

Brown-Forman Corporation, AGM 2016

2016-07-28

Presentation

George Brown

Good morning. And I think we're a couple of minutes early, but it all got quiet, and I thought I might as well just start the meeting. Don't worry, the legal part will start at 9:30.

Good morning, and welcome to Louisville, and welcome to our annual meeting. Apologies for the humidity and for the rain, but thank you so much for making the effort to come today. This is it's – not all companies have annual stockholder meetings like this. This is pretty unique, as unique in some ways as Brown-Forman, and thank you for keeping it that way.

We've got retirees in the room, some whom I've seen. We've got advisors to shareholders in the room, thank you for everything that you do between these meetings, and thank you for coming today. And of course, people who've come in from all parts of the country and even the world. We are also live here online, and so thank you as well to those of you out in the financial community in Pennsylvania, I think, you know who you are when I say that. In New York, and in London, thank you very much for dialing in this morning.

In particular, I'd like to welcome some of our retired directors who're with us this morning. Martin Brown, Sr. is in the room. Thank you, Martin. Ina Bond is here as well. Thank you, Ina. Dace – Dace Brown Stubbs, where is she? Dace Brown Stubbs, thank you, Dace. And Jim Welch, has just retired as the Vice Chairman of the Corporation and was on our Board for 7 years, I think, maybe 8, and he's here as well. Thank you, Jim for coming over.

Martin Brown, Jr. and Sandra Frazier enjoyed 10 years on our Board of Directors, and

they're also in the room today. Martin, Sandra? There – they're right over there. Thank you so much for coming. Thank you.

And actually, in the last 12 months, I think it was my cousin Marshall who alerted me to this that there was an independent Director of ours, Jon Speed, who passed away, and if you were my age growing up, he would've been one of these wise independent directors that we had, who contributed to so much of what's made this company great over the decades. So I just wanted to mention that Mr. Speed is on, certainly, my mind today also.

So with that, I think I'll move to the – and we're almost at 9:30, the formal legal part of the meeting.

I now call to order the formal business portion of the 2016 Annual Stockholders' Meeting. We have 2 items of business on the agenda for today. The first is to elect the directors for the coming year, and second, we'll seek your approval of an amendment to our re-stated certificate of incorporation to increase the number of authorized shares of Class A common stock.

Unless there is an objection, I'll waive the reading of the minutes from last year's meeting. If I could ask our Secretary and General Counsel, Matthew Hamel, to describe the notice given to the shareholders.

Matthew Hamel

Thank you, Garvin. Class A shareholders who appeared on our records as of June 20, 2016, are entitled to vote at today's meeting. On June 28, 2016, we mailed a notice of this meeting, together with a proxy statement, a proxy card and a copy of the company's Annual Report, which included our Form 10-K for fiscal 2016.

To establish a quorum to conduct business at today's meeting, we must have in attendance in person or by proxy at least a majority of the outstanding Class A shares. I can

report that at today's meeting, appropriately 91% of Class A shares are present in person or represented by proxy. We therefore have a quorum to conduct business.

George Brown

Thank you. The following people were sworn in earlier as electoral inspectors to supervise the voting: Jeff Caffee, Mike Carr and Mohammed Master Jay.

At this meeting, the first item of business is the election of directors. The following 12 directors are up for election to serve for the coming year. If I could ask each of you to stand as I call out your names. Patrick Bousquet-Chavanne, Executive Director of Customer Marketing and MNS.com at Marks & Spencer; Campbell P. Brown, President and Managing Director of Old Forrester, Brown-Forman Corporation; Stuart R. Brown, managing partner of Typha Partners LLC; Bruce L. Byrnes, retired Vice Chairman of the Board at Procter & Gamble; John D. Cook, Director Emeritus of McKinsey & Company; Marshall B. Farrer, Vice President and Managing Director of Global Travel Retail, Brown-Forman Corporation; Laura L. Frazier, Owner and Chairman, Bittners LLC; Augusta Brown Holland, founding partner Haystack Partners LLC; Michael J. Roney, retired CEO of Bunzl plc and Deputy Chairman and Chairman Designate of Grafting Group plc; Michael A. Todman, retired Vice Chairman, Whirlpool Corporation; Paul C. Varga, Chairman and CEO of Brown-Forman Corporation; and I am George Garvin Brown IV, Chairman of the Board, and I am also standing for reelection.

