not sure if it's going to hold throughout the entirety of the fiscal year or -- I mean, we're all sort of expecting it to slow down, but it's not happening yet.

And I do think that has a lot to do with for us -- I mean, look, Jack Daniel's Black Label has always had a challenge to grow at a rate of TDS just given its absolute size. But we have the rest of our portfolio, which has gotten much more meaningful in the last few years, is it well into double-digit growth mode and many of the brands are at significantly higher growth rates than that. And I'll cite something that we said last quarter, which I still find to be an interesting statistic because it just would not have been true only a couple of years ago. So this is fiscal year and I'm backing up 1 quarter, but Jack Daniel's globally, sales were down 4%, and the company did a plus 6% for the full year. That is dramatic growth in the rest of portfolio for Brown-Forman and that continues to be our results even now.

And so yes, we're feeling good and we feel like we've got a lot more growth drivers now than we would have had just a handful of years ago. And we've gotten rid of the tail. That was the other part of it is. As you know, we've had 4 or 5 brands that we sold in the last 5 years that were all in decline, and that certainly makes it easier to grow a little faster, too.

**Bryan Douglass Spillane**

And then just any context just outside the U.S.? I mean, even -- do you think the industry is growing faster than it was or slower than it was maybe pre-pandemic? I appreciate -- the reason why I'm asking you is because we can't figure it out. So -- but just trying to understand, any context at all just how do you think the industry is growing outside the U.S. as well?

**Lawson E. Whiting**

I mean, I think if we looked at last fiscal, so not necessarily this past quarter but last fiscal, remember, we had a handful of markets that were growing very fast. I mean it was the markets that had the big developed economies, that had governments that were supporting with fiscal stimulus and those kind of things. And so you're looking at Australia, you're looking at Germany or some of the other ones that were really growing fast.

**Leanne Cunningham**

Australia. Brazil.

**Lawson E. Whiting**

Brazil. Brazil is a little different in that it didn't have so much fiscal stimulus, but our results in Brazil have been brilliant now for a number of years. That's just organic momentum. But I think the big -- the really big markets that got the fiscal stimulus, the reality is a lot of consumers used that stimulus and went and bought alcohol products. And so that kept growth rates elevated.

I think it's too early to make and determine whether or not how that's going to come down. I mean it's a great question, though, of has the consumer just adopted spirits relative to beer and wine and will that hold as time goes on and sort of the world returns to normal. And I think there's a good chance it will, but we'll see.

**Operator**

Our next question comes from Bonnie Herzog with Goldman Sachs.

**Richard Samuel Reid**

This is actually Sam Reid pitch hitting for Bonnie here. So maybe I wanted to touch really quickly on e-premise. It's exciting to hear the strength there. That said, could you give us a rough sense as to how the economics here might compare to some of the other channels? And anything around that, that we should be mindful of as this continues to become a more important part of your business?

**Leanne Cunningham**

Well, that's going to depend on where you are market by market and just around the world, economics are different as we look at each one of those. So stepping back and looking at it collectively, it continues to be an important channel for where consumers are going to drive where our products are. It's one we're continuing to invest in. We need to be there with our products within the hand's reach of our consumer.

We're continuing to invest in it because it will continue to be an increasing part of our business. As we said, it's just over 2% of our business, but it has grown 4x just recently over the last couple of years. So from a profitability perspective, it is a channel where we can drive incremental profitability. It's how we choose to market inside of that.

**Lawson E. Whiting**

Yes. I mean I think -- talk about the U.S. first, and then we'll hit some of the international markets. I find e-commerce in the U.S. to be interesting to talk about because it's largely a delivery service. And that just adds costs into the system, but it's not coming out of Brown-Forman's pocket. It's not coming out of distributors' pocket. It's coming out of the consumer, who is willing to pay a little bit more to get the product delivered. But I think if you're trying to analyze the economics of the U.S. e-commerce business, it's kind of neutral, I think, for the suppliers for the most part.

Now if you start to get into the conversation around direct shipping say, from Woodford to another state, that gets -- that's a little different. That is a very, very tiny business. That doesn't work well within the 3-tier system very well. And it's so small right now that I don't even know if I could give you a good answer on the question. But if you move into Europe, say, or certainly Asia, where we have set up e-commerce platforms, in that case, you're taking a retailer out of the mix. And so somebody is going to get a piece of that margin, and we would get a piece of it and then whoever our fulfillment partner is would get a piece of that. But I think that's largely more profitable per case than regular business. And then China would really be the same thing as Europe in terms of it's a much bigger business over there.

But you are cutting out tiers in the supply chain. So just like it does frame us on nonalcohol products, say, or for a lot of suppliers that use Amazon, it's different because you're cutting out the retail.

