Brown-Forman Corporation, Investor Day 2018
2018-12-12

Presentation

Attendee

Ladies and gentlemen, please welcome Jay Koval, VP of Investor Relations.

Jason Koval

Good afternoon, everyone. I'd like to welcome all of you in the audience today as well as those dialing in through the webcast. You should have presentation materials at your seats. And for those of you that are live streaming, you can go to the Brown-Forman website, Investor Relations, Events and Presentations and find the materials.

First, our forward-looking statements. Today's investor presentation 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. 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. On this page, we've 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, 8-K and 10-Q reports filed with the SEC. We'll also discuss certain non-GAAP financial measures. These measures and a reconciliation to the most directly comparable GAAP financial measures and the reasons that management believes they provide useful information to investors regarding the company's financial results are contained in the investor presentation.

So with that, let me say we appreciate your interest in and continued support of Brown-

Forman. We hope you get a lot out of our investor presentations today as I know the management team is looking forward to sharing additional insights into our long-term strategy and as well as addressing the Q&A.

So let me run through the agenda. As most of you know, Paul is retiring after an amazing 30-year run at the company. And he passes the baton on to the very competent and steady hands of Lawson Whiting. Lawson will discuss our strategic framework and the 4 areas that will support our future growth ambitions. Mark McCallum will then come up and follow with a discussion around our brand-building model and the opportunity that he sees to leverage our American whiskey focus as well as develop the next pipeline of growth drivers for Brown-Forman. John Hayes will then discuss the U.S. business opportunity and how we're attacking a very dynamic environment.

We'll have a quick break to be followed by Thomas Hinrichs, who will share his thoughts on further developing our non-U.S. business, both in the developed markets as well as emerging markets. And Jane Morreau will then pull it all together with her presentation on the value equation, specifically the ingredients that we believe will help fuel returns for shareholders in the future.

Garvin Brown IV is joining us today, and he'll close out the day before bringing the management team back up for the formal Q&A. And a Brown-Forman event wouldn't be complete without a proper cocktail reception and whiskey tastings with some of our master distillers from Woodford Reserve, Elizabeth McCall and Jack Daniel's Chris Fletcher.

So with that, let me welcome Paul Varga to the stage for his final Investor Day as CEO of Brown-Forman.

Paul Varga

You know this is my favorite Wall Street presentation of all time because I have about 3 minutes. I'm doing no Q&A, and then I get to mingle at the cocktail reception. So that's about all I have to do today.

First of all, thank you for being here. You've taken a lot of time out of your day to come here at Brown-Forman as many of you have done in the past. And thank you, too, for over the years showing such interest in the company, whether it's through your analysis and deep understanding of the company; and then those of you who are owners, investors in the company and have been for a very long time. We always appreciate the opportunity to sit with you on a – not a Squawk Box, being in person to actually talk about the company that we've tried over the years, and I think you'll see today continue to do so, give you good visibility into how we're looking at our business today with, of course, an emphasis on the prospects as we look ahead.

Over the years, it's sort of interesting. There's always been sort of timely things I've found as I look back over many of these conferences. It could be a change in the portfolio, some new innovation. It could be one of our acquisitions or dispositions. From time to time, we've focused on elements of our regional business, sometimes an RTC change. I think as a last one we're emphasizing quite a bit, our capital expansion and a lot of investments we are making to increase the capacity of our production operations.

Well, the most timely thing we have with this is actually a new CEO. And so one of the things that's a really unique opportunity for you all at this occasion is to hear very specifically from Lawson and his team about how they're viewing the business. And I just want to say how excited I am, which is a very nice sense of security as an exiting CEO of a company you love and have been in it for a long time to have somebody like Lawson take over the responsibilities of the Chief Executive Officer. Many of you already know him because of his stints over the years with the company, particularly in Investor Relations. But he has the smarts, the values and an incredible set of experiences that will make him a great

Chief Executive of Brown-Forman going forward.

One of the things that also should give you comfort, it gave me comfort and our board as well, is the fact that the team that will present with him today is a very experienced team. I think combined they – I was trying to add it up here in the hall, there are well over 150 years of collective experience at the company, maybe averaging something like 20-years plus of time at the company in very senior leadership positions. So not only do you have the fresh eyes and experience of Lawson going into the role, but you also have wonderful people to accompany him.

So with that, let me bring to the stage the incoming CEO of Brown-Forman Corporation, Lawson Whiting.

Lawson Whiting

Thank you very much, Paul. All right. Thank you. Thank you, Paul. And thank you, everyone, for coming here today. We hope to give you a good show.

Start out with our – what I'll call my subtle analyst humor, forward-looking statement on my title here. So I've got about, what, 2 weeks to go before that comes off of there, but we're certainly all excited about it.

So today, we – as Paul mentioned, we've got our executive leadership team here today, and we're going to talk you through some of the opportunities and growth vision that we have for this company going forward.

The theme for this year's conference is called next generation. But next generation, we mean more than a, sort of a play off a Diageo line, which we all kind of cringed at a little bit, but it's much more about – than just also Paul's transition from being the CEO of this company and handing it off to me. We're looking at it much more about consumers and how they're changing their tastes and then how we're going to go and approach that engine win there. It's about the different media that we're running today and how that landscape is changing, how the shopping behaviors are changing of our customers. It's about the next generation of markets. And so we've got our 2 regional leaders here today, and they're going to talk a lot about how the evolving structure of these markets are going to provide a platform for us where we continue to see a lot of good growth. It's about the next generation of brands. So the portfolio continues to expand here at Brown-Forman, and we're going to talk through some of the ways that we're trying to bring that to life as things continue to move forward.

So our next generation of investments. We've spent a lot of capital in the last few years expanding capacity in a number of our facilities, expanding the home places that we have, and importantly, in the world of inventory. And so we'll talk about what that looks like in terms of returns that we expect to have over the upcoming years. And then – so it's just the next generation of our workforce. We've got what we would think of as the most diverse workforce we've ever had in this company. It continues to expand around the world in different countries, and we want to make sure that we're recognized as one of the great companies to work for in the U.S. with really high engagement scores and an employee population that's very proud of everything that we do.

So it wouldn't be a Brown-Forman investor presentation if we didn't show something that looked like this. And when we talk about generations, I mean, this is a 20-year graph here. And I think you'll see a couple of different versions of this over the day, but you can see the very strong outperformance that we've had pretty consistently over a very long, long period of time, recognizing now it's my job and the team that we have here today to try to deliver something that looks like this again for the next 20 years.

So here's the strategic framework that we're going to use today, and you'll see this throughout several of the presentations today. But it is a way that we're looking at the business, thinking through portfolio, geography, investment and the organization. So each – we spend a lot of time thinking strategically about where the company is going, and these are the 4 buckets that we've put them into. But this framework, as I say, will be used a lot today and really – we hope, at least, to show you how we think through these different levers and how they can continue to accelerate the growth going forward.

Let me talk about the portfolio real quickly. Our first priority ambition that you will see around here is the leadership in American whiskey. We've already got that position today, but we want to continue that on a worldwide basis. Continue to drive forward on American whiskey, it's a place we know we can win. We've been very successful with the Jack Daniel's trademark over a lot of years, and we want to bring more of these American whiskey brands to life.

Our second priority is an increasing focus, and I'll it call it an incremental focus on our super-premium portfolio. So in the U.S., that portfolio has been around for quite a number of years, but we're in particular putting more efforts into developing our super-premium brands in a lot of other markets. And Thomas, in particular will be talking today about how we're going to try to go ahead and do that.

But I do think it's interesting and important for investors to understand that compared to our competitive set, for the most part, we have a very focused portfolio. We don't have to get that many things right to make this company continue to click. So it's a very focused portfolio that also importantly is focused on several of the most important or the fastest-growing categories in the world of global spirits, namely bourbon and tequila or American whiskey and tequila. So we feel pretty confident about that. And so Mark today is going to really be speaking in a lot more detail about that and how the portfolio will evolve over time.

But I think if you go back in time, particularly if you went back 10 or 20 years, this company, the portfolio – I mean, if you go back 10 years, we've had brands in Lenox and Hartmann and Dansk, and non – not even beverage alcohol brands. We had a very large, call it, less-than-premium wine portfolio. We have cleaned a lot of our – or all of that out to really be a focused company on premium-plus spirits.

So Jack Daniel's Tennessee Whiskey will – it remains today and will remain the #1 priority for the company. It's the workhorse brand of our company. It continues to stay, and it's very healthy and continues to deliver, even this year, growth rates that are pretty consistent with what we've had in the past. We've also diversified the trademark. We've done upper end-line extensions, things like Gentleman Jack or Single Barrel and some of the variants off of that, which have been nice and very successful and then also the flavors such as rye, honey and fire, all of which continue to grow even this year or throughout this year.

