Brown-Forman Corporation, Q1 2013, Earnings Call 2012-08-29

Presentation

Operator

Good morning. My name is Christy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Brown-Forman Corporation First Quarter Fiscal 2013 Conference Call. — ***Operator Instructions*** — It is now my pleasure to hand the program over to Mr. Jay Koval. Please go ahead.

Jason Koval

Thanks, Christy, and good morning, everyone. I want to thank you for joining us today for Brown-Forman's Fiscal 2013 First Quarter Earnings Call. Joining me today are Paul Varga, our President and CEO; and Don Berg, EVP and CFO; as well as Jane Morreau, Senior Vice President of Finance.

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 results for the fiscal 2013 first quarter. The release can be found on our website under the section titled Investor Relations. In the press release, we have listed a number of the risk factors that you should consider in conjunction with our forward-looking statements. Other significant risk factors are described in our Form 10-K, 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 reasons management believes they provide useful information to investors regarding the company's financial conditions and results of operation are contained in the press release. And with that, I'll turn the call over to Don for his prepared remarks.

Donald Berg

Thanks, Jay. Good morning, everyone. On today's first quarter earnings call, I'd like to cover 3 topics, including a review of our first quarter results, a quick update on our price increases and recent takeaway trends and our current outlook for fiscal 2013. So let me start with my first topic, a review of our first quarter results.

We are pleased to report that we kicked off our fiscal 2013 with underlying sales growth of 10%. We expected a strong first quarter, and while this 10% increase likely included some benefit due to retail buy-ins in advance of price increases, we believe that we grew underlying net sales faster than the industry. This outperformance is driven by our premium product SKU and our strength in outperforming categories, such as North American whiskey.

These top line results were also driven by broad-based geographic strength. Emerging markets, an increasingly large contributor to our results, delivered 13% underlying growth, fueled by Poland, Mexico, Russia and Turkey. The developed world also performed well, with the U.S. growing underlying net sales by 10%. In Western Europe, underlying sales grew in the low single-digits, a slight slowdown from what we've been seeing over the last few years. We believe this is primarily due to price increases we took in some major markets earlier in the calendar year, as well as weaker economic conditions. In spite of that slowdown, some countries continued to power ahead, such as France, with double-digit constant currency net sales growth and continued market share gains.

Compared to our overall 10% underlying net sales growth, the reported growth of 4% was negatively impacted by the strengthening of the dollar and the absence of the agency relationship for the Hopland-based wine business. Adjusting for these 2 factors, constant currency net sales for our existing portfolio of brands grew 14%. We estimate that inventory changes that help drive shipments ahead of depletions account for the remaining 4 percentage points of the difference to our underlying trends.

Our overall brand portfolio similarly enjoyed broad-based growth. Jack Daniel's, el Jimador and Finlandia each experienced double-digit increases in constant currency net sales. Our super-premium brands, which include Herradura, Woodford Reserve, Tuaca and Chambord, together saw a 20% increase in constant currency net sales. And while it is early on in the new campaign for Southern Comfort, we have been encouraged by the improving trends we are seeing in the U.S. marketplace. Southern Comfort's Family of Brands constant currency net sales declined only 1% globally, the smallest decline in over 2 years. U.S. net sales for the family grew in the first quarter, on the heels of a stronger and more consistent media presence, more effective promotional efforts with the trade and continued flavor innovation. The positive momentum in the U.S. was offset by a slow start in some key international markets, such as the United Kingdom and Germany.

Reported gross margins increased by almost 3 percentage points in the quarter. Approximately 1/2 of this increase was due to the absence of the agency relationship for the lower-margin Hopland-based wines and the other 1/2 from improved price/mix. During the quarter, we continued to invest in our brands, with underlying A&P spend up 9% and underlying SG&A increased 10% due to some timing issues, resulting in underlying growth in operating income of 17%. On a reported basis, operating income grew 19%, and earnings per share jumped 27%. The leverage to the EPS line was due to lower interest expense in the prior year, lower taxes and a lower share count after last year's share repurchase program.

