Brown-Forman Corporation, UBS Global Consumer and Retail Conference
2025-03-12

Presentation

Peter Grom

All right. Well, thank you, Michael. Good morning, everyone. I hope you're doing well, and welcome to the UBS Global Consumer and Retail Conference here in New York City. My name is Peter Grom, I am the U.S. Consumer Staples Analyst here at UBS. And we are very excited to have joining us this morning from Brown-Forman, Lawson Whiting, President and CEO; and Leanne Cunningham, Executive Vice President and CFO.

Brown-Forman is a global leader in beverage alcohol industry, and over time has one of the more consistent track records of any company in our consumer staples coverage. However, over the last 18 months, it's been very dynamic, changes in consumer demand, questions on whether there's long-term structural shifts within the category, tariffs. So we hope to learn today how the company is navigating through this dynamic environment. But maybe more importantly, understand how the company plans to deliver on their long-term targets that were outlined a year ago at their Investor Day.

So look, we have a lot of ground to cover, a lot of different topics of discussion. I have a series of questions that I plan to run through with the team up here. But if you have other questions, I think you guys have received instructions on how to submit questions on your behalf. They will show up here on this nice little iPad, and I can ask them on your behalf. So we'll leave 5, 10 minutes at the end here to kind of go through those questions, if you have any.

But before we start, I'm required to read a legal disclaimer. As a research analyst, I'm required to provide certain disclosures relating to the nature of my own relationship and that of UBS with any company on which I express of you on this call today. These disclosures are available at www.ubs.com/disclosures. Alternatively, please reach out to me, and I can provide them to you after this chat here.

So with that, why don't we get started?

Question and Answer

Peter Grom

So I joked, but this was my last question. But I think we – given the news overnight a little bit, maybe why don't we start with kind of tariffs. And so I'll just kind of turn it over to you just to maybe give an update there.

Lawson Whiting

Yes. Obviously, we woke up to the news this morning. It was only an hour or so ago that I woke up. So look, this is a situation that is – to say it's fluid would be a massive understatement. It seems like things are changing very, very quickly. A couple of things, I think, that are important. We've been planning for this for quite a while. I mean this has been in the news. Unlike what happened back in 2018, when it happened like virtually overnight. This time, there's been a lot of signals going on for a long time, particularly coming from the EU. So not totally unexpected and we have done some things to try to get us prepared for it, but it's a tough spot.

What's a good news or one of the better things, I think, that we got out of this morning's announcement – excuse me, was that they've – that nothing goes into effect until April 1. So we've got a few weeks to be able to try to get these parties together and resolve the differences on this particular tariff conversation, and we'll see what happens with that. But that does give me some optimism that both the administration and then the other counterparties throughout over the last few weeks have been trying to resolve things. I think relatively quickly, and things seem to turn and move very quickly, and we'll see if – what happens here, but it does give me some optimism that this can be resolved pretty quickly, that both sides want to make something happen.

Leanne Cunningham

And as we shared last week in our earnings call, from a financial perspective, we know people are really curious about it. Our fiscal year-end is April 30. And what we guided to was that any impact from tariffs would be included in our fiscal '25 guidance. And then as it relates to how things unfold, we said that as it related to our F '26 outlook, we will provide more information in June when we revealed our plan for fiscal '26. And again, to Lawson's point, it's very fluid. We've been planning for this for much of F '25 because as he said, unfortunately, we've had some experience with this before. So we had the opportunity and time to plan.

Peter Grom

No, that's helpful. So we'll leave it at that because it could change in the next – within this presentation. So we'll see. So look, Lawson, I kind of wanted to shift, just thinking about the demand backdrop, right? And you've been very vocal and upfront about some of the challenges we've seen in the industry over the last kind of 18 months or so. And look, beverage alcohol, spirits are not alone in this. We've seen a lot of shifts in demand in terms of other CPG categories. So you've been very vocal that it's been more macro related more than anything else. And I know hindsight is 2020, right? But as you sit here today, maybe think about where you were when 1.5 years ago when this demand slowdown started, I mean, has your thinking evolved at all? Or do you still think this is largely a macro dynamic?

Lawson Whiting

Well, the thinking has evolved. We'd be naive to think that some of the structural changes that are out there are not real. But I'll still hang my hat harder on the macro environment. This is called cyclical versus structural has been the argument, I guess, over the last 18 months.

