Brown-Forman Corporation, Q4 2011, Earnings Call 2011-06-09

Presentation

Operator

Good morning. My name is Casey, and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter Fiscal 2011 Year End Conference Call. — ***Operator Instructions*** — I would now like to turn the call over to Mr. Ben Marmor. Please go ahead, sir.

Ben Marmor

Thank you. Good morning, everyone, and thank you for joining us for Brown-Forman's Fiscal 2011 Earnings Call. This is Ben Marmor, the Director of Investor Relations at Brown-Forman. Joining me today are Paul Varga, our President and Chief Executive Officer; Don Berg, Executive Vice President and Chief Financial Officer; and Jane Morreau, Senior Vice President, Finance. Don will begin our call this morning with a few remarks about recent trends and other factors affecting our performance and guidance. Paul will provide additional strategic commentary about our business.

As always, this morning's conference call contains forward-looking statements based on our current expectations. Numerous risks and uncertainties may cause actual results to differ materially from those anticipated or projected in these statements. Many of the factors that will determine future results are beyond the company's ability to control or predict. You should not place undue reliance on any forward-looking statements, and the company undertakes no obligation to update any of these statements, whether due to new information, future events or otherwise.

This morning, we issued a press release containing our results for fiscal 2011. The release can be found on our website under the section titled investor Relations. We have listed in the press release 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, Form 8-K and Form 10-Q reports filed with the Securities and Exchange Commission.

During this call, we will be discussing certain non-GAAP financial measures. These measures and the reason management believes they provide useful information to investors regarding the company's financial conditions and the results of operations are contained in the press release. And with that, I'll turn the call over to Don.

Donald Berg

Thanks, Ben. Good morning, everyone. This morning, we issued our fiscal 2011 earnings release that also included our current expectations for fiscal 2012. Fiscal 2011 was a record year for Brown-Forman, with earnings per share at $3.90. Excluding the $0.26 gain on the sale of our Hopland-based Wine business and certain one-time tax benefits, earnings per share was up 18% to $3.57. These results were supported by underlying net sales growth of 4%, an acceleration over fiscal 2010, when we reported underlying net sales growth of 1%.

For the first half of fiscal 2011, we had underlying sales growth of 2%, and in the second half, that growth accelerated to 5%. As a result of various cost improvements and efficiencies gained, our underlying gross profit accelerated even more, growing 5% fiscal 2011 compared to 1% the previous year.

Underlying operating income growth came in at 6%, similar to last year, as we increased investments in our route-to-consumer as well as in brand investments, both in overseas markets as well as in support of various brand innovations introduced in fiscal '11.

Looking forward, we expect to build on our success and grow our underlying operating income in fiscal 2012 in the mid- to high-single-digits. We also expect our net sales trends to further accelerate as a result of additional portfolio and geographic expansion, innovation, investment in our brands and the improved focus driven by recent changes in our route-to-consumer approach in various markets.

Returning to fiscal '11, our performance led to a strong total shareholder return of 28%, 11 percentage points higher than the S&P 500's total shareholder return of 17%. Our long-running theme that Brown-Forman continues to be a great long-term investment has not changed, and we believe that both our performance in fiscal 2011 and our expectations for fiscal 2012 continue to support that belief.

Instead of recapping our results, which you read in our earnings release this morning, I'd like to take the next few minutes to discuss some recent trends and their influence on our thinking about fiscal '12, including the pricing and cost environment, innovation and trends in various regional operating environments. I'll also provide you some detail around how we think about our sensitivity to foreign exchange movements and our recent wine sale.

So let me start with pricing and cost trends. Our fiscal 2011 was another difficult and challenging year for pricing. The opportunity to take prices up was not widespread. However, as I've mentioned on previous calls, discounting was not as prevalent this year. For the year, our price mix globally was up about 1%, but it was driven more by mix benefits. Looking forward, we anticipate a slightly improved pricing environment for fiscal '12, and we will continue to seek opportunities to increase prices when and where appropriate.

Although pricing opportunities were few in fiscal 2011, we were able to grow our gross profit at a faster rate than our net sales. This is largely due to production efficiencies resulting from greater consumer demand for our Jack Daniel's products. We also benefited from various cost reductions such as consolidating some bottling operations and renegotiating some co-packing logistics contracts.

Additionally, we decreased the use and costs of value-added packaging versus the prior year. Having said that, we expect the cost environment to be more difficult in fiscal 2012. Both grain and fuel prices have increased sharply this spring, reaching levels last seen in 2008. At these levels, we would expect that these higher costs coupled with the challenging pricing environment will put pressure on our ability to grow gross profit at the same rate of sales next year.