I'd now like to entertain the nominations for your Board of Directors.

Attendee

Mr. Chairman, I nominate Patrick Bousquet-Chavanne, Campbell P. Brown, Stuart Garvin Brown IV, Stuart R. Brown, Bruce L. Byrnes, John D. Cook, Marshall B. Farrer, Laura L. Frazier, Augusta Brown Holland, Michael J. Roney, Michael A. Todman and Paul C. Varga.

George Brown

Is there a second?

Attendee

I second the nomination.

George Brown

Are there any other nominations? If there are none, I declare the nominations closed.

The second order of business here today is described as Proposal 2 in your proxy statement. We're asking you to approve a proposed amendment to our restated Certificate of Incorporation to increase the number of authorized shares of Class A common stock. Your approval of this proposal will allow the company to execute the previously announced two-for-one stock split of both our Class A and Class B common stock. I always like the numbers around share splits, of course, Warren Buffett has his opinions, if you read any of its annual reports. Since 1933, we've had 12 share splits, so this would be the 13th. Paul had done a bit of research. Since you came to the company in 1986 as a summer intern, we've had 6. And actually, we've had 2 since Paul and I have been working together in this capacity. So our share price without any of these splits today would be \$137,460. I love Warren Buffett as much as anyone, but I just – and your Board recommends that that's just not really the way to manage our share price. I'm not sure it would fit on your iPhone, if that's how you track your shares. Anyway, enough of the aside. Matt, would you please describe the voting process?

Matthew Hamel

Thanks, Garvin. If you completed and returned your proxy card, you've already voted and you don't need to do anything further. If you did not send in a proxy card or you did but would like to change your vote, please ask for a ballot from one of the people now walking through the aisles.

In the election of directors, only Class A shares may vote, and a nominee will be elected if he or she receives a majority of the votes cast.

For Proposal 2, the approval of the proposed amendment to the company's restated Certificate of Incorporation to increase the number of authorized shares of Class A stock, only Class A shares vote. An approval requires an affirmative vote of the majority of the outstanding shares of Class A common stock.

[Voting]

George Brown

Would the Inspectors please provide the results to the Secretary?

Matthew Hamel

At today's meeting, each of the 12 Director nominees has received at least 98% of the Class A votes cast. Therefore, each nominee is duly elected to be a Director of the Corporation. For Proposal 2, I'm pleased to report that 89% of the outstanding shares of Class A common stock were voted in favor of the proposed amendment to the company's restated Certificate of Incorporation to increase the number of authorized shares of Class A common stock. Therefore, Proposal 2 is approved.

George Brown

Thank you. And on behalf of your Board, thank you for your continued support.

This concludes the formal business portion of our meeting. Unless there's any other business to come before us, I declare the 2016 Annual Stockholders' Meeting adjourned.

Okay. Thank you. Before I bring Paul up to talk to us about the business over the past year and probably other years, too. I know he'll use some metrics today, I imagine. I bumped into a new metric this year on a flight from London to Warsaw of all places, in April. It's

qualitative, so you're going to have to bear with me as I explain it. But I was off to visit the Polish team. Wonderful business, they've actually doubled the Jack Daniel's family of brands in the last 5 years to 350,000 cases. It's run by Ricardo Cupido [ph], who's a Portuguese national, Polish wife. He's been living in Warsaw – where's Thomas? For how long now? 5 years he's been in Warsaw? Okay. And running our business there for 18 months, maybe, 24? Thomas Hinrichs is here today. He runs everything from the United Kingdom to Australia. He'll be at the Brand Fair. So if you want to learn more about the Polish business, please do find him. And then – and lots of other businesses. So I was very excited. Out to see Ricardo and his team. Hadn't been to Poland in a while, great business. The flight was a bun flight. It was packed. Bunch of angry business people off to leave their homes for the week and go do business in Poland. But I was lucky, I got the aisle seat – I'm sorry, I got the exit row and I got an aisle seat. I love a good aisle seat. Exit row is even better. No one can lean back on you, et cetera, et cetera. But I know that if you're sitting on the exit row, you need to put your bags up above, right? Which I did. And the good news is, there is no one in the window seat either, no one in the middle. This is just golden. Right before we take off, angry English man, about my age, comes on in the flight, makes a whole flurry. He forgets to put his bags up above, he takes the window seat, bags under. He's got to get out, my seatbelt's off, second time now. Of course he forgot something in his bags. Third time. Now I'm really not liking my neighbor very much. Anyway, we take off, the snack cart comes down the aisle, I took a water. Paul, traveling on business, took a water. And he, of course, wants something, and he asked for a Jack Daniel's on the rocks. Oh, it's not so bad. I looked at the stewardess, and she says, "Oh, I'm so sorry, sir. We're out of Jack Daniel's." Oh. And it goes back and forth, and back and forth and she's offering him this other whiskey brand, she's got a Red Label and a Black Label of that brand. He's so bent out of shape. He said, "Look, if you don't have Jack Daniel's, I'll take a glass of champagne." Oh.