**Richard Samuel Reid**

Now that's incredibly helpful color. I really appreciate it. And then maybe just wanted to just quickly switch gears here and just touch on tariffs. It's great to hear the update that you guys provided there. I was wondering though, would you be able to walk us through maybe a little bit more detail on some of your own lobbying efforts as it relates to tariffs and perhaps the role that those efforts might be playing in getting both the U.S. and the EU to come to a resolution?

**Lawson E. Whiting**

Well, look, I got to be really careful on that. We have done our best over the last -- it's been over 3 years now that we've been suffering through this. Obviously, with American whiskey being the only category left that is getting tariffs, everyone else has gotten off. It is -- to say frustrating would be an understatement.

And we've done what we can. But honestly, there's a limit to how much we can do, given the size of the steel and aluminum industry relative to American whiskey. So we just keep hoping that cooler heads are going to prevail and they've made public statements in the last -- since Biden was elected that the groups were going to work together to try to get these -- to get them over with. We've got to believe that that's true and we have indications that it's true. But as I say, I've wished that -- I've thought and wished that these were going to be over before, and I was wrong every time. And so we're just going to have to wait and see how it turns out.

**Operator**

Our next question comes from Eric Serotta with Evercore.

**Eric Adam Serotta**

One for Leanne and then one for Lawson. First for Leanne, you guys maintained the mid-single-digit top line and OI guidance with the gross margin being lower than previously expected. So that would imply some reduction in your planned spending on A&P or SG&A. Is that a fair conclusion? Or is it more some rounding as mid-single digits or kind of a range and your spending plans haven't changed?

And then for Lawson, hoping you could give some perspective as to how you're looking at the next phase for Woodford growth, obviously, made some great headway in the U.S. over a 20-plus-year journey and started to build out some solid international positions. But would love to get your big picture perspective as to where the next phase of Woodford growth is going to come from.

**Leanne Cunningham**

Okay. Well, I'll go back to your question related to guidance. We are off to a strong start. It is early in our fiscal year. But as we mentioned, with the volatility and the challenges we believe that is built into the guidance that we've reiterated and issued today, again, with the supply chain disruptions and increasing cost headwinds, we did change from slight improvement to flat to slightly down.

As you can think about our investments back behind our brands, we continue to operate with the philosophy that the investment rate will be in line with our top line sales growth. So we'll find efficiencies in our SG&A and other operating line items to continue to be within the range that we have provided from an operating income perspective.

**Lawson E. Whiting**

And then Woodford, first of all, I'll make an advertisement for tomorrow in our investor conference. We're going to spend a fair amount of time talking about Woodford and its long-term potential. So I don't want to steal all the thunder from that. But in short, I think what you probably already know about, we have been putting in, I call it a special team -- it's not really in the sales force, but a specialty team that we've already put into the United States when we did several years ago, not for Woodford, but we did -- we called it the emerging brands group, which has been an outstanding source of growth for us and the brands that have gone in there absolutely hit an accelerated growth rate.

And so we've taken those lessons and we've put it into some of the bigger markets of Europe and another in Australia. And I expect we will expand that idea over the next few years to really get some focus on it. A big lesson learned is it's -- Woodford and these brands would be equivalent to a GlenDronach in the United States or something where it's small relative particularly to the Jack Daniel's portfolio. And so incremental focus on that brand and you get paid back very quickly. And so it's one of the bigger strategic platforms that we have, I think, for the next few years is not only Woodford, but really going to push on Gentleman Jack as an example. We're going to push on our single malts, really the super-premium and ultra-premium brands that get a little bit of focus and get a better growth rate. And so yes, you're going to hear a lot more about Woodford and its international growth plans, not only tomorrow, but in upcoming quarters, too.

**Operator**

Our next question comes from Steve Powers with Deutsche Bank.

**Stephen Robert R. Powers**

So Lawson, you sounded at least to my ear, anyway, pretty bullish and optimistic on demand trends and your own execution. And clearly, the portfolio delivered a big acceleration in underlying top line trends on a 2-year basis in the first quarter. But then I juxtapose that against what looks like a pretty material resumption in 2-year deceleration as implied in your outlook for the balance of the year, so I'm just hoping you can maybe elaborate and provide a little bit more color to square that circle.

I guess is the guidance just prudent? That prudent versus your own optimism? Or are the supply constraints that you called out, are they that severe that they may threaten to put you behind the 8 ball relative to demand trends if they continue the way you've described?

**Lawson E. Whiting**

Well, look, I am bullish both -- I'll call it short, medium and long term. Leanne gave you some of the more details just a second ago on the top line guidance that we have. It is trying to be a bit conservative as we're only 1 quarter in, and there's just a lot of clouds on the horizon these days that put a lot of unknowns out there.