Let me speak a bit about innovation, as it has been taking on an increasingly more important role for our company. Similar to fiscal 2010, in fiscal 2011, we introduced many types of innovations, including new products, wine extensions, new packaging and new ways of communicating with consumers, including expanded use of social media, just to name a few.

Starting first with line extensions. Brand extensions such as Jack Daniel's Tennessee Honey, Chambord Vodka, Southern Comfort Lime and Early Times 354 Bourbon were all introduced in fiscal 2011. We plan to build on these innovations in fiscal '12, particularly with Tennessee Honey. Tennessee Honey only started shipping at the very end of fiscal 2011 and will really be more of a fiscal 2012 launch. It is early in the launch, but results so far have been very encouraging. Anecdotally, we have seen a lot of excitement from both the trade and consumers alike.

For the rollout, the advertising campaign employs both traditional advertising, such as TV, and new media, such as Twitter. In fact, according to a recent article in the New York Times, we were the first beverage alcohol company and Tennessee Honey was the first spirits brand to advertise on Twitter. The Twitter activity was coupled with targeted ads and video content on Facebook. Because this is a flavor extension off of Jack Daniel's and line priced with Black Label, we are expecting strong early pipeline fill, which may disproportionately benefit our first quarter sales trends. Having said that, we are also investing heavily to support its rollout, so the benefits that we see at the net sales line in the first quarter may not fully fall to the operating income line.

Returning again to our fiscal 2011 innovations, Jack Daniel's third based RTDs were extended into a number of new markets, following considerable expansion in 2010. The success of Jack Daniel's RTD products has significantly accelerated the growth of the Jack Daniel's trademark. In fiscal 2011, global RTD depletions for Jack Daniel's grew nearly 17%, to over 5.5 million 9-liter cases, and were an important and fast-growing profit source. In addition to offering convenience to loyal consumers, we believe the millions of "brand in the hand" consumer impressions that RTDs provide serves a broader role in introducing consumers to the iconic Jack Daniel's Tennessee Whiskey brand.

In addition to building on fiscal 2011 introductions and expansion of new products and line extensions, such as Tennessee Honey and RTDs, we have a number of additional new product innovations for 2012 that we plan to launch for a number of our brands, both in the U.S. as well as overseas. Beyond new products and line extensions, there has been quite a bit of new packaging innovations brought to the consumer. In fiscal 2011, new packaging was rolled out for Southern Comfort, Herradura, Chambord and Tuaca. We plan to continue introducing new packaging in fiscal 2012, and, in fact, the introduction of refined packaging for Jack Daniel's Tennessee Whiskey and Finlandia is already under way. Based on our consumer research, we expect these enhancements to strengthen the presentation of these brands in the marketplace.

Moving on to what we see in various regional operating environments. The source of our earnings growth in fiscal 2011 was broad-based and came from both developed and emerging markets around the world. Starting with Western Europe, we saw year-over-year gains in underlying net sales in markets such as the U.K., Germany, France and Spain.

We are particularly proud of our performance in Western Europe as we took market share and grew the business in a region where most countries are seeing declines in total distilled spirits. In all of these markets, the Jack Daniel's family has been the primary driver of our growth, reinforcing our belief in the global potential of the trademark. While some of our competitors seem to be diverting efforts away from developed markets, particularly in Western Europe, we have continued to grow. And while we continue to see economic headwinds in many of these markets, the Western Europe is a region we expect to see continued growth in fiscal '12.

Our largest developed market, the United States, remained a challenge for us, as net sales declined slightly during the year. As noted earlier, we have seen some recent improvement in the pricing environment. Overall, we expect to gain share in the United States next year, mostly as a result of our innovation efforts and improvement in our brand trends.

Our emerging Markets business contributes significantly to the company's underlying net sales growth, providing 40% of our incremental underlying net sales growth for the year. Growth in the emerging markets was broad-based and came from a number of different countries, with Mexico and Turkey being our 2 largest contributors. We believe emerging markets will continue to be important for our long-term growth story as we work to capture the world of opportunity available to our brands.

Looking at the business overall, we are pleased with the breadth in our global growth that we experienced in fiscal '11 and expect to see this broad-based growth continue and accelerate in fiscal '12. We anticipate that all of our regions, including the United States, will grow next year and, in most cases, accelerate the growth rates.