So what's this metric? I mean not only did he leave the category, but he left the entire

spirits industry when he couldn't get Jack Daniel's. Brand loyalty, unaided awareness, recall, past 30-day usage, almost. I bet he had a Jack when we got to the hotel that night. On a flight from London to Warsaw in 2016 you're overhearing this conversation in the exit row? How did that happen? It took me right back to 2003 when I was interviewing with Mark McCallum, Michael Keyes for a Jack Daniel's marketing job. Guys, you know the whiskey category is not looking too good. But don't worry, Garvin, we're not here to take share of the whiskey category. We are here to transcend the category. It's about building this brand. If the whiskey category grows, that's low hanging fruit. But with Jack Daniel's, we transcend the category. Oh, okay. I guess, they were right. How does Brown-Forman do it? Here, they talked about the art and science of brand building. On the art side, it's all the nice, soft, creative stuff, consumer insights, marketing, those Lynchburg postcards that I wrote about in the Annual Report, that are on the subway line in London that my neighbor probably has been reading for 30 years. Postcards from Lynchburg. People call it globalization. That's localization of the world of Lynchburg, Tennessee. And on the science side, it's production, it's finance, it's the sales guys getting rejected at accounts in those early days and going back and back and back. Art and science. The brand building of Brown-Forman. I remember leaving this meeting about 10 years ago, and I overheard a conversation between my mother, who is here today, and Patrick Bousquet-Chavanne, one of our directors – just reelected. "Mrs. Brown, how did you like the meeting?" "Oh, it's fine, thank you. But I'm just not so interested in business. I'm not really a business person, so I'm really not sure about the content. But it all looked lovely, lovely feel in the room." "Oh, Mrs. Brown, what are your interests?" "Well, honestly, I love music. I love classical music." But we've just left a concert. Don't you know a great CEO is like a conductor of a symphony? And he knows when to call on the percussion and the strings and the wind instruments. We have just left a concert." She beamed, I beamed. Our conductor is Paul Varga, and we are all actually hit the symphony. Shareholders who made the effort to be here today despite this weather, the traffic, I-65. Paul's team transcending this category,

building businesses around the world, are the wisdom of our Board of Directors, retired and active. All of us, we're all in the symphony. And it's Paul who's our conductor. So please, join me in welcoming our conductor, Paul Varga.

Paul Varga

Thank you. Garvin's introductions are always so nice, and – so it's a pleasure and a privilege to be here to represent the groups that he just referenced. And so before I even get started, let me thank all of you for the support you provide to what I'm about to say, as well as our Board, for the guidance and counsel and support they give, this executive leadership team that's at the front of the room here, that I hope you'll have a chance to interact with at the brand fair. And they'd be mad at me and they would be correct, too, if we didn't honor the 4,200 people around the world who actually produced what I'm about to share with you. So always the Brown-Forman Annual Shareholders' Meeting is a family affair. We have many, many faces in here, of course, from the Brown-Forman family. The place is absolutely flooded with Brown family members, it is our tradition, which is wonderful, and unique as Garvin mentioned. And I've actually got family here this year. We've – at some years I've had it, in other, I've not. So we have an intern in the back, my nephew, who is interning here. He counted votes, and I hope he did that right. And then my wife, Misty, is here, and my dad's here for a repeat performance. I think, he first came down to sort of check me out, and now I think he's down here looking after his investment a little bit more. So he keeps – he's been coming down for like several of the last few years. And after the first time Dr. Don came down, several people came up to me afterwards and said, "My god, he looks exactly like you, exactly like you." So if you get a chance afterwards, you want to see what I'll look like at the young age of 84, come up and visit my dad. We're a spitting image.