The one point that I come back to or just open up with, which I think is still a very relevant and pretty strong argument. I was speaking at a conference Labor Day week with one of your competitors, and that was right after our first quarter had ended in summer of '23, and things were still rocking in the U.S. spirits market. It was running around plus 6. And for those that haven't followed this industry all that closely. I mean over the last 20 to 25 years, this industry is between 4% and 5% every year. It hardly ever moved. And that's why when you said earlier, one of the more consistent performers, well when the U.S. spirits market is running 4% or 5%, we can – we delivered very, very consistent results for decades.

Labor Day weekend, it's running at plus 6%. By Christmas, it was 0, and then it was minus 2% for most of calendar 2024. And so you say, why or what would drive that rapid of a deceleration? And that's why I come back to the GLP-1s are part of that big conversation. Cannabis is part of it, although I would say less of a part of it. And then Gen Z, and I can talk a little bit about Gen Z a little bit later, but those are the big 3. There is no way that those 3, even combined, took the spirits market from plus 6% to minus 2%. I just don't believe that, that is way too rapid of a deceleration. And also, by the way, summer of '23 was an inflation really started to pick up. And you saw interest rates go up and mortgage rates and all that kind of thing. And so you just had a whole lot of factors coming together at one time that really slowed down the market.

So now where does it go from here? I do think take GLP-1s because that – nobody knows where that's going to go. The rapid increase in the number of people that are on it is certainly meaningful. And I think we would be naive if we said that's not a long-term headwind that it's going to be hanging out there, and I don't really expect it to go anyway – anywhere soon.

But spirits, in particular relative to beer and wine, seem to be a little bit farther away from some of those weight loss issues like people, for the most part, don't drink it every day anyway. And so it becomes sort of a pleasurable luxury on the weekends. And I think a lot of that audience is a very premium audience, too. And so there's been a lot of folks saying it was premiumization gone away in the spirits market. And that's another one. I just don't think when you really sort of dig a layer under that those are really the factors that are driving some of the weakness today.

Leanne Cunningham

And one of the things that we've been talking about from the cyclical piece is that consumers are still consuming. Though they're stretched, their pocketbook is stretched because of the impact of the cost of living and inflation, they have been switching down to smaller sizes. So they still want that affordable cocktail, luxury at the end of the evening. But they're just switching down to a smaller size that's more affordable for them. So that's why we think a large part of this is cyclical and that it's going to turn because they're still in the spirits category. They're still consuming. They're just stretched right now.

Lawson Whiting

The other thing we had said for quite a while, which I know is sort of losing its flame a little bit right now as time goes on, but I do believe during COVID, when I said 4% to 5% for all those years, and then you had COVID, and it absolutely spiked way, way up driven by lots of factors. But then it has come down and there's give back right now. One of those give back factors that I also believe, the 2 categories that have been the hottest in the U.S. in the last 5 or 6 years or even longer than that had been spirits or had been

American whiskey and tequila. Those are the 2 categories, even though they're still the top growing categories in there, they've come way off their growth rates.

I believe because particularly at the ultra-premium and there's a lot of people with bottles sitting in their cabinets at home. We haven't talked about that actually in a few quarters. But how many people do you know that have some of the fancy bottles of tequila sitting on their backbar and they're still there? Nobody wants to drink it because it's $100 a bottle, but it's a nice piece of decoration in your house. So it just takes a while to run through a lot of that consumer inventory. So we spend all this time talking about distributor and distributor inventory movements, and then same on the retail side of things, consumer inventories are part of that story, too.

Peter Grom

No. That's super helpful. I guess maybe – you kind of alluded to it, about potentially being an opportunity for spirits. So maybe before we get there, right? I mean, when you think about all these different factors, GLP-1 and younger consumers drinking less, Gen Z, I mean, does it shift your view on that 4% to 5%? Do you think we get back to that level of consistency? Or are we kind of at – maybe still solid growth, but maybe a little bit of a lower level?

Lawson Whiting

Yes. I mean I don't know. Americans – and really, not even just Americans, but sort of the developed world, they like their alcohol. Per capita consumption of alcohol hasn't really moved in several decades. And so I'm not sure that all of a sudden, something in the world has changed so much where we don't go back to that dynamic again. I mean it's – it's been sort of part of society, even you can go back hundreds of years really on that argument. So we will see, but I don't really see – in the long term, I don't necessarily see a significant change in that long-term algorithm.