Foreign exchange rates continued to play a large role in our year-to-date reported results, particularly with their significant volatility over the past few years. Fiscal 2011 began with expectations of tremendous foreign exchange headwinds and ended with meaningful benefits.

Looking to fiscal 2012 in our guidance, at this time, we estimate that the year-over-year impact will be immaterial. As you think about how changes in foreign exchange rates could affect our fiscal 2012 EPS, given our current hedge positions, a 10% weaker U.S. dollar would benefit EPS by approximately $0.20, while a 10% stronger U.S. dollar would do the reverse. The goal of our foreign exchange hedging policy is to reduce volatility to our earnings and cash flows and remains a rolling 24-months hedge approach in which we hedge 50% of the exposure in our major currencies over the first 12-month period, and 20% of that exposure over the next 12-month period. Currently, approximately 40% of our total exposure is hedged one year out.

Let's move on, speak to the recent sale of our Hopland-based Wine business. We anticipate that the overall impact for the sale for fiscal '12 will be to dilute our earnings per share by $0.16, reflecting the absence of their contribution to our brand profit and including our expectations from transition services income. The sale of these wine brands was a result of the strategic decision to reposition the portfolio and focus the organization on brands where we believe we have the greatest potential for long-term growth and returns.

In addition to excelling growth in our spirit brands, another example of where we plan to refocus our efforts is in support of the innovation work we are doing, particularly in 2012 with the launch of Jack Daniel's Tennessee Honey. One more thing to note about the sale of our Hopland-based Wine business: environmental stewardship has always been a hallmark for Brown-Forman, but for Fetzer and Bonterra, it was an integral part of their brand stories and part of the fabric of everything they did. To honor that legacy, which began with the Fetzer family and was advanced in the Brown-Forman's ownership, we used $2 million to establish the Brown-Forman Environmental Sustainability Foundation to provide funds to nonprofit organizations for future sustainability projects.

In closing, in fiscal 2011, we improved our already strong financial position by delivering another year of record results. Our net sales and gross profit trends improved over the prior year, and we expect to continue to improve those trends for fiscal 2012 through continued innovation, market expansion, brand development, we project underlying operating income to grow in the mid- to high-single-digits for the coming year. As we look at fiscal '12 and beyond, long term, we are confident that we can capitalize on the substantial global growth opportunities that exist, and as the global economy continues to improve and consumer trends become increasingly more favorable, those growth opportunities will increase, serving to further our goal of building the company forever.

At this point, let me turn the call over to Paul for some thoughts on our growth other than just fiscal 2012.

Paul Varga

Thanks, Don, and good morning to everyone. I was very pleased with the F '11 financial results we reported this morning. I would highlight the acceleration of our underlying sales growth rate from 1% last fiscal year to 4% in F '11; the significant production cost efficiencies we realized; our solid 6% growth in underlying operating income; our 20% return on invested capital, and that excludes the gain on the sale of the Hopland assets and a total shareholder return of 28% added up to a very strong financial year for Brown-Forman and our shareholders.

Within the business, the broad-based performance of the Jack Daniel's trademark drove the company, most notably in the second half of the year when we saw the company's underlying net sales growth accelerate over the first half. Woodford Reserve and Sonoma-Cutrer continue to perform very well, and the Tequila and Chambord trademarks had a strong year, in my view, their best year, under Brown-Forman ownership, fueled in part by important packaging changes.

While we're still working to improve the performance of our U.S. and global Southern Comfort businesses, I'm generally pleased with the breadth of our geographic and portfolio growth. Our improved underlying P&L metrics in F '11 are trending toward the profile of our underlying P&L metrics of fiscal year '08, the year just before the global financial crisis and resulting recession. This caused us to reflect on the last 3 fiscal years since FY '08 to see how the company has performed and progressed. So I thought I might touch on this, both financially and strategically.

Financially, we estimate that our underlying operating income growth of about 5% over the last 3 years was in the top tier of the industry. At the same time, we believe that Brown-Forman's return on invested capital, which progressed over the period from 17% to 20%, was very consistently at the top of the industry. We believe this is a testament to the organic growth possibilities for our brands and company, the brand-building capabilities of our people and the company's ability to smartly contain costs at a time when we believe the conditions demanded it.

From a brand perspective, it's no surprise that during this period we were led by the continued strength of the Jack Daniel's trademark globally. The majority of the trademark incremental sales growth came from Jack Daniel's Black Label, but we also saw very important contributions from both Jack Daniel's RTDs and Gentleman Jack over the period. Beyond the Jack Daniel's trademarks, Finlandia, the Tequilas brands, led by el Jimador and Herradura and our developing brands of Woodford Reserve, Chambord and Sonoma-Cutrer, all showed growth in underlying net sales over the period. These brands and others remain important to the company's long-term growth ambitions.