All in all, we believe we are off to a great start to the year. Given the continued momentum in our business, we believe we are on track to achieve the high single-digit growth in underlying sales and operating income in fiscal 2013 that we discussed in our fourth quarter call. But I'll talk more about our outlook in a few minutes.

First, let me move on to my second topic, an update on pricing and takeaway trends. During our fourth quarter call, we mentioned that we were starting to see large first quarter buy-ins in advance of the first broad-based price increase at Brown-Forman in 5 years. These buy-ins, both by distributors and retailers, were heaviest in May and June and helped drive strong growth in shipments in the first quarter, which positively impacted our net sales. We have some line of sight into most of our distributor inventories, so to the extent that shipments to distributors resulted in changes in inventories, we adjust for this in calculating our underlying results. We make these adjustments because we believe underlying sales are the closest proxy for takeaway trends. We are not, however, able to accurately capture inventory fluctuations at retail in our underlying results, but we estimate that our underlying net sales growth of 10% in the quarter benefited slightly from retail buy-ins. As we expect retail inventory levels will rebalance, the flip side of any inventory build in the first quarter is that it will likely cause second quarter underlying sales to come in lower than the current trend line. Net-net for our first half, we would expect our underlying sales growth to roughly be in line with our high single-digit growth projections for the year.

It's also worth spending a few moments discussing the noise in the reported NABCA and Nielsen data. Recent Nielsen and NABCA data would suggest a continued acceleration in consumer takeaway for some of our brands. But we are cautious about reading too much into the raw numbers, given the major changes that occurred over the last few months. One example of this is the privatization of beverage alcohol in Washington state that affects both NABCA and Nielsen reports. After some internal adjustments we've made for this, we believe that takeaway trends for our portfolio of brands have still shown a strong, albeit more modest acceleration from the low single-digit rates of growth we were seeing a year ago. These improving trends bolster our confidence in the ability to take price increases in the marketplace.

Our goal entering the fiscal year was to increase global prices on average for Jack Daniel's by 3% to 5% and slightly less on average for the rest of the portfolio. We expect these price increases to drive further improvements in the price/mix contribution to our sales growth and allow us to offset inflationary cost pressures and excise tax increases that we have been absorbing over the last few years. And we believe that we are on track for better balanced revenue growth and continued movement up the pricing ladder, further cementing our leading position as a premium distilled spirits company.

Given the importance of innovation in helping fuel top line growth, I wanted to spend a moment discussing Jack Daniel's Tennessee Honey. As we discussed on the fourth quarter call, we felt there were good opportunities to continue building off of last year's successful U.S. launch, including introducing the product to some select markets outside of the U.S. So we recently launched Tennessee Honey in markets including Australia, South Africa and the U.K. Global net sales for Honey increased well into the double-digits in the quarter, driven by the positive early reaction to the international launch and despite comping against the pipeline fill a year ago when we rolled out the product in the U.S. While the launch is still in its early days outside of the U.S., we have continued to be very pleased with the consumer response for Honey and how it has enhanced the brand equity of the powerful Jack Daniel's trademark. We expect that, over time, innovation will continue to be important for Brown-Forman's portfolio of brands.

This brings me to my third and final topic, our current outlook for fiscal 2013. As expected, fiscal 2013 got off to a strong start with our first quarter results, but the world remains an uncertain place. Economic conditions in various regions around the world have continued to soften. Foreign exchange remains volatile, as do commodity prices such as corn, which spiked over the summer, not to mention the recent surge in volatility in gas prices, which may dampen consumer confidence.

Let's talk for a minute about corn, where prices have skyrocketed over $8 a bushel due to the U.S. drought. With our LIFO accounting, we see the earnings impact almost immediately. Assuming these recent corn prices hold, we would expect a $0.03 negative impact in fiscal 2013 compared to our outlook in June. Offsetting this downside, on the positive front, foreign exchange headwinds subsided slightly during the first quarter. And given current spot rates, we believe the negative impact on the full year comparisons will be closer to $0.05, $0.03 less than what we originally expected at the time of our fourth quarter call. We estimate that currency will continue to be a headwind in the second quarter. We would then expect this to reverse in the second half.