Next priority really is the Woodford Reserve family, and you'll also hear a little bit – a lot more about that here today. We continue to deliver stellar results on that brand, both the core brand and some of the line extensions that it has. And it's become very meaningful to our business in the United States, and it's a key brand going forward and one where we see – I mean, right now, the vast majority of the volume of that brand is in the United States. Our job is to figure out a way to continue to globalize that over the next upcoming years.

Our tequila portfolio, which doesn't get talked about quite as often, we really bought into that in 2007 with Herradura and el Jimador. It continues to really drive really nice growth both in the United States and Mexico. Herradura, in particular is a brand that we see a long running future for, it's getting really nice growth rates. And you'll see a little bit more on that today. And then longer term – and it is a little bit longer term on these, our most recent investments in things like Slane Irish whiskey and an even bigger investment in our

Single Malt brands, GlenDronach, BenRiach and Glenglassaugh.

So moving on from the portfolio. The geography – our geography goals and strategies and the ambitions are really about balancing the growth that we see around the world, and we've done that for a number of years. The United States, which continues to be almost half of the company, the broadest most valuable spirits trademark – spirits market in the world, will continue to be at the forefront of our geographic – of our businesses. And we see a lot of opportunity to continue to expand in a market that really does take to a lot of different categories and has a very premium-priced position. And John Hayes will be talking about that.

Thomas Hinrichs is here from over in Amsterdam. He runs our international businesses, which we divide up in this – what we call developed international and emerging. And we'll talk about the different growth rates that we see there, where we see some opportunities there, what the portfolio opportunities are in these different parts of the world and hopefully, convince you that we really do have a long runway ahead of us with these.

The one – this year, obviously, tariffs. I don't know how much time we'll spend on tariffs today. They're obviously a short-term headwind. But we think that we're playing it right, right now and that – as you would have heard on our earnings call last week, while it's layered on a whole bunch of costs on to our organization, we still feel pretty good that we are playing this the right way. We are not disrupting the customer momentum and the consumer momentum that we're seeing right now, and we still feel pretty good about the way the brands will come out on the other side of this whole tariff situation.

Investments. So we like to think, at least, that we've delivered what we would call shareholder-friendly returns for a lot of years. We've got a very shareholder-friendly capital allocation strategy. We've done a number of special dividends. We've bought back shares, and we have been one of those dividend aristocrats that's been raising our dividend now for 50 or 60 years, something in that – maybe not quite that long. It's a long time that we've had a dividend increase going. So – but the combination of high margins that really, in return, lead to significant cash flow generation affords us the ability to go ahead and do that and is something that you've seen here for many, many years. And Jane is here today to talk about what she's calling our recipe that we'll have going forward to continue to deliver that.

And the last bucket is just our people. We're still a relatively small operation. We've got about 4,800 employees around the world. And many of those would be included in the production side of things. So we really do look to attract and retain great people, evidenced by our commitment not only where the communities, where our employees live and work, but some of the programs that we have inside of our company, the employee resource groups, which I think make people feel really good about the company and are trying to expand our thinking in the way that we approach our businesses. Our sustainability teams work to minimize waste and focus on wood, water and grain, the most essential ingredients that we have in our products. And basically, you put all that together to create a workforce that we think is as good as it is in this industry, one that we're very proud of and we continue to invest in and feel very good about.

And then lastly, is the Brown-Forman – or the Brown family stewardship of the company. This is – bottom right is the Family Committee that we've had for the past several years. But as you look around in those other pictures, that's the next generation coming up through the company, the sixth generation. So I'm not sure how many people recognize. We're literally moving into the sixth generation of Brown family ownership. These – I shouldn't call them kids because they're college kids. They're in their 20s right now. But they're slowly coming up through the organization – not through the organization, but just they're slowly coming up through colleges and getting their first jobs and showing interest in the company, remaining very dedicated to the long-term family ownership.

And several of them will end up working for us someday and then hopefully, at some point, sitting on the front row of this room. So they remain very engaged, very committed. Garvin is going to talk a little bit about that at the end of the day today, but know that we have a very supportive family that continues to back us every single day.

So with that, I'm going to let Mark come up here and talk a little bit about our portfolio strategies. And then we'll be back up here in a little bit for a break and then Q&A.

Mark McCallum

Good afternoon.

I'm going to spend my 25 minutes sharing some insights into our portfolio from a global perspective. So I'll give you some insights into how we think about its makeup, how we build brands within it, our approach to that, give you some selective performance outcomes at a global level for some of the portfolio, some examples of their activation around our world; and then all with the intention of giving you some insights into our portfolio, but also sharing with you our enthusiasm for this next generation of growth that we are talking about.

So I'm going to start with this. Just for purposes, it's not sort of Marketing 101 or anything, I'm just going to delineate between trademarks and brands. These are our 10 trademarks. These are our focus trademarks, which are either global or multi-markets in their growth prospects.

A couple of observations of these 10: 2 of them have been with us for more than 50 years; 2 were sort of invented or birthed within the last 20 years, 1 20 years ago and 1 a year ago; 6 have been acquired in the last 15 years; 7 are whiskey trademarks; 2 are tequila and 1 is vodka. So trademarks to brands. The generation of these brands within these 10 trademarks has been a large part of the reshaping, particularly from an innovation and an organic growth point of view of the last generation. So think of this as 10 primary trademarks and about 30 brands, all deserving multiyear, multi-forward generational investment of dollars and people. So I just wanted to offer that up as a perspective of the Brown-Forman portfolio.

Now I'm going to just sort of place it within the world's that we know. This is IWSR 2017 current data. What you're looking at here is all distilled spirits at standard price plus globally. Size of the bubble is retail dollar value of that particular segment, and the numbers within the bubbles are if they're green, their – the 5-year CAGRs are greater than 10%. And if they're not green, the CAGRs are less than 10%.

Now maybe I'll offer the observation just on this, there's about 500 million, almost on the number, actually. 500 million cases of standard-plus global spirits brands represented on this chart across every one of these categories. And so one observation I'd make is that there isn't a single bubble with a negative growth number on it. I just find that fascinating that 18 different segments, 6 different categories and not a segment above standard price on a global basis in decline over the last 5 years.

Just quickly, our portfolio is focused on these 5 – primarily, these 4 top-left corner segments of whiskey and tequila, primarily whiskey. And one way I think about it is 23 of the 30 brands that I was describing, they compete within those 2 whiskey green-dotted boxes. In fact, 15 of those 23 compete within American whiskey, and 15 are new brands that we developed over the past decade or so. So that's the total global whiskey – sorry, total global spirits landscape.

Let's have a look at the total whiskey landscape. So it's the same price tiers, global perspective, IWSR, bubble size is value – retail value. But I would indicate – and the 0.5 million – 0.5 billion rather, cases the previous chart was describing, this is 150 million cases of all whiskey from a global volume point of view.

Observations of this, I would say are that the whiskey category is clearly – it's the most global category with blended scotch offering the most volume. But where we compete within this whiskey landscape are in these – primarily, within American – I talked about the fact that 27 of our 32 brands actually compete in that American whiskey column. We've recently, as you know, acquired into that large super-premium-plus malt bubble there growing at 12% and then created our own Irish whiskey brand just last year with Slane competing within that plus-16% segment of Irish whiskey.

So that's our – I really was just trying to say that's our focus as we look to continue to be the global leaders of American whiskey and continue to develop the super-premium brands within our portfolio. These trademarks are now focused and dispersed in this way, just from a geographic landscape point of view. The majority of those 10 focus trade-marks, of course, are operating and competing within the U.S. And John is going to come and talk to you about that later this afternoon.

Not all the trademarks are targeted for all developed international and emerging markets, but the Jack Daniel's family of brands, the Woodford Reserve trademark, certainly within both of these areas. And then within the 10 trademarks, it depends on the markets. So in select markets around the world, we will be focusing our resources and if it's on developing the brands within these trademarks, as I say, within selected markets. So this is the sort of a high-level total geography and portfolio landscape.

And now I just want to spend 1 minute talking a little bit about the brand growth, our approach to growing brands at Brown-Forman. It's not unique, but it is definitely evolving. It borrows on the many decades of brand-building success we've already had, but it adds to it elements of science and art that we believe set us nicely for the last – for this next generation. So penetration is really just a measure of how many folks shopped our brands in the last 12 months. But we now think about these 2 ways of challenging business teams at the market level around these concepts of mental availability and physical availability of individual brand. So each individual brand, against this framework, is actually the stimulus for great conversations when sales and marketing and finance both get together and plan and strategize for how to continue to grow those brands. And our future depends on continuous growth of the 32 brands in the 10 trademark portfolio. So how to grow mental availability and how to grow physical availability is the essence of the discussions and the work that's been done as we lay those plans.