And the supply situation is real. We walked through that already, but it -- when I say supply, I mean the glass supply situation is one thing we're just uncertain about. If we don't have -- if we can fulfill all of our orders and not lose any sales at all, we'll do well this year. We'll do even better, I think, than the guidance out there. It's just uncertainty around how much -- how big of an impact that's going to have.

**Leanne Cunningham**

And we do have increasing confidence in our top line momentum, maybe landing us closer to the top end of the range. But as often said, it's our first quarter, it's very early in the year. When we think about the abnormal seasonality that the pandemic created, our fourth quarter of last year was very strong. And we will be comping against that in the fourth quarter of this year, which is the furthest quarter away from us, which just, again, with the uncertainty and volatility between here and there, it makes it very difficult to forecast.

**Stephen Robert R. Powers**

Okay. That's completely understandable. I guess just to tie that back to, Leanne, how you answered Eric's question just a moment ago. So if you do see that overdelivery on the top line as the year progresses, does the investment spending tick up commensurate with that? Or does that become a source of profitability and margin if you overdeliver on the top line?

**Leanne Cunningham**

Yes. I mean, I think that goes back to what we've stated largely since Lawson has been in his role is the philosophy of reinvesting back behind our brands in line with top line sales. So I think that's definitely the model that we are moving forward with. And again, as we move through the next quarter, we'll have greater visibility into what does this uncertainty and volatility mean. And we'll just have more information available to you when we talk again soon.

**Operator**

Our next question comes from Kevin Grundy with Jefferies.

**Kevin Michael Grundy**

Great. Covered a lot of ground on the business. I wanted to ask about capital allocation priorities and key factors informing your view there, with the cash balance reaching historical highs and the leverage ratio continues to move lower. And then with that comment, just if you could touch upon decision-making around buybacks. You sound optimistic on the business, the stock here has pulled back pretty significantly in recent months. Comment on how the market should interpret your potential views on your stock's valuation should the company not decide or opt not to resume share buybacks.

**Leanne Cunningham**

Well, I'll start with our philosophy, which I think that we've reiterated those many times and they continue to be a balance by which that guides us is, first and foremost, is fully invest back behind the business. Again, I think with the position we're taking, you continue to see us being conservative with what we see as volatility and uncertainty ahead.

Again, secondly, and very important to us is paying the regular and increasing dividend, always being opportunistic with our long-term value creating, looking for acquisitions and then opportunistically returning cash to shareholders. So that's all in place and stable from an environment perspective. We continue to do the work that will guide us in what our future actions would be.

**Lawson E. Whiting**

Yes. I mean there's not much more I can say over and above that. I mean we will continue our long-held sort of capital allocation strategies. We think it's a very shareholder-friendly strategy itself. It's not rocket science. And you're right, our balance sheet is more -- not more conservative, but obviously, we are -- we've reduced leverage quite a bit in the last couple of years. And we continue to have active conversations on what's the best way to employ that.

**Kevin Michael Grundy**

Just a quick follow-up on tariffs and understanding the volatility that exists around supply chain and commodities. But you certainly sounded good on the tariff piece, more optimistic. That could potentially be north of 200 basis point benefit as we calculate it to gross margins. As you're thinking about that, how should investors perceive the potential benefit in terms of what will flow through to earnings, understanding there will be -- the environment is going to dictate some of that around commodities and currency, et cetera? But I'd like to kind of get your thoughts as you're thinking about scenario planning, should that go your way.

**Leanne Cunningham**

And again, I think we're consistent in the messages that we've delivered over time is there will be some level of reinvestment back behind the business. But yes, there will be a portion of that, that we believe will fall to the bottom line.

**Operator**

Our next question comes from Sean King with UBS.

**Sean Roberts King**

I guess I'd be curious how you're thinking about the international tequila opportunity, how the market is developing outside the U.S. and Mexico and maybe Brown-Forman's right to win? And could some of your own distribution build-out have an impact on sort of seizing that opportunity?

**Lawson E. Whiting**

Well, that's a good question. Let me take the last part of it first, and then we'll get into the ultimate opportunity. I mean, yes, we've been saying this for a couple of years, and I'm honest, we have -- if I'm honest, we've not delivered to the extent I would like to see. But having your own -- controlling your own route to market gives you the ability to grow your portfolio outside of just Jack Daniel's. If we had not made those moves in the last decade, we would be strategically disadvantaged because nobody wants to build brand-new brands as a distributor. It's just too hard and it doesn't -- they don't make enough money at it. And so that was -- has always been one of the underlying strategies for doing that.