Shifting to a geographic view of this, the company was strongly led by our International business, with developed markets, Australia, France, Germany and the United Kingdom, leading the way, but accompanied by emerging geographies such as Mexico and Turkey. From smaller bases, other emerging markets also contributed to underlying net sales growth. Out in Southeast Asia, Thailand, Singapore and Indonesia, India, Latin America, we saw Chile and Argentina grow, the Middle East, North Africa and the CIS also made nice contributions. It really is pleasing to see that these markets, which are so important to our long-term future, are also contributing nicely to the company today.

We are pleased that every one of our geographic regions grew their underlying operating income over the 3 years. Now given the breadth of our business today and considering the economic difficulties that so many countries and regions have experienced over the last 36 months, we are really proud of our employees worldwide for delivering bottom-line growth so broadly.

Shifting to our use of cash. Over the period, we made excellent use of the strong cash flows generated by our business. From fiscal year ’09 through ’11, our business generated almost $1.7 billion from operations, and we added another $265 million from the sale of wine assets. So here’s how we used this almost $2 billion in cash.

We first invested behind capital projects and working capital to the tune of $246 million, we reduced net debt by $695 million and the remaining $1 billion was returned to shareholders via ordinary dividends of $524 million, a special dividend of $145 million and share repurchases of $333 million. So in total, we returned 51% of our cash over the 3 years to shareholders by using 36% to reduce net debt and 13% to fund our businesses’ capital requirements. At a time when access to capital was restricted like none other in recent history, Brown-Forman’s cash flows are as strong as ever, and we believe we put them to excellent use on behalf of shareholders.

During these challenging 3 years, this generation and use of cash combined with our underlying growth and operating income and strong ROIC enabled Brown-Forman shareholders to enjoy a 13% total shareholder return. This return compares quite favorably to the S&P 500's 2% total return over the same challenging period.

In addition to these key financial metrics for the period, we also made very meaningful strategic progress at the company over the last 3 years. First of all, the changes in economic conditions propelled us to reevaluate and ultimately reaffirm our strategic direction while adding important new dimensions and additions. With enduring growth and superior returns being critical aspects of our ongoing strategy, we look again at the portfolio and chose to sell most of our wine brands for a solid gain. We believe this will enable us to focus on higher value-added efforts against both existing and new brands.

An additional element of our portfolio strategy is to strengthen and, in most cases, broaden the portfolio brands we are taking into key markets. Not too long ago, a major barrier to this ambition was our limited influence over the route to consumer, particularly in international markets. Over the last decade, we've made steady progress in improving our influence over end markets sales and marketing activities in key countries around the world, and the last 3 years saw additional strategic steps on this front.

In some cases, this was more dramatic, as in Germany and Brazil. In other cases, it was more subtle, as in the U.S., Canada, Turkey, the Netherlands and in several countries throughout Eastern Europe including Russia. In all cases, it required strategic investment, patience and new forms of partnering, both internally and externally.

In addition to our portfolio and route-to-consumer progress, I'm proud of the organizational capabilities we developed and demonstrated over these last 3 years. These include an improved ability to innovate around both existing and new brand expressions; a better harnessing of today's newer media alternatives, giving us better access to consumers and the ability to adjust our messaging based on their feedback; a more comprehensive consideration of what our true investment is behind our brands, going beyond simply the A&P line of the income statement; an improved understanding of how our brands build equity by being part of the consumer social interaction with other consumers; a stronger cost containment and efficiency mindset; a more proactive approach in the arena of corporate social responsibility and, lastly, a much better practice of diversity inclusion. I believe these enhanced capabilities were important contributors to our success over the last 3 years.

And in closing, I'm pleased with the company's progress, both financial and strategic, as we bring F '11 to a close. As important, I believe this progress has positioned Brown-Forman for continued strong growth and returns in fiscal year '12 and beyond. Thanks for your time this morning, and now we'll open it up to questions.

Question and Answer

Operator

— ***Operator Instructions*** — Your first question comes from Vivien Azer with Citigroup.

Vivien Azer

My first question has to do with the packaging upgrade for Jack Daniel's, and I was wondering if you could offer some color on what prompted the change and then from a P&L standpoint, whether there will be any one-time impact from the selling of the new bottle?