So I'd like you to just remember that a little bit. It actually can help you with questions to the team later at the cocktail hour if you were really sort of interested in a particular brand in a particular market and its performance. You could probably use one of those bottom 6 boxes to ask a question of what do you think about prominence or presence or what do you think about its reach.

So off that framework, which will apply to all brands that we now steward, let's talk about the Jack Daniel's portfolio and the 7 key brands that we'd say have multi-market potential and opportunity and certainly, the reasons Lawson said why we are quite confident in our ability to continue to lead the American whiskey category globally. And I'm going to – is one of the first performance indicators. So this is Jack Daniel's family of brands. And we're plotting actually from 1987 which, as you know, if you're IWSR that's actually the first year currently in the 30-year IWSR data book. It happens also, Paul, I just realized, to be the year you started at Brown-Forman. This is Paul Varga's 30-year Jack Daniel's influence, a few others as well.

So we're going to take a volume on the vertical axis and 30 years, so a generation and a half. Lawson is – we're enjoying this use of the term generation. Well, here's a generation and a half of humanity. And that black line is just the straight line graph of the family of Jack Daniel's brands over those 30 years' growth. At the top, you'll see Family of Brands and Tennessee Whiskey, the heart and soul of the trademark underneath. So 3%, 4% and 5% compound growth over each of the decades of that generation and a half. And over the entire 30 years, the Family of Brands has grown compound 5%.

So one of the things we always think about is – so how do you think about that? Is that sort of – is that good? Is that admirable work? And one of our benchmarks we like to use is Johnnie Walker. We have tremendous respect for the brand that has perhaps led the globalization of whiskey in our world. Johnnie Walker started globalizing its brand back in the early 1900s. So count like about 100 and some – 120 years of globalizing the Johnnie Walker trademark, which sort of followed the British colonization, seeding the Johnnie Walker brand around the world.

But if we just go back 30 years, here's Johnnie Walker's same generation and a half performance, its total family, all Johnnie Walker brands in – started around '87 here, growing at 3%, pretty good over a 30-year time period. Started with 3 brands of Johnnie Walker, of course, Red and Black with 2 of those 3 – we started with 2 back then. It was Gentleman Jack right then – right at '87, Gentleman Jack launched and Old No. 7 was the other of those 2 brands. At the end of this so far 30-year run, we've got 7 key brands in the Jack portfolio. Johnnie Walker has got 16.

And yes, we – 2 years ago, when we shared similar information like this with you, we were able to sort of offer to you some sense of how we are thinking about the next sort of 5-plus years of Jack Daniel's. And so here's still we feel, last time I was with you, we were suggesting in the range of 3% to 5% growth would be a way to think about how Jack Daniel's Family of Brands could continue to grow. We still believe that that's the case. So 4% to 5% growth rate on this family looking out through to 2025, we feel is a reasonable assumption for us as we plan investments and the production of whiskey today for them. So that's Jack Daniel's and suggests why, as we look ahead, we believe it's – confidently that it will be the key contributor to our continuous and continued globalization.

Just thinking too about a way to think about it from a geographic point of view. This map of the world, I'm just going to show you 3 shades. It's an index versus Johnnie Walker. Again, a brand we have great admiration for, and we use it as a reminder to ourselves as what might be possible. The dark green is where the Jack Daniel's family of brands has already doubled the Johnnie Walker Family of Brands' size. So there's about 13 key markets there, many of which we actually have infrastructure, we have to market infrastructure in it. This next shade of green is where Jack and Johnnie Walker are about similar, within reasonable tolerance. There's 22 markets there where we're at about parity in terms of the development of the trademarks within those markets. And then the very light-shaded area there and duty-free kicked off to the left is where we're behind. And there's about 100-plus markets where the light green is at play where we are still indexed below. And for me, that just says opportunity to come, given the proven ability for us to go other shades of green over the last generation.

So now we want to talk a little bit about Jack Daniel's and come off of the theory and the performance of it and have a look at some of the reasons why it's performing the way it's performing. And again, this is from a global point of view. Mental availability is the first way I'll approach it. This is how we are continuing to grow the mental availability of the Jack Daniel's Family of Brands in many markets around the world. Reach is really important for us, broad reach. So broad reach media is really important for us or other methods of broad reach because almost 50% of our volume every year is contributed by light or ultralight shoppers, light or ultralight shoppers. And in our category of premium spirit, that means they buy 1 bottle on average maybe per year. 50% of our volume comes from those consumers and shoppers. So we need to talk to them, so broad reach and meaningful distinction. So quickly, we'd be able to have them know that that's Jack Daniel's.

So I'm going to just show you now a montage. You'll see 3 components of activation for Jack Daniel's on a video. First, a montage of the advertising we're using across all 7 brands on traditional broad reach media. So a number of markets that we're able to do that. Next, you'll see a social mobile activation of our brands as well. And then lastly, we're about to launch a documentary on Jack Daniel's. And you'll just see an excerpt from that, a 2-hour documentary, which from our point of view is essentially about 120 60-second ads for Jack Daniel's all the way through it. So just – there's about 3 minutes of video here. Hope you enjoy it.

[Presentation]

Mark McCallum

And then just to say mental availability now looking at the physical availability side of Jack Daniel's, just know that – there's just so many examples we could show here, but just know that under the value creators of presence and prominence and price and portfolio, those business teams I referenced earlier in every market that we have are working hard on how to increase the physical availability by pulling any one or more of those 4 levers for that particular outcome.

So from Jack Daniel's to Woodford Reserve, another amazing story just 20 years in the making. I'll show you a – I might just populate this for ease here. So this is Woodford Reserve for the last 20 years and some of the mile markers along its incredible journey. So remember, it was literally created from nothing back then. The first 100,000 cases took 10 years to develop in terms of business. Over the next 5 years, the next 100,000 cases was added. Then this past 5 years, the next 0.5 million cases was added, quite a story. And we are on our way to passing through the 1 million case mile marker for Woodford Reserve by the year 2020 and are already, of course, having to be very thoughtful about enough investment in distilling and warehousing and things like that to be able to cater for possible growth rates that will take this brand through the 2 million mark much more quickly than the first 1 million. So from Woodford Reserve's point of view, here's mental availability.

[Presentation]

Mark McCallum

So that's Woodford Reserve, building mental availability, particularly in the U.S. and now starting to build beyond the U.S. as well as Woodford plays its role in assisting with our global leadership of American whiskey. So from our whiskey – or our American whiskey portfolio to our 2 brand tequila portfolio, the story of tequila Herradura and el Jimador has been also quite a story of growth. And I just wanted to show you, particularly the U.S. and international results that we've had so far. So one way to perhaps interpret this, we acquired the brand in fiscal '07. So we've had it now for about 11 years. It has reached 1 million cases in the U.S. and the international business so far. It's tripled in its size over that 10-year period for us. It's been an amazing success. And at the same time, is that Mexico, which, originally, it was a Mexico business. If you recall, Mexico has performed extremely well, is in growth mode and has a very healthy mix of el Jimador and Herradura. And it has a unique RTD business. They're approaching 8 million cases of el Jimador and New Mix RTD business, which is extremely valuable for us in that market. So we are delighted with the way that our 2 brands are going. And again, the challenge for these brands is to build mental and physical availability because they are – certainly, within the U.S., they're still in the low awareness, low distribution, in some cases. So lots of room to grow. And in international – in our international markets where we have 10 focused international markets for our tequila brands are in extremely low levels of developed, mental and physical awareness. So it's all before us as we focus on building those 2 elements of its brand growth.

[Presentation]

Mark McCallum

We're able to use broad reach media in both Mexico and the U.S. and mostly social and digital broad reach or digital reach elsewhere in the world to continue to build its mental availability. From a physical availability point of view, I mentioned it earlier, distribution opportunities beyond Mexico and the U.S. still and elsewhere in the world are enormous for these 2 brands as we follow the development or in fact, assist in leading the development of the tequila category internationally. And Thomas will tell a little more about that when he speaks.

So from – just a quick look at our Scotch business, which – the malt business, which is entering its – into its second year of ownership. Just to say that we're extremely pleased with the way it has integrated and its current performance. For reference, the combination of these 3 brands, which are all in last 12-month growth, the combination of these 3 brands right now, last 12-month growth, is about 40%, plus-40% growth across the 3-brand portfolio. So we're delighted with the way it's going. It's highly acclaimed now. It's beginning to generate more and more accolades as we're able with our footprint around the world ambassador – have ambassadors for these brands in markets where under prior ownership, they didn't have the organizational structures to do that. So I thought it was interesting that just 2 weeks ago, the woman on the screen is Rachel Barrie. She's the master blender for our 3 Scotch businesses and was the first woman ever inducted into the Scotch Whisky Hall of Fame. That was quite an accolade for Rachel, who is one of the reasons why brands such as the GlenDronach 15-year old just got named #8 in Whiskey Advocate's top 20 whiskey brands of the world. And so we're delighted with the early performance and integration of our Scotch business.