Leanne Cunningham

And I would just add, people spend a lot of time talking about the headwinds, but there's a lot of tailwinds, too, where spirits has been continuing to take share from wine and spirits, where with the premiumization trend is still there. There's a significant amount of legal drinking age, constituents coming into the category. So there's a lot of – there's tailwinds, again, will be the headwinds get a lot more attention, but there's tailwinds for us, too.

Lawson Whiting

And we hear – I'm already doing it again this morning. We talk a lot about the U.S. 55% of our sales are outside of the United States. And Europe is muted, and we said that last week on the call. Europe is – the trends are pretty similar to the U.S., actually, but we're still seeing dynamic and really strong growth in a lot of emerging markets. And so that has been a driver of our growth this year so far, has been we have some emerging markets that are doing really, really well.

Peter Grom

Yes. Leanne, I want to go back to the point you were just discussing, right? Just the opportunity. A lot of time, we do talk about these as headwinds, as challenges for the industry. But I wonder how we should be thinking about it from an opportunity perspective, right? You touched on younger consumers, younger legal drinking age consumers entering the category. And so how are these maybe shifts in health and wellness impacting these younger consumers? And I guess maybe to give an example or said another way, right, are these younger consumers kind of discovering alcohol differently? Are they skipping kind of the beer occasion, maybe going right into ready-to-drink beverages. And I'd be curious if that gives you an opportunity to kind of capture a younger consumer that maybe 10, 15 years ago, kind of discovered the industry more for – in beer?

Leanne Cunningham

Yes. And I'll speak to RTD specifically just here in a moment, but I would say that the Gen Zs with health and wellness, they're actually entering the full strength spirits categories earlier than some of the previous generations as well. So they're coming straight in. But then also with our RTD business, we believed in the RTD business for over 30-plus years. We had Jack & Cola that we launched in 1991. We had Jack Daniel's Country Cocktails in 1992. What you may remember more recently is in 2023, we have Jack & Coke RTDs. We have always believed that the RTDs, when our full strength spirits can't get into an occasion or a sporting event or be at the beach maybe, but that RTD can be.

And we've always thought of it as a marketing tool. And it's just one we've continued to utilize. I think consumers find their way into the category a little bit more easily with the mega trends of convenience and flavor, and we would even say premiumization with our Jack & Coke. And so we are seeing it as a way to get our brand – we always call it the cans in the hand. And so we use it as a marketing tool. It's fitting the trends that they have. It's getting them into our family of brands. And we just believe it is a way that eventually translates into growing our full strength spirits. So I do think, not only are they coming into spirits earlier, but they are also increasing it through the RTD category.

Lawson Whiting

And I want to add on one thing to the Gen Z comment. So – because that has been in the popular press, but Gen Z is getting healthy and it's everywhere. What some of the research that we have done, while yes, per capita is coming down a little bit in the generation, but you got to ask why. And everyone instantly goes to the health thing. I would argue, back to the economic inflation, if you're 21, 22, 23 years old and you're maybe just coming out of college or whatever it might be, you are – your pocketbook is in serious strain right now. It is very difficult out there. And I think so Leanne brought up the point about the smaller sizes as an example. That was kind of new news to me actually only in the last couple of quarters where I just hadn't realized that consumers and particularly, younger consumers are buying smaller portions when they do it, kind of makes sense a little bit.

I think the other part that is interesting in some of the analysis that we've seen or done, it's that age I think it started at 35, but it's sort of in that range and going up from there, per capita is going up, which nobody is talking about that. But that – those are wealthier consumers. They can afford. They're not worried about small sizes. And spirits consumption, as I said, per capita going up is a relatively new trend.

Peter Grom

Yes. I mean when you put it all together, do you feel like it's possible, even with all these changes in the industry, that you could capture more occasions?

Leanne Cunningham

It is absolutely the work that we show up to work every day to do. Absolutely, we think our – we have – there are consumers around the world. We've built – and Lawson will talk about this, I'm sure, because he was the architect of evolving our portfolio. We've got great brands to introduce to consumers around the world. And so therefore, we do believe we'll increase the occasions.

Peter Grom

Great. Maybe shifting to those brands. So let's talk about the portfolio a bit, right? There's been – obviously, whiskey, tequila, you just alluded to, have been key components of the portfolio, key drivers of industry growth. But you have made some changes. You've added new things. You've gotten rid of others. So can you just walk us through the portfolio evolution? And then are we now in a good spot? Do you see further opportunities ahead? And just when you think about your long-term growth targets, how did these changes impact that?