Paul Varga

Okay, well, I think, let me answer the latter question first. I think the one-time impact, I mean, there's always from sort of week-to-week and month-to-month transitions you make with transitioning from old package to new package, but we don't anticipate there being anything more dramatic than any other normal packaging change we make. You've got to remember, we do this, it's globally SKU by SKU, and it gets phased in over, to be honest, several months. So I wouldn't anticipate anything there. And I think that package changes, as we do with all of our portfolio, we're just trying to keep them as current and appropriate for the marketplace as the times demand. And of course, with Jack Daniel's, we look at that much more closely than we would other brands, because of the power of its primary presentation, its packaging, but there's no actually – a few things in the press about it we found actually interesting and, in some ways, helpful, too. We consider what we've done with the Jack Daniel's package to be similar to prior packaging evolutions, very evolutionary in nature, honoring a lot of the old-time look and feel of the brand. But also just making sure it's working really, really well in the marketplace. And a couple of the aspects of it that I personally like is I think it has helped the brand present itself in countries around the world as a more global package. A lot of the early work on Jack Daniel's of course was designed for its home market, to the U.S. And so as we've gone around and made changes over the last 10, 15, 20 years, we've made some changes to it that have made it either appealing or just a little bit more relevant in some of the international markets. So again, that's an evolutionary story. I actually think it's important, too, for us to continue to look at all aspects of the Jack Daniel's packaging, because it gets copied so much. I mean, it's just such a powerful package and shape and presentation, and a lot of whiskey brands look to Jack Daniel's particularly to follow it. And so my personal view is we're going to regularly sort of make sure Jack Daniel's is looking as unique and different and as contemporary as it needs to be while, of course, honoring all of the old-time and iconic look and feel of it.

Vivien Azer

My second question has to do with on your investment spending. And I definitely heard you loud and clear that it's not just about A&P, and you guys are clearly executing across a number of different channels to promote your brands. But specifically in terms of A&P, do you have a target for FY '12, either on a percentage increase basis or as a percent of sales?

Donald Berg

Vivien, it's Don. We don't have a target. I mean, we basically take a look at where we see the opportunities. We do this every year as part of our budget process. And we try to invest appropriately behind the opportunities that we see, based on what's happening in the marketplace, where, how consumers are responding and then also looking at the level of new product introductions or new line-extension introductions that we might have and what type of launch support is appropriate for the individual products and what we're trying to accomplish in individual markets with those products.

Paul Varga

Vivien, one way to maybe think about as we sit here today, a year ago when we would've been going out with our F '11 plan, I think we were, from an operating investment level, looking at something like a low-single-digit, maybe a 2%, budget back a year ago, and we ended up, I think, our operating investment for the year came in around more mid-single-digit when you look between A&P and SG&A. So I think that would provide evidence that as we go along, we're going to fine-tune based on what we see as opportunities out there. Our operating investments, I think you would expect I did that 3-year review. I mean, I definitely think versus 3 years ago, with all the uncertainty was that we feel more confident about our ability to put resources out in the marketplace today than we did 2 or 3 years ago.

Operator

Your next question comes from Judy Hong with Goldman Sachs.

Judy Hong

Your comment about pricing and cost outlook for fiscal '12. Can you flesh that out a little bit more just in terms of the cost issue? Can you quantify how much your costs are going up in fiscal '12 and then, obviously, the pricing outlook was a little bit better than what we've seen in the past few years. It just seems like it's still a challenging marketplace to take pricing. So just share with us why there's such a reluctance in terms of the industry's willingness to take more pricing in a rising cost environment?

Paul Varga

Judy, I'll tackle the latter question there. I think, I mean, it's always a delicate balancing act. I mean, I would refer to the choice of just taking pricing up but at the expense of consumption. We just concluded – we look at this, of course, market by market, but if given the choice today of just almost routinely taking prices up without consideration for what the consumption impact is, particularly if you can't – if you're not growing those volumes, I mean, I would reference you – some of the recent statistics, I mean, I don't study it that closely, but I would observe that the Beer segment in the United States has been more aggressive, and price is really is coming, I think, at the expense of some of the – losing some of their occasions. And if I look at the overall growth in the United States market, for example, in terms of spirits relative to Beer, the Spirits categories already enjoy, I think, a premium position relative to many of the Beer segments. And when I think about some of this being different between on-premise and off-premise, just taking the prices up at levels like you might have seen in '05, '06, '07, I just don't know that it'd be realistic to expect that we can get that today or that it's a good choice for many of our brands. In some instances, we have been taking prices up more aggressively because there may be repositioning, we've been taking some prices on some brands down because of repositioning. But those are different circumstances versus sort of the routine pricing that you might have experienced on a Jack Daniel's or Southern Comfort in the mid-2000.