Now having said that, tequila opportunity outside of the U.S., we had been -- it's primarily been an el Jimador play to date. A lot of consumers outside of the U.S. really just think of tequila as a margarita input. That is changing, I think, over time. But we have a decent el Jimador business in a lot of -- South America, believe it or not. Australia and the U.K., I would say, would be our principal markets where we've developed that.

What I want to see is Herradura begin to get a seat in those markets, teach consumers that there are other ways to drink it other than the margarita, and Herradura is a great one to go ahead and do that. And I do think the authenticity that the Herradura brand has relative to many of the other big tequila brands that are sold in the U.S. is an advantage for us. Some of the celebrity-driven brands, I don't want to say they don't have a chance outside of the U.S., but I mean it's more of a U.S. phenomenon for those actors and actresses.

So I think we do have a right to win with Herradura outside of the United States, and there will be a -- I would say much bigger, but there's definitely going to be increased emphasis on trying to develop that brand outside of the U.S.

**Operator**

Our next question comes from Chris Pitcher with Redburn.

**Chris Pitcher**

Follow on from your previous comment, Lawson. You mentioning the importance of own distribution in international. Can you say how much of your business now is going through own distribution and the experience that you've had in markets recently, like the U.K.? Is this stepping up the need to close the final gap, particularly as perhaps U.S. growth, you're saying there is a risk of a slowdown in the shorter term. Just want to get a feel for what new markets we should expect perhaps coming on stream?

**Lawson E. Whiting**

Yes. Let me -- for one thing, we're going to go into much more depth on this topic tomorrow again in our investor conference. We're going to have Thomas get up there and talk about how many markets we've done and what we've done with them and what might be some of the potentials moving forward. So that -- you'll get a mouthful on that tomorrow.

But having said that, I don't know the percentage off my head, but I know we control it in 7 of our 10 largest markets and then a handful of the next 10 are coming online even now. So there are more opportunities to continue to do it, and we will continue to forward integrate as another way to think about it.

But -- and it is a meaningful change almost -- I'd say almost, I think nearly every time we have made a change in our route to market, that particular market goes on a run of better growth for a number of years. I'd just use Germany as an example because it was driven -- it was the very first one -- I guess, Australia was first. But Germany was one -- second or third market in the world where we put that in place a decade ago and man, have we -- we have grown so much in that market over the past 10 years. It's just been fantastic. And so I wouldn't say we have any regret on any market that we've gone ahead and done that, and it's an important part of our strategy.

**Chris Pitcher**

And perhaps as a follow-up, on Travel Retail, which was an attractive category pre the pandemic, have you rethought the resource allocation there? A lot of your competitors are talking about a gradual recovery. But do you see that perhaps is not the channel it once was? Do you think it's been structurally disadvantaged?

**Leanne Cunningham**

I'll take that one. And if you look back in F '20, Travel Retail was 4% of our business. In F '21 with the effects of the pandemic, it was cut in half to 2%. We continue to believe in this channel and its strength and ability to build brands. We do continue to see that it's going to be a gradual return, even though we are expecting strong growth.

And if you look at Slide 8, you can see the strong growth that we're already experiencing in Q1 of this year. I think we'll continue to see strong growth, but it's more on the easier comparisons and some level of return to personal and business travel. But I think it will take a number of years to fully recover, but it will continue to be an important channel for us.

**Lawson E. Whiting**

Yes. I mean it's so tied to international travel. But when that comes back, I mean, I think you'll see a pretty good snapback in the ability of spirits brands to sell through there in it. I know you know this, but I mean super-premium and ultra-premium brands do very well in that channel. We have a lot more plays of size that could fit well in that channel now than we would have had, say, 5 or 10 years ago.

And so we want it to be a more meaningful channel for us going forward for all the reasons Leanne just said. And so I don't think there's a permanent change or a reduction in the size of that market. I just think it's going to be a slow walk to get back to sort of pre-pandemic levels.

**Operator**

And I'm not showing any further questions at this time. I would now like to turn the call back over to Sue Perram for any further remarks.

**Susanne J. Perram**

Thank you. Thank you, Lawson and Leanne and to all of you for joining us today for Brown-Forman's First Quarter Fiscal 2022 Earnings Call. If you have any additional questions, please contact me.

As a reminder, tomorrow at 9:00 a.m. Eastern Time, we will host our first virtual Investor Day. We hope that you can join us to see a few familiar faces and meet some new leaders, all of whom will share more about our integrated strategy that underpins our performance ambition of nothing better in the market. We are looking forward to sharing additional insights into our long-term strategy as well as addressing additional questions. Details regarding this webcast can be found in our August 19 press release about the event. And with that, this concludes our call.

**Operator**

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.