Lawson Whiting

Yes. So the change in the portfolio, if I real quickly go back to literally 25 years ago, something like that. We owned a lot of brands, the year 2000. We had a big wine company back then. We're into Lenox China and Dansk and Gorham and all these brands, probably most of you have probably never heard of, Hartmann luggage. We had a whole smorgasbord of different businesses and brands all under the company. Over the next 10 years or so, we got rid of all that where the only brands that we own today that we owned in the late '90s are Jack Daniel's, Woodford Reserve, which we built, and Old Forester, which is the founding brand of the company. Everything else, we got rid of. And then everything we have today, we went out and purchased.

So we've been pretty aggressive at getting out of these lower margin, lower growth businesses and buying brands like a Gin Mare or Diplomatico would be our 2 most recent. But certainly, you go back just a few years before that with Fords Gin, which has been a great brand. And we have others, our Scotch brands. We have a bunch of brands that we have built in the last few years.

The idea being we would accelerate the growth of the company, obviously, trading out a brand like Southern Comfort, which we owned for 30 or 40 years or something like that, but it was declining and it was a really tough, tough brand to grow, and replacing it with a – pick of Diplomatico as an example, it seems like a pretty obvious move to make and an accelerator of growth rates. Now kind of as we completed all this, the market started to go down. But I would between, say, 2020 and 2023, in the summer of '23, those brands, that entire rest of portfolio was well into the double-digit growth range. And so our expectation is that's going to get back there, but we've got to get through this sort of soft period.

Peter Grom

Makes sense. And maybe just double clicking on Gin Mare, Diplomatico, just talk to us about why those acquisitions made sense. What about the brands themselves or geographies? And I guess how have – beyond just the industry, right? I mean, how have the brands performed relative to your expectations? And specifically, as we're now at the point where they're moving into organic growth, how should we be thinking about that in the back half or 4Q here and then into next year?

Lawson Whiting

Yes. So look, both brands, as I said, were on a tear there for a little while as we got them. We wanted to get into those categories. We didn't have a gin, well, we had Fords. But Gin Mare is different. It is a very big brand in Europe. It's very small in the United States. Same with Diplomatico, very big in Europe and relatively smaller in the United States. The strategic argument there was particularly when you go to Europe, Jack Daniel's dominates our portfolio and has for a long, long time. It goes back in a level further. But for many, many years, we didn't control our own route to market. We basically partnered with industry competitors now, it's strange how this industry has evolved where Diageo and Pernod and everyone represented everybody else's brands, and we – that is completely gone. There's very little of that happening anymore.

So we put our own route to market in place. We've got Jack Daniel's, and it's growing and growing nicely. And then we said, how are we going to get – Woodford Reserve is the obvious example. We tried for years and years. Industry partners weren't going to do it. So when we got control, we still really struggled to get the brand growing at a pace that we wanted to. And a lot of it was because we had Jack Daniel's, and I'll just use Woodford as my example, use France as a good market as an example. We couldn't get anybody to focus on Woodford because Jack was so much bigger. If you're a sales guy, the honest reality is you're going to revert to Jack every single time. It's an easier sale. It's much more volume, and we weren't developing the smaller brands.

And so we came up with this emerging brands concept in the U.S. It was 8 or 9 years ago, and we've exported it to Europe. But we needed some scale to build a second sales force. And basically U.K., Germany, France, Spain, you name it all, the big markets over there. And so part of the strategic reason for buying those 2 brands was to get some scale where you could then put our tequila in there or you could put Woodford in there or maybe it was GlenDronach, whatever it might be. But you've got a real portfolio that salespeople can then go and use. So that was the strategic reason to do it.

The other part of it is for the company's perspective, Gin Mare and Diplomatico are both very high-margin brands. They're expensive. I mean these are brands itself for $40, $50 a bottle. And so $40, $50 bottles of spirits, particularly those that don't age, you can imagine that has a pretty good return and a pretty good margin on it. And so yes, we think those can be good, really nice future growth drivers.

Peter Grom

No. That's super helpful. I mean, Leanne, one of the changes that you made over the last several years are just kind of in terms of route to market, right? And so where are we in that evolution? And maybe just for those that are less familiar, can you just talk about the advantages or disadvantages from having your own route to market? And then ultimately, really, what informs your view around when to make that change? Is it about scale or is there something else that drives that?

Leanne Cunningham

We've been on this journey for quite a long time now. So if you look back in just the year 2000, only 25%, as Lawson said, of our business, was outside the United States. Now we have over 55% of our business outside the United States. And we have been learning and growing in that international space for about 30 years. A lot of time starting in – because we didn't have the scale starting with other partners to help grow our brands.