I wanted to finish with just a look at innovation. And as we've been reshaping, Lawson referenced it, and as we look back a generation, innovation has been a key part of our business. And just to illustrate that, I just wanted to show this stack graph here. So we're looking again at the last 20 years. And the combination here of growth, what was the contribution of our existing portfolio in 1998, absent the brands that we've disposed of. So it's the same brands in this stack graph. So what was – existing portfolio, acquired brand portfolio and innovation. So just the existing brand share of that growth was 44% or contribution to that growth, acquired brands are 34% of that stack graph, and innovation is 20% of the graph. And innovation really only really becoming active within our trademarks in the last 10 years, as you can see. So just to say that as we look ahead, just as we look back, innovation within our 10 trademarks remains a key value creator for the portfolio through the next generation.

So with that, I'm going to hand over to John Hayes, who's going to tell you more about the most valuable spirits market in the world, the United States. So John, over to you.

John Hayes

Thank you, Mark. And good afternoon, everybody.

And I am here to talk about the world's most valuable and largest spirits market. I know many of you cover our industry, so I'm going to start high here. What you're seeing is a pie chart of the adult beverage industry in the United States, so it includes beer, wine and spirits. So you can see the large growth in the total category here of now up to, as Adams Liquor Handbook would say, a $234 billion consumer market. The head – and that has been growing at a little over 2% over the last 10 years.

Now the headline is though – is the 32% to the 37% that you see that over the last 10 years, spirits has gained 5 points of share from beer. And spirits has now gone from 177 million cases in the United States to around 226 million or if you want to do the math, adding about 4.5 million cases per year. If you take that down a little further, which as Mark outlined of where we compete that according to IWSR, the premium-plus spirits market have essentially described as $15 retail value and above, the compound annual growth rate during this period, a volume 5% and more importantly, value at 7%. And happy to say that the current trends would be following that same sort of growth trajectory.

So Brown-Forman, as we come down, Mark's taken you through some of this, but in the United States, we are well positioned in the growth categories now and for the future. So of course, we are leaders in premium American whiskey. And again, as per IWSR, over the last 10 years, American whiskey has been growing at a compound annual growth rate of 8%. We, of course, have representation that I'll take you through in a few minutes. And as Mark just took you through, tequila, being one of the hottest categories here in the United States, has been growing at 7% over this time frame, but is actually, in more recent terms, accelerating and think of the most recent Nielsen on the last year, tequila is growing at about a 13% growth rate. So again, our Brown-Forman portfolio, well placed today in these 2 very important categories.

Now as we talk about the next generation, this is – the exciting for us is the new categories that we've just now entered over the last couple of years. Of course, Irish whiskey has been on a roll in the last 10 years, growing at 18%. One of the big reasons that we've gone in with our Slane Irish whiskey and have tremendous hopes for this next generation. And again, as Mark just outlined, the Single Malt Scotch category as well in the United States has been growing at 13%. So I believe – with the possible exception of cognac in here, is we'd be the 4 of the fastest-growing categories here in the United States. And again, Brown-Forman is well placed to compete in this area.

Now also, as we outlined, it's all about the premium side right now within the United States and Brown-Forman competes in this premium place – premium-plus price segment almost exclusively. So again, that definition of $15 retail price point roughly for a 750 ml bottle, 90% of our business – of our sales in the United States is in this premium-plus price segment, which is one of the highest in the industry.

So I'm now taking you through – hopefully, convincing you that we're in a great business in the world's largest market and in great categories. But there are some dynamics going on right now that offer challenges for us that we're working on as well as the solutions.

So the first is, of course, price. So it is a very challenging price environment in the United States. Of course, being the largest most valuable spirits market, everybody wants to get in here. And there's a tremendous amount of price pressure, I would say, in particular, directed in the Jack Daniel's-type price point around, so let's say, the $20 price point where there is compression that, I would say, is coming down from above Jack Daniel's as well as below Jack Daniel's. So it's a bit of a price war that's going on out there right now. And what are we doing about it? Well, we're very focused on the price-value relationship for all of our brands. And we've seen this whether – a few years ago, Woodford Reserve, we took price rather significantly and saw a – our business slow down, where we then reacted to it and learned from it. Gentleman Jack would be another example of last year taking some higher-than-normal price increases. And again, the consumer reacted, business slowed down.

I think over this last year, Jack Daniel's, a year ago, we did a lot in price promotion activity that was driving the business last year that was not as much at this present time in this frequency and depth of – on promotional over the last few months where we've seen that, and we're now reacting to that. And I think you'll see even in this month going forward how we recognize the price-value relationship. And we're not standing still on it, but it is a very challenging price environment in the United States.

There's also, of course, in this very valuable market, again, in the American whiskey market, in particular a tremendous amount of investment, that – increasing investment, in particular at media and in sponsorships again. So the share battle of, as Mark said, the mental availability is going on right now and that we're constantly looking at our investment mix to make sure that we're getting our communications directed in the appropriate places at the right level.

There certainly, as you all know, is a tremendous amount of activity in whiskey overall in the United States. The consumer, which is very positive, is seeking variety, choice and experimentation in whiskey. It's quite amazing for me that's been here a long time to just go in and see the shelf set up an American whiskey in a liquor store or in a bar today. And there are – we've counted at least 600 new brands over the last 5 years. So this is an area – again, we don't stand still on this. A lot of this is in what Mark described within our innovation that's going on to address these needs of choice and experimentation. And of course, we're seeing this with benefit within Woodford Reserve and Old Forester, in particular.

And then finally, there is and has been quite a bit of what I – we would just call trade and distributor disruption that has been going on within our industry consolidation, of course, of active life in all industries, but if you go back over the last 3 or 4 years, our distributor network, there's been a lot of consolidation within the United States within that tier. And as you all know, that's ongoing. There's a – the announced merger of RNDC and Breakthru, that's moving through the system right now. We actually feel that it could benefit us because we're at the end of that. It's about over half of our business, and we would be, if not, the largest supplier within that new company. We certainly have a significant amount of sway in that. So a lot of consolidation at that level.

Of course, private label, that's going on as well as the price environment, again, that I alluded to, within the channel of what I call the total wine and more factor again, that plays a role not only in private label, but within this price compression that's going on.

So, and of course, then finally, within this e-premise channel that I'll talk more about, disruptive with the likes of Amazon and delivery that's going on. So challenges, but we've seen this over the years and continue to, what I believe, react very well and again, being very pleased with our position. And a lot of that – I'm not going to go through as much because Mark took you through it, why do we feel so confident? Well, we are the leaders in premium American whiskey. We have been investing and innovating. And our portfolio is well positioned to continue, particularly in this American whiskey category where we own the world's most valuable spirits' trademark, we believe, and, of course, the largest and most profitable American whiskey brand in the United States. Tennessee Whiskey, our beating heart remains strong. But for years, we've been innovating, continue to innovate across price points, flavors, barrel finishes and most recently, grains with our launch of Jack Daniel's Rye in the last year, all to meet new consumer needs within this American whiskey category.

I'd point out one example, as Mark said, on – Whiskey Advocate just came out with their top 20 whiskey brands globally of the year. Again, these are selected by blind tasting. Jack Daniel's Single Barrel, with our heritage barrel expression, was selected as the #3 whiskey that year. And there was comments about some of them even being surprised. We're not surprised. We know we make very good whiskey at Jack Daniel's. And we're very proud of the quality we put out, but it's good to see the recognition coming through. So go out and buy it while you can because I don't think it's going to be around for long after that.

Mark has taken you through Woodford Reserve. In the United States, it is the leading brand at $30 and above in the whiskey category. And again, we're very proud to say MarketWatch, based here in New York City and a leading trade magazine – trade publication from Mr. Shanken, just last month selected Woodford Reserve as the Brand of the Year of the industry in the United States. And we couldn't be more proud of this 20-year run of Woodford Reserve with a lot of room to come by and, again, with innovation. If you look at the size of the Double Oaked brand, for example, our launch of Rye or the experimentation that's going on in our distillery series or master collection, a tremendous amount of innovation within that category.

And finally, Old Forester. Consumers are rediscovering our founding brand, America's first bottled bourbon. And many, which is really exciting us – for us to see back to innovation, are discovering the brand through innovation. Our Whiskey Row series is award-winning, critically acclaimed. We just launched our 1910 last month, again. Now, already hard to find. And of course, our birthday bourbon that people line up for every year sold out. So well positioned in this American whiskey portfolio.