Anyway, the theme here is, you can tell behind me, is Building Forever. And they're just 2 words. They do use the initials of the company, but I thought I'd try to, again, bring it to

life. We've referenced it many, many times here at Brown-Forman. And so this process of Building Forever, it is intended to be a statement that marries our highest ambition of building an enduring company with the process that actually will do that, which is a growth mindset. And so the way I'd like to think about it, because it's a play on words, of course, is in order to build the end state of forever, we have to be building forever. And that building is this growth mindset about not only the company, but the brands I'll talk about, and something I talked about in great part last year, that I won't go into as much today, which is about the building of our people. And we think there's a very direct correlation between the company's progress, the brand's progress and our people's progress.

Now I'll try to give you some insight to that, and I think one of the most important aspects of it is to first touch base on the year we just concluded, because it's a fine example of this Building Forever. There are 5 highlights that I would note here from the year. The first, of course, being the brand performance, and there's no new news from last year really here. Maybe one thing I'll site, but Jack Daniel's led it. The American whiskey brands of Brown-Forman, Woodford Reserve, Old Forrester particularly, continue to perform extremely well, but it was a Jack Daniel's led business performance as in past years. But of note, the tequilas really had their breakout year in the first decade of Brown-Forman's ownership of Casa Herradura. Alongside it was continued geographic balance. Probably the most noteworthy thing was something you would've observed in the headlines around the world over the last year or so, which was the slowdown in emerging markets. Brown-Forman was not immune to that. While we still grew in the emerging markets, our growth rates moderated. So we were more dependent on the United States, which had another excellent year as well as our developed international markets.

Currency headwinds continued. It's been a theme for U.S.-based companies the last few years as the strong dollar, when we translate profits back, we actually have, what we call,

currency headwinds. And so they don't convert at the rate they did 2 and 3 years ago. So it's a prominent topic in all of business today. Some people benefiting from it, some people being hurt by it. But it clearly was a theme in the FY '16 performance. Despite it, Brown-Forman continued to have great business efficiency, I call it. We have in – within our industry, we have the leading operating margin and return on invested capital, 2 of our foremost metrics.

And then finally, we made significant long-term investments. We reshaped our portfolio, and through share repurchases and the continued success of our dividend program, provided cash back to shareholders. For those of you who've been coming here for years, other than things like currency headwinds, it's been a pretty consistent story. So one thing I would note across all of it though that really will emphasize this point of Building Forever, what we're striving to do, and what I hope you will take away that what Building Forever represents, is the desire to perform in the present while continuing to invest for the future. So performing in the present while continuing to invest in the future. And so this is the 1-year total shareholder return, and I'm going to show you 4 of these. The first one is, it just captures the last 12 months ending April 30, the end of our fiscal year. And so you'll see, we were not the best performing within our industry, a couple of companies really rebounded versus some prior years. Even consumer staples in the 1 year was ahead of us. This is a benchmark set of companies and benchmarks, we never go out with some mandate that we have to be first. We just let these results fall where they may. We love the fact when we are the first, but we can only control our own performance. And so we got ourselves, based on the strategies and investments we make, to try to deliver consistent results. So in this year, we were about – looks like about mid-pack. Here you can see a variation as you always do on a 1-year basis. Now important, we performed very nicely with the 8% TSR, but we're doing things to position the company very well for continued success. Again, this idea of Building Forever. One thing we did was dispose of, the very difficult decision to sell Southern Comfort and Tuaca. Particularly Southern Comfort, a

brand which had been with us since the late 1970s. And they've been very successful at Brown-Forman, a lot of us is attached to it because we've done such good work on it over the years. But we made the decision to sell that and, at the same time, make investments via acquisition and innovation. And I've got a sampling here – and it goes well beyond this, but these are some of the more noteworthy ones. Jack Daniel's Tennessee Fire had a successful introduction this year. You see a picture there – a wonderful picture of the ribbon cutting of the Slane Irish distillery that we're building, and we'll soon enter the Irish whiskey business. BenRiach Distillery, which encompasses 3 single malt brands. We closed on which – it reenters Brown-Forman, in the single malt scotch business. And then Cooper's Craft, a brand that, alongside Woodford Reserve and Old Forester, which by the way we continued to invest significantly behind, Cooper's Craft joins our stable of Kentucky Bourbons. And you might ask what is Cooper's? And I'm going to show you a video because they can say it a lot better than I can.