And what we have learned over time, as our brands have gotten larger, investing in that own distribution gives us consumer insights, gives us customer insights, gives us ability to bring our broader portfolio to the market, gain share and just be more competitive, clawback more of the supply chain.

So over time, we now have our top 10 markets where we own – we have invested and we own our own distribution, except for, of course, the U.S. and Canada where that's not legal. But we continue to make that forward integration because we see that there is value and the ability to – for our brands to win, really importantly, bringing our broader portfolio.

And then with route-to-consumer, what Lawson was just talking about with Gin Mare and Diplomatico now giving us more scale in Europe, you would see and we have just announced that we are starting up our own distribution in Italy because now, we have the scale. Now we can go claw back that margin, we can grow our broader portfolio and we can win to a higher extent in Italy starting on May 1 because we have more scale to do it.

When you look at our competitors, on average, we are still below the competitors' average of owned distribution in international markets. So we still have markets that we – where we can still go and capture that opportunity. We have a committee, and we have strategies around that. So we have a good long-term vision about how we'll go and capture that opportunity that's still yet ahead of us. But it's something we've been working on really for about 25 years, and we've gotten a bit more aggressive as we've gotten more scale and more capabilities and more experience at it. But it's something we do continue to believe grows, delivers a lot of value for us.

Peter Grom

Great. And then maybe just shifting the discussion back to the U.S. for a second, Lawson, but more from a category standpoint. Maybe just would love to get your perspective on whiskey looking out over the next 3 to 5 years. Look, it's been a huge driver of industry growth. But we often get questions just on when the cycle may end. And so I would just love your views on the industry. And then maybe within that, right? I mean you touched on it a bit last week during earnings. But just maybe some thoughts on kind of the supply versus demand dynamics or discussion that seems to be a key debate out there.

Lawson Whiting

Yes. Okay. Well, one, on the supply-demand thing, I'll hit first a little bit. I assume because it's been in the news pretty much nonstop. There are – I haven't counted, 4 or 5 really big distilleries in Kentucky that have – they're temporarily, but they're closing for 6 months at a time. And all of our competitors or many of them have announced these closures. And some of them are even plants that were built and they're not even running. They haven't even started running yet.

And so there's this natural back and forth in our industry that has happened for a long, long time. And it adjusts. And so if you'd ask me, back to the summer of '23 when things are still rolling, we were close to running out, but running very, very tight. Literally, we always say, we were literally – barrels would hit 4 years old, and we would pick that barrel off the rack and it would get bottled up later within that day. A little bit of an exaggeration, but I mean, the world was very tight. 12 months later, everybody is saying there's a sea of whiskey out there. So the pendulum just went like that.

It's adjusting and it will adjust fairly quickly. And I think it's important also to know that people like – I don't like the word craft very well, the craft brands in general, that word. I prefer my word, entrepreneurial-led brands. But do you know what I mean. I mean brands that are generally owned, they have – somebody owns one brand and they're trying to get it built across the United States. That has been – I mean, there's so many brands. I see different numbers thrown around all the time, but there are thousands of those that are out there. In total, they added up to about 3% market share at their peak. It was not like beer, where beer got up into the teens. Craft, those – here I'm using craft brands, never really got to the scale.

And so people – a lot of the questions come out is that's what's driving this industry, an oversupply of whiskey and that's really not what it is. It's the 97% is the big 4, 5, 6 companies, and it's all the ones that you all would follow. I mean certainly a big part of that. And those big companies are – look, they have shareholders. They're doing the same forecast we are and they're throttling back pretty quickly. We're not in a position to throttle back. I mean we've slowed things down. But we're not – we don't have to mothball or close anything for a period of 6 months.

So to your original question about long-term trends in the whiskey category and others. Look, it's hard to know. If you talk about whiskey, the down trend from 1970 until 2010, that's 40 years, and it was going down like that every year, and vodka, over that time, exploded. Get to 2010, that reverses a little bit. Vodka becomes a very tough category and American whiskey takes off. That was 15 years ago. I don't have a crystal ball to say when that's going to end. But if we had a 40-year decline, I would see no reason it can't be a 40-year increase. It's still one of the healthiest categories in the business. So it's still growing, just not at the same rate it was 3, 4 years ago.