To help you model the potential impact from changes in foreign exchange, a 10% move in the dollar in either direction would impact the EPS for the balance of the year by approximately $0.11. So given all of this, we are maintaining our full year guidance of high single-digit increases in both underlying net sales and operating income growth, and we are confirming our full year EPS range, split-adjusted, of $2.40 to $2.67 per share.

So to summarize, the business is performing well, and we believe we are on the way towards better balanced revenue growth through our price increases. Our confidence in our business is bolstered by a rock-solid balance sheet, with net debt of only $141 million. We recently executed a 3-for-2 stock split, our sixth split since 1981, and paid our quarterly dividend for the 67th year in a row. While returning cash to shareholders remains an integral part of our long-term strategy, we continue to look for high-return reinvestment opportunities that generate multiples of that investment over the long run.

In June, we announced the major expansion plans, including new distilling capacity for Jack Daniel's, a new cooperage in Alabama and other capital spend that will support our anticipated growth for years to come. And we continue to look for other areas to invest behind our brands, our assets and our people, done with a watchful eye towards our history of generating industry-leading ROICs and operating margins.

In summary, we are focused on allocating our strong and growing cash flows in ways that we believe will drive superior risk-adjusted returns for our shareholders. So with that, I'd like to turn the call over to Paul for some brief comments before we open up the call to Q&A.

Paul Varga

Thank you, Don, and hi to everyone. Just before we move to the questions, I thought I'd make a couple of quick observations here. I do think we're off to a great start to the fiscal year, and they're reflected in these results. Of particular note, I'm pleased to be actually for the first time in many years, being able to take pricing in Q1. But as Don referenced, that is creating some noise in the Q1 results. And I do want to emphasize that after Q2, I think we'll be in a much better position to discuss the impact of the pricing in the marketplace. So we'll ask that you bear with us on that point.

But overall, I'm pleased with our performance after 3 months. Our sales growth, our margin improvement and bottom line results are all very encouraging. And the improvement that Don noted in the Jack Daniel's and Southern Comfort parent brand performance in the U.S. is also noteworthy. I believe we will continue to invest very wisely behind the business, and I like our strategic position in what I think is a superb industry.

I'm particularly encouraged about the recent momentum of the North American whiskey business, the opportunities going forward for that category and Brown-Forman's position within it. I mentioned this a few weeks ago at our annual shareholders meeting, but I think it's worth repeating. I believe North American whiskey benefits from having attributes of 2 of the world's largest and most attractive categories: scotch whiskey and vodka. It has the premium appeal, heritage, authenticity and quality of scotch, while also possessing the drinkability, versatility and mixability often associated with vodka. And I continue to think that North American whiskey is still at a relatively early stage in its global development and that our company and our brands can be leaders in seizing this wonderful opportunity. This is a source of great enthusiasm currently for all of us at Brown-Forman. Now we'll be happy to answer any questions you might have.

Question and Answer

Operator

— *Operator Instructions* — Your first question comes from the line of Ian Shackleton with Nomura.

Ian Shackleton

Well I think you've **— *indiscernible* —** with us that you were going to be pricing up, and it sounds like you've stayed with your word there. I wonder whether you could just give us some sort of feel – I mean, you've got 1% pricing/mix in Q1. It sounds like as we go forward into Q2 and Q3 that really is going to step up possibly to something like 3% or more across the whole business. Is that what we should be thinking about? And I'd be particularly interested in sort of the feedback you've had so far. Is any of that pricing actually out there on the shelves? Has there been any consumer reaction to that in the U.S. yet? Or is it a little bit too early to say?

Paul Varga

Yes. Go ahead, Don.

Donald Berg

I'll start with the first part of your question, Ian. Yes. I mean, we should be seeing improvement in price/mix as we go forward through the rest of this year. I think you're pretty close about how to think about it. I would estimate roughly that about 1/3 of our growth by the end of this fiscal year will probably come through kind of the price/mix arena. And so you're pretty close to what we would see as our current estimate. Now Paul, if you'd like to talk about what we've seen so far.