So with that, we also, though, need to be mindful that we need to always be improving our communications, our creative and the capabilities and the people necessary to deliver against that. And we're doing that a lot through our organizational focus and we believe at Brown-Forman and have said for many years that people build brands. We believe that, and we believe that we have the capabilities in the organization to drive our business and our brand-building models. And I'm just going to take you through some examples of that as a bit of a show and tell that hit on a few of these areas and capabilities that one is whiskey expertise, inclusive of marketing. I'll take you through an example of modern media and this growing e-premise channel that we need to be really good at as well as then finishing on some structural changes that we've made at Brown-Forman in order to get after this opportunity.

So the first, whiskey expertise. If you're going to be the leaders in premium American whiskey, you'd better be good at telling the story about it. And we believe that through people like Chris Morris, Elizabeth McCall, who you'll meet today; Chris Fletcher and Jeff Arnett, for example, as our master distillers, provide the teaching not only for our internal employees, but that we bring in for – externally from the trade through things like our own distilled academy or whiskey immersions to pass on the knowledge of our industry in American whiskey.

We also believe in advocacy, the days of the salesperson on the street in the old days, I believe, are over from what they were. It's not just about sales. It's not just about managing a distributor these days. You better be damn good at telling the story about your product, and we have hundreds of people on the street that are excellent ambassadors for our brand and taking people through tastings or attending whiskey fests, and we believe it's a strong capability for us.

And then finally, something that's a bit new for us is – in this area of prominence, is leveraging the full portfolio of our whiskey. This will be an example of what we're just launching called Straight From the Distillery with our Ryes now of what we believe we want to be leaders in the Rye category, which is growing, of taking Jack Daniel's Rye, Woodward Rye, and we're about to launch an Old Forester Rye here right after Christmas, packaging them together and bringing these different taste profiles of Rye to consumers. We're also doing a lot around, I'd call, whiskeys of the world. So flights in restaurants and bars of tasting the difference between a Tennessee Whiskey, bourbon whiskey, Irish whiskey and a Single Malt whiskey. So again, whiskey expertise is very important to us.

And there can be no better example that we are always incredibly proud of is our homeplaces, which are the ultimate in whiskey expertise. We have been making multimillion-dollar investments in our homeplaces. We drive over 500,000 visitors per year to our homeplaces. Most exciting is just this summer, we opened the Old Forester distillery and brought it back to Main Street in Louisville, Kentucky. And the reception has been incredible. And again, more than anything, it provides us with the foundation for telling our true authentic brand stories and communications.

An example now in inclusive marketing. What do I mean by inclusive marketing? Well, when I started, we used terms like, you had marketing for the general market and the ethnic market. We believe those days are over. This is about an inclusive marketing, cross-cultural approach to brand building. It's investing for us, for Jack Daniel's in this area is the NBA. Mark talked about our need for attracting light users and bringing light users, whether it's into the franchise, new users, or getting them to potentially hopefully buy more Jack Daniel's. And this is a platform for us that's in particular allowing us to reach into this millennial high index and African-American. And people may be surprised that at the NBA is the #2 sport of passion in the Latino marketplace. So it provides for us some meaningful distinction in a unique setting.

And another area that we're doing is leveraging the Jack Daniel's portfolio, in particular pairing Black Label and Tennessee Honey together for what can be efficient, but high-profile dual branding. So with that, we have a brand-new spot that just launched, I believe, last week that is targeted specifically at the NBA consumer through primarily NBA games or NBA news media.

[Presentation]

John Hayes

So moving on to another term that we're using that's – just in the last couple of years is modern media. We, of course, have always had media, but we all know the media environment's changed over the years. And how do we then, again, structure ourselves, getting the right people with the right capabilities to communicate in this modern media today?

An example that I picked here is Woodford Reserve and our sponsorship of the Kentucky Derby. At a high level, we call it – we want to be part of the – we believe Woodford Reserve is the best of Kentucky bourbon. And we want to take the best of Kentucky on Kentucky's best day, the first Saturday in May, and then blow that out not just only on that day but using that platform to again build this awareness and availability of Woodford Reserve.

So how are we doing it? Again, a lot of experimentation last year, things like voice assist using Amazon Alexa apps to, Alexa, how do you throw a derby party? And having that response come in. Using e-commerce through a platform like reserve bar where our derby bottles, which can be hard to get, making sure they're available on a national platform and a national price where consumers can get to that. Using at-home delivery, an app like Cocktail Courier where all the ingredients that you need to make a mint julep, including a 375 of Woodford Reserve and fresh mint and a julep cup are sent to your door to make the mint juleps. And then of course, a tremendous amount of advertising that went into the buildup of that for the sponsorship. One example as well, and we learned a lot with that, is Twitter using that as a big part of the program that on Derby Day during the commercial breaks is when we would hit with Twitter. And it was a tremendous amount of lift that we would get on that as well as the advertising, some of which Mark showed you.

The vision that we have for this, just to put in perspective, from a business standpoint, is that through research, we're able to determine that about 3.3 million Derby parties are held in the United States each year. If we could get 1 bottle of Woodford Reserve in every one of those parties, that's an incremental 200,000 cases of Woodford Reserve. So we're laying it down.

This is just a short video to show you a recap of our exciting sponsorship.

[Presentation]

John Hayes

So the last capability is e-premise channel. Now I have to say that, of course, it's a great opportunity, and you have to be here. But the 3-tier system in the United States, of course, offers some unique challenges for us. We look at e-premise today more than anything as a connector to the consumers, and we've structured ourselves accordingly in getting people in the right places.

So we break it down into e-tailers, which Amazon, Peapod – but Amazon would, of course, be the leader in this area. They're selling spirits direct in 7 States right now, so we're working with them as a retailer, doing programs with them to promote our brands in that channel. You have the emerging intermediaries like Blue Apron, UberEats, et cetera, that are really not into that liquor area as much right now. It's something we're watching, but again, because of the legalities, it can be challenging.

Talked about Reserve Bar, we call them curated marketplaces, they're essentially a national price where you can go and we've done some things with especially our high-end or our limited edition products. Of course, with click and bricks, which is the likes of Kroger, Walmart Total, the liquor boards within the State's a big channel, of course. I'd say we're working as we do with them as an account, but making sure that our assets and our stories are part of that particular environment where they can shop, but those – liquor would not be as high on their priority list right now as they try and figure out the rest of their business in this channel.

And then finally, something that's been really unique for us is these delivery apps, in particular Drizly. Instacart would be another one. But Drizly, we formed a partnership this year, and we're in the midst of it right now. We're doing things of promoting, for getting your brands up to the top through bumps and staff selections and doing some really unique video partnerships with them. And you get same day of data, which has been very exciting for us where we can test and learn within that. So it's of course, a channel for us that we're – have to be in and organizing accordingly.

The final area that I'm going to wrap up in is on our structure. And many of you would have seen that we formed what we call the emerging brands group in the United States. What we've found is, of course, everybody's focused on selling Jack Daniel's and Woodford Reserve, as they should be, but that we needed more focus for our smaller brands of the future that we believe offer significant growth potential. So we put into this emerging brands cluster Herradura, Slane, Old Forester, Coopers' Craft, which is another Kentucky bourbon that we have that we're testing as well as our Single Malt portfolio.

We have about 40 dedicated people in marketing and sales that do nothing but sell these brands passionately. And I'd say how they do it is we have selected 16 metro city centers, including New York and New Jersey, where we have people that go in selling, educating, advocacy, of course, with passion, hand-selling primarily and are very much focused. It's not about the big liquor stores or the chains, it's very much the on-premise whiskey shops, high-end retailers. This only began on August 1, so we're just a few months in. But we're very encouraged with the transition. And we are seeing accelerating growth trends amongst all of those brands.

So in conclusion, we're often asked how much more can American whiskey grow. So I thought, as Mark did, we'd just take a look back. In 1970, there were 66 million cases of American whiskey sold in the United States, and the population was about 205 million people. Today, there's around 30 million cases, depending on who you ask. DISCUS would say 33 million people. So it's about half of what it was in 1970, but it's growing nicely, as I've demonstrated.

We, of course, believe there's a long runway ahead for American whiskey. In fact, if American whiskey were to get back to similar per capita consumption rates as 1970, the category would be around 100 million cases or 3x bigger than it is today.

I will conclude with saying, we will drink to that.

So with that, I am now going to turn you over to a break of about 10 minutes, I think, we're looking at. So if you could be back here at 2:25, my colleague, Thomas, will take you through the international opportunity for Brown-Forman. Thank you.

[Break]

Thomas Hinrichs

Good afternoon. Good afternoon to you all. And I have to say I'm very happy to be here today. It's my second time. I was here 8 years ago and have spoken to some of you, maybe. And at that time, I was talking about the German business and Eastern European businesses, such as Russia, and how do we manage that to keep growing a very developed market such as Germany and, at the same time, find ways to get Russia and emerging market going. I mean, a very relevant topic it was at that time in 2010 and it is still today and maybe even more so.