Peter Grom

Makes sense. I mean just one quick one on the supply and demand for maybe for both of you. But do you – just given kind of the 97% that's controlled by the bigger players and yourselves, I mean, do you have visibility that they're all going to act rationally? And I guess if so, and maybe this discussion is not as – I don't know. It's more overstated or the concerns more overstated than the reality?

Leanne Cunningham

Yes. I would just say, we get this question a lot and over a long number of years. With the aging process of our products, if demand is going, if we believe demand is going to grow over time, then you're always going to be distilling more than your dumping and bottling. But we all have levers available to us. We are all constantly expertly managing our balance sheet, which means we're utilizing the levers that we have to when we look over a long period of time, kind of get that supply demand to come back in the line. You do it by adjusting your production plans. You can also leave our products which are distillate in the aged barrels over time. And you know what, sometimes you get a really great innovation at some point in the future by leaving that product in the barrel for longer.

So then I would just say, do we expect people to act rationally? The large players, we've all been doing this for decades and generations. And we've always kind of seen that to be true. We continue to believe people are going to be rational because at the end of the day, we're all brand owners and we all care about the health of the brands that we own.

Lawson Whiting

Let me add one little point on top of that. In the whiskey business, like in food, time is not your friend. I mean top food does have a shelf life. And as do the vast majority of consumer products out there, whiskey is a little bit differently, and I'll take Scotch as the example, single malt Scotch, which we own, they're not huge, but we own some pretty good-sized single malt Scotch brands and they're older GlenDronach in particular, starts at 12, there's a 15, there's an 18, and then even older than that.

The interesting thing is in the market, at least this has been true for the last, I'll say, 10 years or so, that whiskey is growing in value with age. You actually – the price of a 12-year old versus a 15-year-old, just to pick those 2 up, that 15-year-old is significantly more expensive. And if you can get a – this gets a little complicated, but if you can get price increases greater than your cost of capital, then you're better off letting that stuff sit and let it continue to grow. And so that has been true for a long time. And so we have a fair amount of really old age Scotch that's selling for great margin. You can do the same thing in American whiskey, too, you don't have – it's not 12 and 15 years old for the most part, but you do have an asset that's appreciating, not depreciating as it gets older.

Peter Grom

That's super helpful. All right. Maybe pivoting to outside the U.S., and you kind of throw a line I have from my script earlier. But U.S. gets a lot of air time here, but international is a very sizable business. So can you maybe just talk about the long-term opportunity for these categories and your brands specifically? What markets do you see kind of the greatest runway for growth? And then when you think about the long-term growth profile of this business, what do you think is a reasonable expectation for markets outside the U.S.?

Lawson Whiting

Yes. So as Leanne said a few minutes ago, we were in that 20 – at one time, when I started with the company, we were 85% U.S. and only 15% international. So even in my career, it has changed dramatically over that period of time. A lot of that growth, I'll say, over the last 20 years or whatever, has been Europe, developed Europe. So Germany is the second largest market in the world for Brown-Forman, and you can go around Europe and those are all pretty big markets for us.

But what we've not done much with basically Asia, Japan is a medium-sized market, but the rest of Asia were very, very small, relatively small in the Middle East, which, believe it or not, is actually a pretty rapidly growing spirits market. People don't think of that all the time, but there's a ton happening there. We're very small in India, Africa. Where we have gotten some scale in the last few years in South America. And right now, I mean that's where I think our confidence, we use Brazil all the time as an example, even with EU coming in Brazil has been a brilliant market for Jack Daniel's over the last 10 years or so.

And that was one where we developed a model, which I think worked very, very well, which is going to one city, don't try to spread yourself over the whole country, get one city and grow it out of Sao Paulo. But we have now gotten some big scale down there, both Black Label and in Jack Daniel's Apple in Brazil. I don't want to say for whatever reason, but it is growing so fast and it is very, very big. So it's just a flavor that folks love in Brazil. But I will say the rest of South America, kind of all the – basically the entire continent, and moving up into Latin America and Mexico is sort of our – one of our sweet spots, I guess, where we're seeing really good growth. Mexico is a very big market. for us, too, with the tequilas and Jack Daniel's.

So that is an area where I would say we have high confidence that we'll grow and grow quite nicely over the next 10 years or so. But we also know we need to get Asia going. And so there are plans in place and there's lots of things we're doing to try to set the table there. I don't want to say we haven't tried, but we've not put the resources in place over there to be able to get real good scale, and that's going to change.