[Presentation]

Paul Varga

We feel this is a very big idea for, not just today, but for 20 years from now. And if you get a chance, we'll have, I'm sure outside, copies of our Annual Report. Most of you would've received them in the mail. But on the back of it is something that, as we think about Cooper's and we think about the investments we're making today, there's a quote, it says, "Plant trees so that others might enjoy their shade." That was an — **indiscernible** — Brown quote. He loved it as a – that was a Greek proverb, but he would cite it often. Bill Street, I didn't see here today, used to tell us to plant acorns to become oaks. And what that reminded me of, that video, and some of the activities over the last year, are exactly captured in this idea of planting trees so that we might enjoy their shade.

And that's what I'm going to talk about here with these next segments of time where

we have begun to recognize the benefit of earlier investments. So one of the things that gives us confidence about what we've done here in the last 12 months, is to start to look at, let's say, 5-, 10- and 20-year segments because this isn't new at Brown-Forman, we've been doing this for very long time. So here's our 5-year, and you see here that if you spread the results out over 5 years, Brown-Forman having a significant advantage over many of the benchmarks and at the very top of our industry set. So it didn't just happen by absolute coincidence. One of the most important things we did 5 years ago was to devote our energies toward the spirits business in even a more concerted way, and one of the things we did to enable that was to sell our popular priced wines. Another difficult decision for us because they'd served us well to that point. But when we shipped it out of there, we've really focused our efforts on Jack Daniel's Tennessee Honey. And those are in these 5-year results. And I can tell you that the result of that is that this brand today, in 5 short years, is easily Brown-Forman's second most important brand, behind only Jack Daniel's Black Label. And if you spread it out to 10 years, so let's go back a full decade. Brown-Forman, again, fortunately for us, at the very top, very strong results on an absolute and relative basis. And what might have propelled this? It so happens that 10 years ago was the time when we, again, a business that had served the company well until this time, we decided to exit the consumer durables business, which was Lenox and Hartmann, in 2 transactions, and at that time, we even focused more on the distilled spirits, particularly the premium end with the acquisition of Casa Herradura. You see pictures here. This was fun, as I saw it as it was prepared, these were the bottles and what they looked like back 10 years ago when we bought it. And if you ever wanted to know one of the real capabilities that Brown-Forman brings in the brand building process, I think tested over time, we've been very good at evolving and improving the brand identity through packaging. Also I feel our manufacturing units are excellent at ever improving the liquid that's in these bottles. So this was something I thought was very helpful, that shift from consumer durables and Hartmann luggage focus to this, giving the organization

even more clarity about what would be the most important priorities and could drive our results. And then probably the thing that should give us the most confidence about what we've done in the last year and what might happen going forward, is to look at the 20-year. So now we're going back an entire generation, and this is just not management taking credit for stuff that happened a long time ago. This really is the story of Brown-Forman's continuing success, and it's – this renewal of performing in the current time while investing to make sure that might continue. And if you'll remember, there were probably one of the most significant strategic actions that the company of the modern era was — **indiscernible** — and Bill's push to globalize. And you see it captured here in the map. But also how we were going to go take Brown-Forman's brands and values around the world. And if you think about why we have performed in the way that we have against this competitive set and these benchmarks, the driving factor has been the appeal of Jack Daniel's globally. Just the appeal of Jack Daniel's worldwide. And so it's captured through that sliver called globalization, which, by the way, is going to continue. But also, we did something else back then, which was, we planted a tree called Woodford Reserve. And at that time – several of us were around, but at that time, we wouldn't have imagine that Woodford Reserve might become what it's become today, but we sure hoped it might, we sure hoped it could. And what you see here is, from 1997 through to today, the ascent of Woodford Reserve. And I'm going to give you just some of the – because the scale here has 100,000 cases going up to 500,000. For those of you who are not that close to the business, there is, typically for a brand, 2 very meaningful milestones at its early-stage. Getting through that 100,000 case mark, and I don't mean just pushing it out there, I mean, truly selling. And then, when a brand is so rare at the premium, and in this case, super premium level, for brands to go through in a healthy way, 0.5 million cases, and Woodford Reserve eclipsed that during FY '16. So the way I'd say it is, the team before us planted a tree here, and that's the shade we're enjoying. We really are. And so as we go do that for the next group, with the BenRiach acquisition, with Cooper's, et cetera, we