Paul Varga

I think either of us could talk about that. I do – your last point that is, is it still early? Yes, I do believe it's early. Some of the experience we've seen, it's actually sort of mixed because of there were actually a few countries that took pricing later in last fiscal year. And actually, I think they were wise to be timing them when they did because they were associated, and 2 of the best examples I can provide for you in countries where they were already taking tax increases. So we either went up with the marketplace overall. In one instance in the U.K., we actually went higher than would've been indicated by the tax increase. And so of course, you get noise in that because everybody went up, and the marketplace has to acclimate to the new pricing. There are other markets that, for example, the ones you mentioned, in the United States, where a lot of the control states went up May 1. And so far, so good as we read the NABCA results in the U.S. in terms of the performance of Jack Daniel's. And we've actually seen the brand in more recent quarters accelerating in those results. So, so far, so good. But I continue to think it will take time because our experience with this is that because of the way that trading patterns are and when the price gets reflected in the marketplace and on the shelf, and then some of the consumer dynamics that we know about our business, how frequently they purchase the product, they may not experience the new price for 3 to 6 months. And so at that point, we're also trying to read how they're acclimating to it. That's why we ask for just a bit more time to read some of this. A lot of the pricing occurred in Q1. And so we'll start to see more of the reaction and how the marketplace is responding to it in Q2 and beyond.

Ian Shackleton

Just as a follow-up, I mean, in terms of competitive reaction, we've heard noises from quite a few of your competitors about pricing up in the U.S. I mean, do you feel you're all running the same direction? Or are you sort of breaking new ground and hoping everybody else follows at the moment?

Paul Varga

I'll let Don add to this, too. I actually think we were behind it, Ian. I mean, I think others were taking price back 6 and 9 months ago that we had started to observe. That's what encouraged us to be a little more bold. We were seeing the environment improve, and we were noting that competitors were either decreasing their discounts or taking actual frontline price increases up, some of the key competitors to our brands. So that encouraged us. So I don't know that we're breaking new ground per se. We have a history, particularly on Jack Daniel's, of being very much a pricing leader. But I think in this example, I wouldn't say that we were out in front of it.

Operator

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

Ann Gurkin

Just to continue on the pricing discussion. Just to make sure I understand, do you have all your pricing in place now for fiscal '13? Or are you kind of observing with what you've put in the market, see how consumers react? Can you just help me understand that?

Paul Varga

I think the latter of what you just said. Yes. I mean, we, absolutely – I mean, I think once you get into the position where you're more comfortable taking pricing, it unfolds in a wide variety of ways. And even if you have a wonderful plan, you might adjust it based on the reaction you get. But no, I anticipate if we feel like we can take pricing, that once we get our people poised to be looking for those opportunities, those could arise at any time. And if there's a reaction that we do not anticipate actually, I mean, we, of course, find that people will go and increase the discounts to get it to more attractive price points if we've – in that example gone too far. So we'll keep you posted on that as we get more information. But I think it is more the latter, that we didn't just take like one global price increase everywhere, and then we sit and observe.

Donald Berg

And there are still a few markets that were left to take their price increases in the second quarter. And the other thing, kind of getting back to what Paul had said earlier, to the extent that some of these markets end up taking federal excise tax increase, as we take that into account, some of the timing of what we do as well. So for example, Australia usually takes their federal excise tax increase on August 1. And so you'll see some of those price increases flowing through more in the second quarter.

Ann Gurkin

Fair enough. And so the pricing actions are across your spirits portfolio and not skewed towards one brand versus another? Is that kind of fair?

Donald Berg

Yes. I mean, we're – I mean, so it varies across the different brands. We're not doing a lot of price increase on Southern Comfort at this juncture in terms of trying to get that brand back on track. We are doing some testing on pricing for that brand in certain markets, just to get a sense of what its strength is right now in terms of its ability to take price. Finlandia is taking some modest price increases. We're taking some nice price increases on Woodford Reserve, some probably heavier price increases on Sonoma-Cutrer. So it varies brand-by-brand and market-by-market. But we are definitely looking at all the brands in all markets through a lens of pricing and see what we can do there.