What I was trying – what I've been trying to do is I will introduce to you a bit of the international side of Brown-Forman or update you, share my excitement about it and my confidence in that part of our business and will try to give you a couple of reasons why I'm so confident or excited about the business in the – on the international side.

Our International business certainly has reached a significant footprint, as you can see here. And I think it's fair to say that Brown-Forman/Jack Daniel's has taken the American whiskey into the world. When you look at this and see how we have grown our sales within Brown-Forman, we have grown, over the past 20 years, from 20% share within our sales to, today, over 50%. So when I started around 20 years ago, a little more than that, I saw us being at this and I was always part of this international business, to some extent participating, driving, leading, so whatever, and so I had various roles in this over the 20 years and it still excites me today to see what we can do, what we have been doing and what we will be doing.

And when I then go also go to the right to see how we have evolved in terms of sizes of markets, at that time, 20 years ago, we had just a dozen countries of size, of which most of them were just over 50,000 cases. Today, 20 years later, of course, we have a couple of very significant ones that sell 1 million and more cases for us, the U.K., the France, the Germanys, the Australias. And what we also have and that excites me too, the 28, call them acorn countries, that we have out there that are the ones that, hopefully, over time, will get to the 500,000 case mark and so on. So that to me, just a little bit about Brown-Forman International, at a glance.

The headline here, the next generation of international growth. And the subheadline is continuous globalization and increased focus. I think there is no doubt that the opportunity in the international space is huge. I would say the portfolio we have in our hands today is very well-positioned and the organization capabilities we have in our international organization is there to seize it.

The increased focus side is something we are starting to bring in more. We have grouped our regions and our countries a little bit more around the development stages that they are in and so that's why you can see here the developed market and the emerging market, something Lawson touched on earlier before, but this is trying to provide more focus, more focus to what is needed in the developed – in the different marketplaces in the stage of development and environment they are operating in. And with that, we are hoping to accelerate our performances even more in those.

The presentation will also stay a little bit along those lines in terms of developed markets and emerging markets. And let me start to go into the side of development, the developed markets. This is a little snapshot if you want to know how have the developed world of Brown-Forman's businesses internationally, how does it look.

Top 5 markets account for around 70% of sales. Those top markets are the U.K., France, Germany and they are Australia, so they are kind of this cluster of significant markets for us. Jack Daniel's Tennessee Whiskey and the rest of Jack Daniel's trademark are leading it and driving this growth. And as you may know, Jack Daniel's Tennessee Whiskey is a significant brand in a couple of marketplaces, and the #1 whiskey in Europe and a couple of markets and still it keeps growing. And at the same time, RTD businesses in Australia, in Germany, in the U.K. are also contributing and driving the growth we see in our developed market space.

We have invested quite a bit in the past couple of years into our route-to-market models. We have started our own operations in Germany a while back. Followed that, we have invested and set up our own companies in France. A little later, and 1.5 years ago, we have started too, our own operations in Spain. And at the same time, I would say we have evolved. We have more own-distribution set ups in the developed space, but it's not that – we keep on evolving the models into partnerships. We also have very successful partnerships in the developed space and that is also something we keep on working on.

The organizational design and the capabilities are kind of supporting all the 3 points I mentioned before. They have sort of supported our build-out of our own selling organizations and, at the same time, they provide the focus and dedication to our Jack Daniel's trademark, which here is, in particular, driving our growth.

Speaking a little bit, using the last couple of years and getting a feeling for the next couple of years, in the following slides, I'm using to show you a couple of statistics. If I look at the TDS in the developed space, you can see here whiskey has a share of 50% or 52%. So it is a significant part of the category in the premium-plus space.

If I now break up whiskey and have a look at the various whiskey categories, I think it's, I can say, American whiskey is the fastest growing with 6% and Scotch is sort of flat to slightly down. The ratio between those 2, I would say, is 3:1. Scotch is 3x larger than

American whiskey in this developed space, which sometimes is used as an indicator, and I think it is one, not the only one in terms of size, of the price, the opportunity; of course, American whiskey is sourcing from Scotch in the developed world, but not only. But if you want to know, there is this 3:1 ratio in terms of sizes of those categories.

Another way to look at it is comparing the U.S. whiskey market to the international developed whiskey market, which I think is a very interesting one, too. Jack Daniel's Black Label in the U.S. has a market share of 13%. Jack Daniel's Black Label in the developed markets has a market share of 10%. You will also see the composition of the whiskey markets being very different. In the developed international world, there is a big chunk of Scotch. And as I said, it's not the only, but it's an indicator of the opportunity. And the American whiskey segment is still very small.

If we do one little exercise, and it's growing. Jack Daniel's here, as you can see, is growing at 6%. If we were to grow Jack Daniel's Tennessee Whiskey to the 13% market share it has in the U.S., we would add 1.5 million 9-liter cases. And there's no reason to believe that should stop us doing and more, a, I would say the American whiskey perception today in the international world in Europe is so much better than it was 10 or many years before ago, the appreciation for the quality, the craftsmanship, coupled with the versatility, the mixability. And at the same time, the Scotch category being still the Scotch category, there are certainly a lot more that the American whiskeys have to offer in addition to also the image of America and all the music and movie relations. So – and I think, today, you can feel it, and with the Jack Daniel's Honeys and the Fires and the others and the RTDs, we are gaining more and more space in the international whiskey arena.

And now moving up a couple of price points to the super-premium-plus whiskey category. And there's not a whole lot to say other than I see Brown-Forman at a share of 3%. That has to change and will change. There's no doubt about that and – but this also shows you the opportunity. So 97% is still out there that we can compete in and gain a higher share.

And also here, if I see the super-premium American whiskeys, whether it is the Jack Daniel's [expressions], the Woodfords, the Old Foresters, today, European consumers and many others in the developed world are kind of more appreciative about the premium end of American whiskeys. It's not only about age statements and this and the way it's kind of matured, so there is this different degree of sophistication and the American whiskey world has gained its sophistication and appreciation for quality, and the consumer is looking for interesting offerings.

This is a portfolio for the developed world that we are focusing on going forward. And to give you a few bits and pieces around these priorities that we are focusing on in the developed world, we do want, no surprise, to lead in American whiskey. This is clearly our determination. And on the backbone – and together with Jack Daniel's Tennessee Whiskey being the core, we want to be the leader in American whiskey and drive that category forward.

We, at the same time, want to invest into our super-premium portfolio that is newer to us. We're investing into organization, into people dedicated to this portfolio and we are an organization – we are investing into the support. So that's an area where we are investing in and we are leveraging our footprint in our organizations, in our companies that we have around the world that will allow us to do the things and have the ultimate focus applied to where it needs to be.

I came to you to also give a little update on the market that falls out of the route-to-market model discussions that we have started our own operations, is Spain. Fourth largest international whiskey market. Whiskey growing, again, Jack Daniel's market share, 4%. Well, 1.5 years ago, we started our own operation in Spain and moved from the partnership we were in to our own company. We hired 50 people. We started all what you need to do and we did before in other places. 16 months later, just to give you a little feeling, Jack Daniel's, according to IWSR, has been the fastest growing imported brand between the top 20 in 2017. Jack Daniel's Tennessee Whiskey MAT November is at 30% and our super-premium end is even higher.

So just to give you a kind of feeling how things can go if you do the right things in the right moment. And I brought to you a little video.

[Presentation]

Thomas Hinrichs

So this is how it looks when we kick off a new company. These kind of emotions come through. And I am glad to say that, today, there are still many people smiling about what they have, about what we are doing and how we are doing it.

Let's move on to the emerging market side of things. I think, undoubtedly, a huge opportunity around the world and longer term. And when you think about 6 billion people in that area and the growing middle class, and that's when we come into play more and more.

I'm going to start the same way as I did before, a little snapshot on our current situation in the space of emerging market. The top 5 markets account for a little more than 50% of our sales in emerging markets. So it's a little more spread and it has a couple of key markets in there, of course, like Poland, Russia, Mexico or Brazil, but it's a little more spread in terms of where we see sales happening.

It's very focused on Jack Daniel's family of brands, of course, largely Tennessee Whiskey, and where appropriate, RTDs, or the premium end of it. And depending on where you are, whether you're more in Latin America and in Mexico, it's flanked by the tequila portfolio we have there in Mexico or it's by the vodka portfolio with Finlandia in Russia and in eastern – in Poland.

We have been seeding our investments all the time. So we have been looking, we have kept looking and where we felt the moment was right, the opportunity was there, then we started. Like, we started our operations in Brazil a while ago. We are developing our models and our business in Mexico and we evolve our partnerships in Russia. So it's a little bit of a seeing and seeding base. We have not been that same active in other parts of the world of the emerging market world. That has been more our focus. And on the – as I said, we have evolved the models and partnerships that we are in. We have invested in places such as Brazil. And we keep on developing and growing our local organizations in those various places.