hope that somebody will be up here 20 years from now saying, "Thank you for planting that tree." So it's this idea of renewal where you perform in the current and invest for the future.

Now how do you keep confidence against the backdrop outside this room? I mean, how do we go forward thinking what we did over the last 20 years will work against this context of the next 20, particularly when all of this is around us. I mean, it's around all of us, and all businesses, all people have to deal with it. But businesses, too, have to navigate this. Now one of the ways that we keep our confidence is to look at these, be aware of them, but we also look at these headlines. We have to remember to give equal balance to the scary world we're in, but also what's happening with our category. And for us, all of that progress during most of the period, say, for Woodford reserves, the bourbon category, particularly in its home – the domestic country where Woodford is strongest in the U.S. was not growing. So it happened against the grain for the first part, and then in these last few years, it's actually been a tailwind for us. So we consider this to be a source of optimism even against all the negativity we might see in the world. And you might ask, why American whiskey? Why is it bucking the trend of many other categories, et cetera? And there's just reference points on here. But I will tell you, first and foremost that, that stressful set of headlines I showed, it's in part one of the reasons that I feel, personally, that bourbon is thriving. Because somewhere between the stress created by all of those headlines and terrorism and uncertain global economies and difficult markets and just the hectic pace of life, the world decided it needed a real drink. It really did. And so why is American whiskey considered a real drink? And it's because of these things, it's made by real people, real craftsman in real places. More often than not, the providence happens to be small towns and not the big city. It's enjoyed by people who are – just think of the reference point. The reference point 10 years ago were candy-coded vodkas, watered down light beers and sugar bomb Chardonnays. And this has flavor, it has taste. It – acquired taste is cool. Can you imagine that? An acquired taste, where everything

was so easy, this has flavor and taste. And so I feel like this is the time for American whiskey, because where the consumer has moved, American whiskey more naturally is. So nothing, nothing has either built or represents today more American whiskey than Jack Daniel's Tennessee Whiskey. And another thing that people appreciate in addition to Providence and quality and craftsmanship and hospitality, all these things that American whiskey and Jack Daniel's have is history. And so it's really cool today, even though we can never be the new kid on the block again, it's really cool today to be 150 years old. It's really cool to have survived your own prohibition. It's really cool to have lived through a few World Wars. And Jack Daniel's is celebrating this year with a tremendous amount of public relations, and even though I've showed the Woodford story and all these other ones that we hope will someday turn into brands like Jack Daniel's, there's no chart that I can put that even comes close to this enduring growth story. You have to really go back here with me here now, this is 60 years. So this is the 60-year line of Jack Daniel's development globally. And you see that 60-year cumulative annual growth rate of roughly 7% for both the main Black Label brand as well as the family. And so we don't take it for granted. But I would contend that enduring brand growth comes from enduring brand values that people feel are compelling. Enduring brand growth really, to prove it over that long a time, comes from enduring brand values.

Now I could tell you all about Jack Daniel's brand values, but I thought I'd show you just a clip because, again, they can say it better than I can.

[Presentation]

Paul Varga

Thank you. So let me finish with a little toast to postcards, to 150 years, to Jack Daniel's and to Building Forever. Thank you all very much for being with us today.

We'll take questions? All right. Thank you all.

We, of course, have the Brand Fair and receptions as is traditional here, but we would stay – if there were any questions, we'll be happy to entertain them here. But otherwise, we'll direct everybody. I'm sure that if it's really raining, I haven't seen outside obviously, but if it's raining, there'll be umbrellas, of course, for us in order – its short. And you can mostly stay under cover through the buildings themselves. It'll be a short amount of time you'll be out underneath the rain if it is raining. But otherwise, we welcome you all to the Brand Fair. Thank you very much for being with us. Thank You.

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