Peter Grom

Okay. So Leanne, I wanted to circle back to the company's objectives around making a double to triple. And I guess I was hoping to get some perspective in terms of how innovation is going to play a role in getting those targets. And so one of the questions I often get is just kind of on the innovation pipeline. And look, you've had tremendous success in terms of line extensions. You just had done JD Apple here, but also new brand development. And I know that it's hard to call it new, but Lawson mentioned Woodford Reserve, you developed it from scratch, right? And so just as you think about doubling whiskey and tripling tequila, do you need kind of home runs, I guess, like Woodford Reserve or can these – not to keep the baseball analogy, but can you play small ball and kind of still hit those targets?

Leanne Cunningham

Absolutely. And what we have been trying to do is meet the consumer, the needs and where they are. And we would say, you think about Woodford Reserve, that was a brand that came to life and was a Brown-Forman innovation during that 40-year period, Lawson talked about, a secular decline of Brown spirits and Brown-Forman said, "You know what? We're going to create a super premium American whiskey" and Woodford Reserve was launched in 1996 in that down cycle and has become the #1 super-premium American whiskey. And so we just continue – I know it's a bigger brand now. It's a more well-established brand. We continue to point to that as that was innovation. That was innovation at a time when people couldn't see through to find that opportunity.

And what we've continued to do is where is the consumer. The consumer loves the trend of premiumization right now. Jack Daniel's, we've just launched an aged series that hadn't been out for quite a long time. We have a 10-year old. We have a 12-year old. And we just released a 14-year-old that it gives us the ability to highlight our whiskey-making credentials. It gives us the opportunity to bring back a product that hadn't been offered for over 100 years. And the consumers love to discover those things and experience those things. And again, it allows us the opportunity to get – let the consumer ladder up into different products inside of our trademark.

Other things that I would point to going back to Woodford is we would have something at the distillery because there's a lot of tourism. People love to come and visit our distilleries and find out how things are made and really experience the brand's essence. And so with the distilleries, we would have these limited series. And so we had a Woodford Double

Oaked. And the consumer loved it so much that in 2015, we said we're going to launch it as a permanent extension, and we're going to make it available. Right now, it's the #4 ultra-premium whiskey in the world.

And then so we did it again. We just recently launched Woodford Double Double Oaked because, again, it was a distillery series that people really loved and they kept demanding and we just saw the opportunity to continue to broaden that. So we've done it as well when we get to Old Forester, the company's founding brand. Once we launched the distillery series and the craft series for them and it gave consumers the opportunity to explore Woodford more fully and to ladder up into those more premium experiences, the brand is now over 0.5 million cases. So it's a way to not only to meet the consumers' needs and the consumer trends, but also to help us grow the business through price, mix, innovation. And consumers, right now, we know innovation is driving a lot of the growth because people are wanting to go through and find some of those new experiences, and we're just trying to meet them there.

Lawson Whiting

Yes. In terms of innovation versus core portfolio and where your growth drivers are going to be. And we've said this in numerous places before. But I mean, the Jack Daniel's, right, it's so big, we aren't going to be able to keep up with share, say, in the United States. We didn't have it in a long time and that we don't need to deliver upon sort of, if I'll just talk sales – sales algorithms that we're trying to reach.

As long as we continue to develop – continue to grow sort of even in the low single digits the Jack Daniel's franchise and then the innovations, increase that or juice that up a little bit, we really believe the rest of the portfolio can grow at a much, much higher rate. I mean I have aspirations for double-digit growth really for much of the rest of portfolio. And so if we can achieve that, even with relatively, call it, low or low to mid-single-digit growth on Jack, the rest of the portfolio can accelerate that. And if we can continue to do that, then we're in a pretty good place. The new growth rates are go up.

Peter Grom

That would be tremendous. Before – I have a few more questions left, but we have a few minutes left here. I just want to remind folks, if you want to submit a question, please do so now. So maybe pivoting to margins and maybe just first, Lawson on the strategic initiatives outlined back in January, right, some changes in executive leadership, some workforce reductions, you closed the Cooperage, et cetera. I know a lot of these decisions aren't easy and it's also something that you don't do very often.

So can you just talk about these actions, kind of the timing of the $70 million to $80 million of savings? And within that, how should we be thinking about reinvestment versus allowing some of these savings that drop to the bottom line?