Again here, the same look with a few statistics, giving you a feeling for the opportunity. Whiskey, in this space of total distilled spirits, standard-plus, it's not as big as you saw it before. There's so much national and local products in there that whiskey is sourcing from and the emerging market world is also so much more volatile. So if I would exclude disruptions into the whiskey growth from China, from Russia, from Turkey, from Latin American countries, the growth would be in excess of 5%, but those volatilities are part of the emerging market growth.

If I now break the whiskey again down into the various whiskey categories, again, here, American whiskey is growing double-digit at 10% and Scotch whiskey is around flat to minus 1% over the past 5-year CAGR. Here, the ratio between American whiskey and Scotch is even wider. It's 1:7. So the size of the American whiskey all together is 7x smaller than Scotch is today. So as an indicator, and while the opportunity – even though I believe the opportunity here is not only lying in other whiskeys such as Scotch, it's also lying in the local categories and local spirits because once the middle class is coming, the people want to show that they can afford international spirits, then we come into play.

Another way to look at it, and you have seen this chart before and – but what it tells, again, is when you look at Jack Daniel's, we have been – we found ways to grow Jack Daniel's in both developed and emerging markets consistently over the last many – over the many years that you see here. Our share in emerging markets is 17%. The share of Johnnie Walker trademark is way more depending on the emerging market space. It certainly has also led the Scotch and the whiskey consumption in this space, but we are having a very small share in it.

Just another little note, if I would double the share of 17% to 34%, which is halfway to Johnnie Walker's share in emerging markets, we could add around 2.5 million 9-liter cases. And that's kind of the opportunity that, just in the midterm, that we see there in the space of emerging markets.

Looking at our priorities there, we will certainly focus on Jack Daniel's Tennessee Whiskey center – front and center. And depending on the marketplace, the rest of the family, whether it's the more premium end or the flavors, Honeys and Fires or the RTDs. We will do an increased market prioritization effective resource allocation in this space of emerging markets. And we will build and continue to build our agile local organizations and evolve our models that we have today around the world as we have done before.

And also here, I brought an example of Brazil. Brazil, we started our own operation a couple of years ago. 2010, '11, we started our own company. Brazil was chosen because significant market, 200-and-more-million people live there, 6 million cases whiskey market, small American whiskey market in it, growing standard whiskey plus, Jack Daniel's family of brands since then growing. But it was kind of a deliberate decision of us to – after the assessment of the opportunity, even though it was early, to go there to invest and even to see and try – test and learn. And so we tested and learned and made our – and until we arrived to what we have and do today, which is a very focused strategy.

We are very focused in the portfolio approach we are applying, which is very much centered around Jack Daniel's Tennessee Whiskey and if you want a bit of Jack Daniel's Honey, and that is the center of our doing there. It's very centered around key cities, São Paulo, and there's another one in the south of Brazil, which is very promising right now – and this centering and focusing is something that we have started 2 or 3 years – 2 years ago. Before, we were trying and very much sprinkling around in the various places, but then we changed it to this very focused and concentrated city approach and we keep tracking the results and some of – and are very encouraging. The growth rate we are expecting for Jack Daniel's Tennessee Whiskey in São Paulo area will be growing by, say, 80% this year and for the other part of it, 50%. So we do see very promising results there and that's kind of the result of us doing things and evolving things from the learnings we did before.

Coming to the end, which is summarizing a little bit what I was trying to convey. We are expecting to continue to grow in the developed market with increasing contributions from the emerging side. We will lead in American whiskey in the developed space and will invest into our super-premium end, in the organization and the resident behind it. And at the same time, we will focus on Jack Daniel's Tennessee Whiskey in the emerging market.

We will leverage our investments that we have taken in the past, while we do want to accelerate our performance in the emerging world. And we continue to evolve and develop our organization and capabilities alongside with the first 3 points.

So with that, I hope I could live up to my objective and what I was trying to say at the very beginning. I was trying to introduce a little bit of Brown-Forman International to you. I wanted to share my excitement with you about the opportunity and have given you maybe a few ideas to think about them, too.

Thank you very much. And I'm asking Jane, CFO, to come and join.

Jane Morreau

Thanks, Thomas, and good afternoon, everyone. I'm excited to be here this afternoon to share with you all our story, again, talking about how we create shareholder value. Specifically, I hope you've gotten from the conversations you've heard so far from our peers all the excitement that we see about the tremendous opportunity we see for our portfolio of brands, very focused, and where we see opportunities geographically. It's an all-broad geographical cluster, whether it's the U.S., or developed, international or emerging markets. So what I'm going to do, my goal over the next 15 or so minutes, is to really dig into Brown-Forman's value creation equation. In other words, I'm going to talk about the recipe we have to continue to generate great shareholder returns.

So I thought I would start off with a 10-year look. You see Brown-Forman at the top of the chart, 17% return. Who wouldn't want to have a 17% return on their investment from 10 years ago? Certainly, a superb investment on an absolute basis. When you look at it relative to competition, all the different benchmarks on there, you can see it's top tier. We believe that's a testament to our employees around the world and all the work that they've done to make this happen, our superb brand-building capabilities we have, specifically some of the things that happened over the last decade that I'm going to talk a little bit more about and you heard a little bit about from my colleagues here today, which is our evolution of our route-to-consumer, the evolution of our portfolio, evolution of our packaging, the evolution of some of our consumer messaging as well as just the continued great quality product that we put into the bottle each and every day.

So if you don't follow the spirits' industry, I hope you will now, you can see it's a very attractive industry, high margins. We've seen over long periods of time that it grows in good times and bad, so it's a great investment. And where we are, Brown-Forman, we think we're particularly well-positioned given our portfolio – our focused portfolio and the price points we are at and the SKUs that we're playing with.

So I thought I would make one more point as it relates to our returns. So great returns on an absolute basis, great returns on a relative basis, but the other piece of this has to do with risk. And being a family-controlled company, it is something that we will continue to manage and have continued to manage our risk very carefully over time. And thus, when you consider these returns on a risk basis or a beta basis, if you will, we got one of the lowest relative to the market. I think that is a recipe for superb investment, if you will.

So how did we do this? I'm going to take you through our actual value creation equation now. We have the first component that I want to focus on is our growth. And how we measure growth is in terms of net sales growth. So we care about if we're attracting new consumers, if our volumes are growing. It's net sales growth. And it's growth in people that are consuming our products.

The second part of our value creation equation is our profitability, which we measure based upon operating margin. I'll get into all these in a little bit in a moment, take you through some examples.

Our third form – part of the formula is our investment. We've been very disciplined. And we measure that by our return on invested capital.

And finally, it's how we translate these components into TSR through the appreciation of stock and our returns of cash to our shareholders. It's what's going to drive everything here.

So let's start off with our first, and probably one of the most important ingredients as I look at this, which is our top line growth. Some of you have seen or looked at our consistency and our net sales growth, but I think this chart is always one to start off to remind ourselves though. You look over long periods of time, we've delivered consistent mid-single-digit growth. Even short periods of time, we see the consistency with which that growth has been delivered.

A coin or a phrase that Garvin Brown made at our – I think it was our 2017 Annual Shareholders Meeting. He said, "More distillers from Kentucky," and indeed we are. But we're also brand builders. And given the portfolio you saw here today, I believe we're in the very, very early stages of our portfolio realizing its full potential. And so to continue these type of growth rates going forward is not at all something that's not believable.

So what I will do now is focus on just the 10-year, the 17% TSR and look at our sales growth and what did we do in that 10-year period. Well, first piece of it was our very active portfolio management. And it was a very intentional one. And what you see on this chart behind me is you do see an increased focus on our whiskey. So we grew from 2008 to where we are today. It's a higher percentage of our portfolio. It was intentional. We're much more focused now. We've got it skewed for American whiskey portfolio and other whiskeys in this category and it's at the premium price point. And again, with the long runway we see ahead of us.

But I thought what I would do is talk about real quickly how we did this. It's not simply – it's – there's actually 3 components of how we increased this percentage of our concentration in whiskey. The first thing is things we talked to you about before, which is getting rid of some of our low value, low growth, low margin wine brands and then getting, for all practical purposes, out of the liquor business, which was a drag on our top line. So that's the first component.

But the second component came from our organic growth of our whiskey portfolio. And not surprising, when you talk about the organic growth of our whiskey portfolio, it was led by Jack Daniel's. From 2008 to 2018, we added 3.6 million cases of that brand. 3 million of it were outside the U.S., 600,000 were in the U.S. Of that, the mix outside the U.S. it was split pretty evenly between developed and emerging, just to give you a feel for how fast our emerging markets are growing and the tremendous – you saw what Thomas showed where we have a long way to go still in that space. And of course, you saw Mark share with us the Woodford Reserve and the tremendous growth it's had. It's grown sixfold over the last 10 years.