Judy Hong

Okay, and then on the cost side?

Donald Berg

Let me talk a little bit first on the pricing and then go to costs. I think you actually described the pricing pretty well in terms of how we're thinking about it. I mean, we do see gradual improvements as we sit here today, and that's pretty much what we've built into our thinking for next year. There is out there some concern on the horizon about potential inflation and whether or not that might bring opportunities for additional price increases, and it's something that we're going to continue to stay alert to. But at this juncture, we pretty much built into our thinking very much similar to what we've seen more recently, which is just a very, very, gradual improvement from a pricing standpoint. On the cost side, we were fairly well protected in fiscal 2011 with the hedging that we had. We continue to have hedging on the commodity part of the cost component. We continue to be hedged around 55%, 57% on our commodities. But we won't be as protected next year as what we were this last year. And so that's where we're seeing or expecting to see the largest part of our cost increases. It's not huge, but we won't be able to, in terms of thinking about costs growth in line with net sales growth, we don't think our gross profit growth next year will be as good as our sales growth. But we're just talking about a couple of points here.

Judy Hong

Okay. And then you make that up in terms of the – at the operating expense line, because there's more efficiencies and others savings for you [ph]. Because it sounds like you're – from an operating income perspective, you're still thinking about mid- to high-single-digit growth on an underlying basis.

Donald Berg

And most of that is being driven by our expectation for the acceleration in the top line.

Paul Varga

Yes, but there is, I think, there are few areas, particularly in SG&A this year, where relative to prior year, we don't have the repeat of some of these upfront investments for route-to-market changes that we had, which is a help as you go down the P&L. We had during FY '11 actually some, quite a bit of incremental pension expense. There's a few things in there that enable us, I think, or help us to, as you move from sales down to, particularly gross profit down through the operating income that give us a little bit of help.

Judy Hong

And then from your key brand perspective, I think clearly you said that in fiscal '12, you're expecting to gain market share. That hasn't really been the case so far. And if you look at Q4, and obviously, quarter-to-quarter trends a little bit noisy, but some of your brands seem to have gotten even worse since Q3. So whether you can just flush out the innovation, some of the responses that you're seeing that will give you confidence that, in fact, in fiscal '12, some of the brands like Southern Comfort and others that have sort of struggled, you think that they can actually turn around in fiscal '12?

Paul Varga

Judy, is your question on the market share front, is that a U.S. reference or global?

Judy Hong

I don't know. You said it in your prepared comments that you're expected to gain market share, maybe that was a global comment.

Paul Varga

Yes, I think – oftentimes when we refer to it, we are hoping to be able to grow market share in United States. We have been losing it in recent periods, losing market share, and so we expect improved performance there. And when thinking about the fourth quarter, I would encourage you to really look more at second half, first half, when we look at some of the metrics and not over-read, I think we always have this from quarter-to-quarter where you might have some inventory shifts, which I explain them to you so that they're helpful to you. But one thing that was clear for our company was an acceleration of the second half versus the first half in underlying sales growth. And we can't – it's hard for us at this stage to declare whether that yielded a gain in global market share. We just won't have the denominator for that for a while. But when we've looked at historical references, for, say, Jack Daniel's particularly, against global whiskey, looking backwards, it's been our consistent history to grow share, even if in the United States more recently the Distilled Spirits segment and some of the categories have been growing faster than our brand.

Judy Hong

Okay. So that was more of a global comment?

Paul Varga

Yes.

Operator

Your next question comes from Tim Ramey with D.A. Davidson & Co.

Timothy Ramey

Just wanted to drill down a little bit more on some of the kind of strategic thinking on the sale of Hopland. I mean, I know it's a done deal and it's old news now, but the dilution from that sale is fairly large, and the way you presented it in the press release seemed to indicate you'd like people to kind of forget that it made a profit in '11, take it out of the base. And that's not normally how I think about dilution. Can you talk about replacing those earnings and how to best do that?