Paul Varga

I do think that, as a general theme, of the examples Don gave for just one way you might think about it is that our premium and super-premium, ultra-premium price brands, we think they have more opportunity, and you'll probably see more pricing on those brands than we would our more standard-priced brands as a general rule. Those tend to be far more price-competitive categories. Not that there's not opportunity there, but it's just not as visible as we see on the premium and premium-plus brands.

Ann Gurkin

That helps a lot. And then if I could just ask another question on – it seems to me like M&A activity may be picking up in the spirits group. And I don't know if you agree with that statement or if you see any change in opportunities or potential M&A opportunities. Can you help me understand kind of the pace of M&A potential?

Paul Varga

I mean, I'll make a – I haven't seen a pickup. So my general sense is going back to even the '07 and '08 period, I think that the industry has been leaning far more on innovation than acquisition for growth since that time. And I mean, I just really have no forecast as to whether or not acquisition pace would pick up or not. My view is that the industry's growing nicely, and a lot of companies, I think, will look for things that fit their strategy. I mean, I can think of a number I've observed. For example, the acquisitions that Diageo has been making in emerging markets would be noteworthy. It seems to be a particular strategy of theirs. And so those, of course, we observe. But we haven't seen what I call the megadeals. And so I think it's an encouraging sign that a lot of participants in the industry are getting great organic growth and that innovation is part of it.

Operator

Your next question comes from the line of Vivien Azer with Citi.

Vivien Azer

I hate to belabor the point on the pricing, but I do have a question as well. Given that your competitors took pricing ahead of you, is there anything that you've seen in terms of the price elasticities around their bourbon pricing that informs kind of your opinion about how the consumer might respond to your price increases?

Paul Varga

I'd want to study it closer, but not yet is my initial reaction. Because I mean, I think that the category has such momentum right now that – and the brands that may be taking pricing are at the very premium and super-premium end, you'll see that. In some instances, those brands are on either limited editions or new in their development, so they're still building distribution. They may have some scarcity value. But no, overall, I think the volumetric momentum is really good there. And I haven't seen – because there was an earlier question about is it breaking new ground. I mean, even the pricing we're seeing, I mean, it can be important pricing to go up 1 or 2 percentage points, I mean, particularly against a prior 3 years where people were actually going the other way or it was more flat. So what we're signaling and the opportunity in what we're seeing is really more of a return to good modest price increasing. In some cases, recapturing costs, but in other instances, as we'll cite as we go along, making sure your brand's positioning well within the category, that it's price-positioned well. So it can have kind of both strategic and economic benefits for each of the trademarks.

Donald Berg

Vivien, the other thing I'd add to that is, as you think about it, particularly if you're thinking about a brand like Jack Daniel's in the United States, I would think more broadly than just what you described as a bourbon set. I mean, when you've got a brand like Jack that is as large as it is, it has a pretty large competitive set and a lot of different drinking occasions. When you think about all the different brands where you mix with Coke or all the different brands that get consumed as shots or all the different types of consumption occasions with Jack, it's a pretty broad competitive set that you look at as you think about competition and competitive pricing.

Vivien Azer

Absolutely. My next question has to do with Southern Comfort. And you noted a couple of drivers in terms of promo and the flavor innovation. I'm curious whether we could drill down to the base Southern Comfort business in the U.S. and you could speak to the trends you're seeing for that.