Lawson Whiting

Yes. So for those that may not be as close to the story, we made some changes in January, both in our – we had a Cooperage in Louisville and then we also had a broader population where we needed to make some adjustments. And so let me hit the Cooperage one first, and then I'll go back to the sort of broader SG&A. But the Cooperage. So we have, over the last 5 years or so, really made significant changes to how we make barrels. We used to be fully integrated because for 50, 60, 70 years, there was no one that could make barrels at the scale we needed. We still are the biggest in the industry. And we needed control over that to be able to make our own barrels. And that is what got us in trouble quite honestly in the last 10 years where our costs got out of control in making barrels.

And so we had to make some changes to that. And it is a relatively low-margin business. And there are outside players now that just weren't there before that are huge. And so we started selling sawmill – our sawmill business – I can't remember when it was, 5, 6 years ago. And slowly, we sold the Jack Daniel's Cooperage about almost 12 months ago. And then this was really the final stage of us being in the wood business and by selling that second Cooperage.

And so we are out now. We are outsourcing that. There are players that can produce in much bigger scale and quite honestly, much lower costs. And so that was the reason that we made that choices. Our gross margin, which has been well documented, took a hit from about 2015, '16 until where we are today. Now we're fighting very hard by taking a lot of costs out and by pushing price too, but that has been – that's been a big deal and a big part of the story in the last few years.

The broader SG&A was more about just resetting a little bit and reallocating resources to places that are showing better growth than just inside the United States and particularly in Louisville. So we did consciously make that change, and we're going to take, as you say, $70 million to $80 million in cost savings and be able to reallocate that. One thing we've not done is given any guidance or really even internally decided how much of that we're going to reinvest versus drop to the bottom line. We're working through that right now. It's actually kind of exciting. This is the – as hard as doing restructurings can be, and we hadn't done one in like 15 years, because we honestly didn't need to. We have had so much growth over those intervening years.

But it's exciting to think about some of the places that we can make new investments in. And that can be brand expense maybe. It could be people. It could be a project. It could be a capability or whatever. But it's motivating to me to think about all the different ideas and all the different growth opportunities that we can finally get after. It was very difficult in an environment, particularly when sales slow, your operating expenses, you're going to be naturally tight on those, and it was getting to the point where we were getting frustrated that we just weren't going to be able to make some of these incremental investments, and now we can.

Peter Grom

Great. Maybe building on the point you made around gross margin, right? And Leanne, I guess, if you look at a model or whatnot, I mean, if you look at where gross margins were 10 years ago versus where we are today, I mean that would seem to suggest there's a huge opportunity for margin recovery. But the business has changed, the portfolio has changed, the cost of doing business has changed. So I don't know what's the easiest way to ask this, but I guess, what's a realistic gross margin target just given these changes, right? I mean can you get back to something in the high 60s? Or is there something like low to mid-60s is the right target? I'm just trying to think through, given the changes, what's kind of a reasonable expectation?

Leanne Cunningham

And I think you hit it really in your question at the beginning is our business has changed. We have evolved our portfolio. It looks very different now than when it did back in that period of time. We don't have a target set. We know that we expect to continue to get margin expansion over a period of time. We're going to be utilizing all the levers we have. We just talked about innovation and how we can continue to bring to the world more premium products so we can get that price mix working in our favor. We have revenue growth management. Our teams and our tools continue to progress and advance every day and how we're doing that globally is yielding positive results for us.

But then it's the everyday cost efficiencies. We've been talking ever since I've been in this role about the cost of agave. When you look at our portfolio, not only do we have sizable tequila businesses, but we also have a large aged portfolio that requires a barrel. So for us, wood and agave have been the 2 big drivers of some of that gross margin contraction over that time. Those of you that have been following the story of the cost of agave, which is the key ingredient in tequilas, it hit an all-time high. It's now come down. We're continuing to work through to get to that benefit because we have aged inventory. We have finished goods inventory.

So that benefit is still coming to us as we work through that. And then as Lawson just mentioned, from the wood perspective or the cost of the barrel, that's been one of our biggest challenges. But now that we have gone through the process to move to an out-sourced model where we can still get the same quality of barrel and product that we need and still get the same level of innovation capability from the barrel perspective, that should continue to yield benefit to us. Of course, it's an aged product. So it will be a period of time before we get to recognize the full benefit of those decisions that we've made. But we're doing all of the things to continue to get our gross margin to expand back to something higher than where we are today.

Peter Grom

Okay. Well, we only have a few seconds left. So why don't we leave it there? Lawson, Leanne, thank you so much for joining us today. We wish you and the team at Brown-Forman nothing but the best of luck moving forward.

Leanne Cunningham

Thank you so much.

Lawson Whiting

Peter, okay. Take care.