Paul Varga

Yes, I mean, I think philosophically, Tim, there's all kinds of different ways people, investors or people even inside Brown-Forman might think of that. I think the way we think about it, and I think we said some of this back when we actually announced the sale, but as we head into a new fiscal year and plan for it, it's really – we've been over many of these quarterly calls, we've talked about some of the performance and difficulties we've had in the United States and our desire to try to improve performance there. And in essence, what we're doing with this is asking our people to look at this as an investment in the U.S. operation to go implement against the sort of key priorities, which, I mean, I would list a few of them are to, of course, get our most significant brand businesses in the United States performing at our expectation, and in many instances, that includes above the market growth, and that starts with Jack Daniel's and Southern Comfort. But then also goes to many of the new ideas that we've been bringing into the United States, but a lot of these tend to be line extensions. But the sale of these brands enables the people to redirect their attention to getting these brands established in the marketplace and having an impact. And we've done this before at various times that we call them route-to-consumer strategic investments, where you have a lag time often between the investments you make and the results they produce. I mean, I think it's absolutely subject to question about people if they don't – aren't working in the business every single day, and this happens to be one of those years where it's apparent that the lost brand profit of the Hopland-based brands aren't – we've just made it visible to you in our financials. But I expect us to, starting with this fiscal year, start to recoup some of that loss profitability and then in future years to surpass it. That was the idea of this strategically. And I'd also add that – and we've been pretty consistent about this with the sale of those brands. It wasn't that they weren't profitable for Brown-Forman. It's just that they were return-challenged, is one of the big topics that has consistently been reinforced about our Wine business, and in addition, it was whether or not they were growing. It's one thing for them to have a base of profitability, those things, which direction is it heading. So we felt that the business that we sold, it had some challenges in terms of growth but it also had challenges in terms of returns, and we thought it was the right decision for the company.

Does that help you understand a little better?

Timothy Ramey

Yes, I mean, I think so. I get the decision of trading growth for returns, and that works.

Paul Varga

But, Tim, I'd tell you the one thing, I think it would be a really a bad decision for Brown-Forman to go try to get in cost savings out of the U.S. market right now with all the ambitions and goals and new activity coming, to try to go replace that with a major reorganization or restructuring, I think it would actually hurt Brown-Forman's business. You'd start to see an impact on brands beyond the Hopland base. You start to see it hit, I think, the Jack Daniel's and Southern Comfort, and it would also hinder our ability to introduce a lot of this new stuff. So I think these are tougher judgment calls, but it's one I think we're comfortable with.

Operator

Your next question comes from Ian Shackleton with Nomura.

Ian Shackleton

Two questions. The first one is following on the last question, around the wine disposal. I think originally, you have been optimistic you would keep the distribution of the wine brands, certainly for a period of time. I mean, the way you present it here, seems to suggest that, that has gone and you see all the impact coming through almost from day one in terms of lost profit. Perhaps you can just confirm that. The second one is just a broader question, really it's around the U.S., that you've talked quite optimistically about, how you see momentum acceleration in the U.S. in the new year. I mean, when do you think you're going to be talking about the significant headline price that went into some of the key brands in the U.S.?

Donald Berg

Ian, I'll take the first one. When we did the wine sale, and I think we communicated this at the time, as part of the transition, we are going to continue to represent those brands for a relatively short period of time going into fiscal 2012. So there was never an expectation that we would keep them over a long-term basis, and a lot of that is to get the benefit of the focus that Paul was talking about earlier. There is some flexibility in here as to how long we might have them. But at some point in time, during the course of fiscal 2012, the transition will be complete, and Concha y Toro will turn over the distribution of those brands.

Ian Shackleton

So just to go back to the sort of $0.16 that you've given us today in the release, that is assuming, effectively, all the distribution goes, or how do you think — ***indiscernible*** — at the end of the day?

Donald Berg

Yes, we have an assumption in there today for the income that would come to us as a part of the transition agreement. It's just a couple of pennies.

Paul Varga

And Ian, I guess, regarding your second one, I think the headline answer to it is, is that I think we would start to see improved rates of pricing growth as we deem the consumer's willing and responsive to it. I mean, I think that's the big thing. One thing I always look to is the health of the on-premise environment globally as one of the indicators of the ability to do that. And we continue to see a sort of see a mixed bag on that around the world. I say maybe a little bit better than – certainly better than 2 years ago, maybe a little bit better than one year ago, so that gives us some hope. You're always, of course, looking to see what else is happening with your competition out there. And for a variety of different reasons, many of the brands that are direct competitors to some of our key brands and different competitors, actually, in different years, have put pressure on prices downward. And so that makes it, in some cases, more difficult to take the price up. But in any event, we try to stay in tune with that, and we'll keep watching it closely and as conditions warrant, we'll, hopefully, be able to realize some of those price increases.

Ian Shackleton

Are you optimistic you may be able to see a bit of momentum into the holiday season this year?