Paul Varga

Sure. I mean, one of the things we implemented this year – I mean, I find that Southern Comfort, we've actually wrestled as a company with this for a very long time, is trying to make sure there's consistent attention against it. And oftentimes, when we talk about that as an example inside the company, we think about people putting attention against it, your sales and marketing and promotional teams. One of the things that's new, particularly in the United States this year, is this more consistent media presence, which is, I think, giving the brand some direct-to-consumer support. It also is manifesting itself in much more direct communication with consumers via the social media. And so it's hard to describe. But I just think our overall presence for the brand direct-to-consumer is better right now. And we're theorizing here. We think it could be having an impact on the parent brand performance that – just that reminder. And we've always known that liqueur brands, they have the wonderful benefit of being unique by design. But they don't necessarily always fit into the category associations that a lot of consumers have. And so I've always felt that all liqueur brands need that extra attention to be top-of-mind when consumers go to make their choice. And so this consistent media presence may be playing a role in that for Southern Comfort. We're learning as we go along, but I'm encouraged by the U.S. trends. And I think a brand like that benefits when it starts to build a little bit momentum.

Vivien Azer

And in terms of what's driving that improved performance, is there a difference between on- versus off-premise?

Paul Varga

I'd have to go look at that more closely. I mean, I think generally all the improvements we've been noting have been skewed to the off-premise because the on-premise for the industry continues to be sort of sluggish. So a lot of the growth we're still seeing in the U.S. market is skewed to the off-premise. But I need to go check that to make sure that Southern Comfort wasn't disproportionately skewing one way or the other. My recollection was that it was more off-premise-driven.

Vivien Azer

Okay. Great. Just one last one. On the SG&A timing, should we expect those one-timers to reverse in the second quarter, Don?

Donald Berg

Not necessarily in the second quarter, but over the course of the year, I think you'll be seeing better improvement in the performance on the SG&A line.

Paul Varga

I mean, we still are attempting. And as planned, we'd like to get some modest operating leverage through the year. So that's still our plan. But we also – depending upon how everything unfolds, we're always looking for smart investments on behalf of the business. And sometimes, those are unplanned. So it's still early in the year. We'll just have to see how all that unfolds. But I think we continue to expect modest operating leverage.

Operator

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

Thomas Russo

Paul, I wonder if you could update on tequila as a category across the brands and then, as well as tequila, your brands also, the growth in premix. That's the first question. Then for Don, I'm so sorry that we have so little debt because it means that we can extend the terms with so few opportunities to take advantage of today's unusually low interest rates. Where do you find pockets, whether it's in the pension fund or other areas, to take advantage of these unusually low interest rates in light of the fact that you're so debt-free?

Donald Berg

It's nice to have the kind of balance sheet that we have. It does afford you to have a lot of opportunities available to you. We are looking at a lot of different aspects of ways that we can use the balance sheet. You did actually mention one. We have been looking at ways that we can leverage current interest rates as it relates to the pension plan and some of the opportunities there. I think generally, Tom, I mean, as you know, we don't have a large requirement for reinvestment for capital spending. We do have a little bit higher capital spend rate here this year and probably next year as we are expanding the distillery down in Jack Daniel's and expanding our cooperage facilities. But beyond that, I would also say that in terms of large aspects of using the balance sheet, we continue to look at our cash pretty consistently with the way we have in the past. Obviously, we'll continue to look at how we can increase the dividend year-over-year. It's something we've got a long history of doing. Beyond that, looking for opportunities in the industry from an acquisition standpoint continues to be something that we're very active in, in trying to find ways that we can participate in the consolidation of the industry in a way that adds shareholder value. And then to the extent that we've got additional cash, looking for ways to get it back to the shareholders. So we've been pretty consistent about doing that, and nothing's really changed in that venue. I would say the one thing that's a little bit different today is just some of the uncertainties that we're facing here in the U.S. as it relates to some of the tax policy of the U.S. and everything that's happening with this fiscal cliff that everyone's talking about on January 1. So that's something that we'll also be looking at and taking into consideration as we think about our capital structure as we move forward.