Paul Varga

I mean, we'll see. I think, this is my personal view of it, is it will be highly dependent on how the consumer reacts to fuel prices. I think while commodity costs are an important input to this, of course, too, our history tells us that fuel prices hit the consumer in different ways, particularly the American consumer. And so we'll be watching that closely. Because I think that actually, as I look back at Brown-Forman's history, the '07 period, prior to that 2008 time period that everybody remembers, the higher fuel prices, actually, we started to see some of that creeping in to hesitancy by the consumer. And so we just try to keep an eye on that one closely. And of course, they've popped up here in the first half of this calendar year.

Operator

Your next question comes from Kevin Dreyer with Gabelli & Company.

Kevin Dreyer

Just a few questions, first on Jack Daniel's Tennessee Honey. Curious what you would consider a success for that line extension? Would we be looking at something along the lines of Red Stag-type levels, lower, better?

Paul Varga

We're not going to sit and disclose our specific plans on it, Kevin. But I do think – but just a couple of different ways we'll look at it. We'll look at it as an individual expression in the market against the backdrop of this growing flavored brown spirits. And I would expect a brand like Jack Daniel's entering that segment to be a leader. I mean, we – one of the problems we've got with Southern Comfort's performance, actually, I think, is a lot of these new entrants have created a competitive challenge to Southern Comfort, which has been, for a very long time, what I considered to be one of if not the leader in this Flavored Brown Spirits segment. We'll look at it not only from a Tennessee Honey perspective, we will also look at it from a Jack Daniel's Family of Brands, so how it might impact the overall growth of the Jack Daniel's trademark. And I think, increasingly, we'll look at it across a corporate portfolio that packages Tennessee Honey alongside Southern Comfort and any other things that Brown-Forman brings into that segment. But it's actually, even though we've had some competitive challenges post that, I think it's an exciting new arena for growth in the U.S. segment, and we expect to be a major part of it.

Kevin Dreyer

Great. As far as capital structure, your net debt post the Hopland sale is now very, very low. You'll probably be in the net cash position almost before we know it. Curious on the acquisition front, how you would characterize your pipeline, or are there any other – could we expect any other tuck-in brands over the next year or 2, since you clearly have a lot of firepower?

Donald Berg

Yes, the way I think about that, I wouldn't think about it as we think about doing acquisitions based upon our net cash position, just because our net debt historically has always been such that there's been plenty of firepower available to us for anything that we might be interested in going and acquiring. And so in terms of the way that we look at acquisitions, they really haven't changed that much. I mean, we're looking for those kinds of brands that we can create shareholder value with that would do well in our hands. We tend to look at things that are more premium, that are growing, that has a potential to grow faster than the overall company's growth rates, and we're continuing to look for opportunities that might help us with the rest of our portfolio outside the United States.

Kevin Dreyer

Okay, great. And I guess just the final question, since one of your large competitors is now going to be a pure-play spirits company soon, I'm just curious if you're seeing any changes at all in behavior in the marketplace currently, it would be number 1 and number 2. If that ended up getting folded into one of the other larger global competitors, would you see any – is that going to change anything, does that impact you? What are your thoughts on that?

Paul Varga

Well, actually, there's 2 parts of that. To the extent that we've observed any behavioral changes, I mean, I think we've always considered Fortune to be a really viable competitor of Brown-Forman's around the world, and so we're used to that. It's not like it's new that we weren't really competing with their other divisions and didn't really pay much attention to them. So the only thing I would've observed over the last 12 months, really, is Fortune's probably putting as much as any competitor on downward pricing pressure in the United States, and you can see it in their price mix pretty strongly. Actually, I think it's pretty good that our brands, particularly Jack Daniel's, continues to hold up pretty well despite that. In other areas where we have direct competition with them, it has been more impactful, maybe, like, say, in the Canadian business. But thinking about them as a competitor worldwide post any type of restructuring for them, I mean, like I said, we consider them to be one of many competitors we've got very directly around the world. We're used to competing with them. I mean, the way I would think about it is we've –

when I study the performance of, say, the example of Jack Daniel's relative to Jim Beam in terms of overall performance over the last, say, 10 or 15 years, the ultimate results, I think, speak for themselves. And so we've got a lot of work to do to make sure that we continue that. But in any event, I think we'll just wait and monitor, like a lot of folks in the world are, as to what their changing status might be.

Operator

At this time, there are no further questions.

Ben Marmor

Well, thank you, Casey. We do not have any closing remarks. Thank you, everybody, for joining us today.

Paul Varga

Thank you very much.

Donald Berg

Thank you.

Operator

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