Paul Varga

Yes. I mean, I'll just echo what Don says. I think it's a wonderful position to be in, but it also creates all kinds of creative challenges as you think about it. But we accept that challenge. On your tequila comment, I mean, I just think we're off – we had a great quarter as it related to both Herradura and el Jimador performance. Putting aside the quarter, I mean, I just continue to be encouraged by the performance of Herradura since it's been repackaged and the continuing opportunity, both in Mexico and the United States, but particularly in the United States. I think that the package was an inflection point and has captured, I think, greater attention both in the trade but also including our sales force. I mean, it would be behind – I always try to think back to where, for example, as some of our brands move through their milestones, Herradura's position in the U.S. reminds me of where maybe Woodford Reserve would have been many years ago and the excitement we had about it and then to see its development unfold in a way that was consistent with what we'd hoped would happen. I mean, I feel the same way about Herradura today. I just think Herradura continues, particularly with the favorable demographics in the U.S., the unbelievable performance of the ultra-premium segment against a backdrop that's been pretty uncertain and difficult, and yet it continues to march ahead. I mean, a lot of these brands that are priced at or above $25 a bottle for 750 have continued to explode and do very well. So I really think Herradura has continuing wonderful opportunity. El Jimador, we were pleased to see the quarter because that category is enormously competitive right now. A lot of new entrants, a lot of people occupying a position we were first to do, which was to put 100% agave in affordably priced packages. And so we're continuing to work the el Jimador business. We think it also hits the favorable demographics in the U.S. and some other things. The first quarter for the RTD business, New Mix, which is a Mexico-based business, it was – we think it's mostly timing-related. It's been a really good business. One of the great surprises of the acquisition, to be quite honest with you, has been how resilient and nice that business has been. And I would add that it's been, from that base, that we've been able to innovate on both so far Jack Daniel's and Finlandia into the RTD segment in Mexico. And both of those entrants, we think, hold promise for the Mexican market. So I'm excited very much about the tequila portfolio. As always, we wish it was more prominent today in our results. But I mean, we've been investing a lot behind it over these last many years. And against the grain of where we thought when we bought those brands, we wouldn't have envisioned the difficulty for the on-premise environment. We wouldn't have envisioned the difficulty for super-premium brands. They've weathered it pretty good, and we think maybe this next run will be an exciting one for them.

Operator

Your next question comes from the line – a follow-up from Ann Gurkin with Davenport.

Ann Gurkin

Just listening to your conversations, I was just curious, Don, if you all were maybe a little more cautious, given what we've seen with the recent rise in gas prices, higher commodity costs, difficult economies. Is there a little note of caution creeping in? Or am I just reading into something?

Donald Berg

Caution in terms of how we're thinking about the outlook?

Ann Gurkin

Right.

Donald Berg

Yes. I mean, whenever you're this early in the fiscal year, it's really hard to get too specific around how you're thinking about the full year, particularly before the holiday season. And in the meantime, you do have a lot of these different things that are going on in the environment around you that really it's not clear yet, what direction all of that is going to take. And so I think we're just being prudent.

Paul Varga

I'd say some of that commentary, as we've said on these calls before, probably skews a bit to the U.S., and it skews a bit probably to Jack Daniel's. I mean, we always are watching that. I don't think there's any single rule of thumb where we have some high correlation between some percentage move in gas prices and what our expectation would be on Jack Daniel's Black Label. We just watch it closely. And in an environment where we're taking prices up, if the gas prices had an influence on the way people were using their disposable income, I mean, we'd want to watch that really closely. And that kind of was something that was occurring back in '06 and '07. And so we're just alert to it. But if we were really, really concerned about it, we would have reflected it in our guidance. And we're sticking to that guidance that Don reiterated here this morning.

Operator

Ladies and gentlemen, that does conclude our question-and-answer session for today. I am pleased to hand the program back over to management for any further comments or closing remarks.

Jason Koval

Thank you, Christy, and thanks to all of you for joining us today for our first quarter earnings call. But before you go, we did want to let you know that we plan on holding an Investor Day in New York on the afternoon of December 12. So save-the-dates will go out over the coming weeks, and be sure to mark your calendars. In the meantime, please feel free to reach out to us if you have any additional questions, and we hope you all enjoy your Labor Day weekends. Take care.

Paul Varga

Thanks, everyone.

Donald Berg

Thank you.

Operator

This does conclude today's conference call. You may now disconnect.