So we're really pleased with the organic growth, but there's a third component and market on that. And it's really new sources of our revenue that will generate it over that period of time and actually, it's contributing a bigger piece of our revenue growth over that time, and that is from largely innovations. And so we did add the Scotch Single Malt portfolio and now have the premium Irish whiskey brand in Slane. But when I think about the new innovations that we did and think about they have only been here, I think, the longest one, we're going in eighth year on Honey, they haven't even been here around for a decade. Those alone added over 2.5 million cases to our portfolio that we didn't have 10 years ago. And as Mark said, innovation will continue to be important within the line extension – within the brands we have today. We've innovated behind Woodford Reserve and Old Forester beyond just Jack Daniel's Rye, Honey and then our Fire.

So while we've got a very focused portfolio, when I think about our geographic diversification it is actually very diversified, as I just said, and I think that has served us well over long periods of time. What I'm doing here is just looking at the 3-block broad geographic clusters that my colleagues talked to about to you today, the U.S., our developed international and emerging, and show the various rates of growth we've had over the last 5 years. It's not a straight line from any one of them. And we see this as – because of our geographic diversification, when one area wasn't doing well, another area did. And you can kind of see that in 2016 when you look at the emerging markets, which were going through the oil crisis and some of the geopolitical issues at that time. It was made up by the U.S. business and the developed international.

All told, we think that this has actually been very well. It served us well and has allowed us to have a really balanced growth if you look over the past 5 years from each of these broad geographic clusters. So when I think about what you heard here today and the first ingredient as I look forward to our ambition, it's to continue to deliver mid-single-digit growth in sales.

So moving on to our second part of our value equation, profitability. So we had a good business when we started off 10 years ago in 2008 in terms of operating margins, but we've got even better business now. And you can see it's beaten all benchmarks on this chart here that you see behind me.

How did we do it? Well, some of the things I've just talked about. We did it with the active portfolio management, we did it through organic growth, through our geographic diversification, through acquisitions and divestitures and the innovation. But we also did it with the help of operating leverage. And you can see in this chart that we have leveraged our operating investments, defined here as SG&A and advertising expenses, over that period of time.

So how did we do it? Well, we leveraged prior investments, largely in SG&A and efficiency and productivity, while simultaneously investing behind the growth of our brand. And I actually think this next chart is really a good way to demonstrate it. You see that in – it started in 2013, all of it is indexed, I plotted our total SG&A and advertising expenses at that time and then we just grew it out based upon our underlying growth that we actually reported for each of those years.

And you can see the difference between the advertising and the SG&A investment, showing steady increases behind our brand, behind the consumer, more in line with our sales growth over that period of time, while at the same time, we were investing in our SG&A, not at the same rates, of course, you can see the gap in there. So it wasn't as if we weren't making smart investments. You heard a couple of them here today from Thomas, our route-to-consumer in France and our route-to-consumer in Spain, as examples. And we continue to do that, even in the short-term this year, fiscal '19, when I look ahead and our goal for this year is to have another year of flat SG&A. Yet we're investing behind emerging brands group in the U.S. and some additional resources over in the developed parts of the world to get our American – super-premium American-plus whiskey portfolio growing faster than it is today.

So I thought I would pause here and just bring you all up-to-date because some of what you saw in that previous slide is due to the work we've been doing and have been doing and will continue to do. And so this is to bring you up-to-date on a – the cost savings initiative that we announced to you about 1.5 year ago, the $100 million. We're halfway through it, but we're well on our way to delivering the $100 million. And in fact, when I think about our cost savings initiative just in general, our productivity programs, it goes beyond the $100 million, as I said. It's really the mindset of our employees to look for productivity savings, to look for improving efficiencies, to look for leveraging assets and leveraging prior investments.

And so when we think about this whole program and it's a multitude of programs, so it's not just $100 million, it's a multitude of things that we're doing, I think of every line item between our gross sales all the way down to our net income that we're looking at. It's about $4 billion in investments. So it's from our discounts to what we pay Uncle Sam and excise taxes, to our corporate taxes, our cost of goods, our advertising and SG&A, it's about $4 billion of growth in there and we're looking at every line item.

So some things I'm going to share here – I'll first share here are not just the $100 million, but things that we're doing that will continue to go on and I think enable us to have industry-leading operating margins as we look ahead. We focus, as an example, on our revenue growth management. What's that about? Well, you want to get – we want to drive for efficient sales growth. It's – John talked a little bit about looking at the balancing price and volume. It's understanding the effectiveness of your promotions, the effectiveness of your marketing spend, having the right SKU mix, the right channel and customer mix, as examples.

The $1 billion we spend in cost of goods, we're looking at everything that goes into it. Looking at our packaging, think about the materials that go into it, the labels, the cartons, the caps, set of glass. Sourcing, how we source it, where we source it from. The operations within ourselves. If there's inefficiencies within a plant, how do we get those out, how do we share those best practices across all of our plants globally. And our supply chain, how do we optimize it, from the time we get – from the minute we get from the logger or the farmer, all the way until it gets to our customer at the end. So there's multiple points that we're looking at.

The $1 billion in operating investments. We're looking at lots of things going on. I'm just giving you a little top level of what we're doing. We're looking at discretionary spending, T&E, consulting, those type of things. Meetings, where do you need to be, when you need to be, can you leverage technology? Strategic sourcing, plenty of opportunities here in all the spaces from agencies to IT spending, you name it.

And then we have a global business service initiative that we have underway for about 1.5 years now and it's all about looking at all of our back offices' functions, if you will, and how do we globalize, standardize and simplify those from front to back, so from the beginning of the process to the end of the process. And then we think we can leverage that as we look at future, route-to-consumer, as Thomas was alluding to, because we will continue to evolve our route-to-consumers going forward.

And then we spent over $1 billion in taxes. This includes excise taxes and what we pay in corporate taxes. We were able to, with the tax reform, take some opportunities there to take some expenses off of our balance sheet last year and in an effective and very efficient manner, getting the high deduction for those expenses. That was in the establishment of a foundation and our pension just to name a couple. And then, of course, tariffs. We came out, and I believe we are looking at things that we can do in mitigating that.

So I hope that gives you a little flavor for all the things that we're doing. And when I think of our – of how we're going to get there, technology will enable us and help us automate a lot of these efficiencies across all of these initiatives.

So our second ingredient is to continue to drive industry-leading operating margin. And this will be one piece that's helping us do it.

So moving on to our third component of our value equation, it's return on invested capital in our investment. And as you can see here, we've generated or had roughly around $8 billion of cash available to us over the past decade, most of which came – cash from operations. What we did with that, again, was to invest around $2 billion back into our business. But I thought I would take just a minute and talk about that.

The past 10 years was really a stepped up time in our investment. We've talked about that with you before in the CapEx area. We spent around $900 million in CapEx. And if you look over the last 5 years, you would have seen it double from the first 5 years. What did we do for that? Well, lots of things. Most of that CapEx was really about the future growth, so expanding our capacity so that we can meet what we see as our future growth from our – of our brands. But what we did was we increased our cooperage facilities around 50%. We doubled our distilling capacity. We added over 18 warehouses. We've increased our bottling and shipping facilities. And you heard, of course, we did lots of things to our homeplaces and made them bigger because more and more consumers are coming to them and built a brand-new one in Old Forester. So these are all investments for the future.

Then we invested quite a bit in working capital, and that's largely inventory, and that's an investment for the future. In this business, and you saw it skewed towards whiskey, if you're not laying down the whiskey today in anticipation for what we think our brands can and our consumers will take from the brands in the future, you won't be able to sell it. So we've invested – well, the majority of that $800 million incremental working capital has been in whiskey and laying down whiskey.

And then the final area that we invested in over the past decade was in getting into the Single Malt Scotches with our BenRiach, GlenDronach and Glenglassaugh acquisition and really getting – building our own super-premium Irish whiskey with the new Slane Irish distillery and homeplace.

So when I look at this and think about our significant investments that we did, so despite all that, we still have industry-leading ROIC, as you can see up there. It is north of 20% and it's well ahead of all the benchmarks you see here. So when I look at my third ingredient as I look forward, our aspiration is to maintain this top tier return on invested capital.

So even though we had this fully investing behind our business, as I would call it, we still had many opportunities allowed us to return cash to our shareholders. And we did it in a very balanced, very prudent, very opportunistic manner. In fact, we did 3 special dividends, several buyback programs and, of course, we grew our dividend roughly in line with our underlying earnings over that period.

All combined, we returned $6 billion to our shareholders. It's perhaps slightly above our historical rates, but – so in any stretch, it is definitely a very shareholder-friendly period. And so when I look at my fourth ingredient as I go forward, it wants – we are committed to returning cash to our shareholders in the future in a prudent yet optimistic – opportunistic manner.

So now when we pull all of these components together, net sales, operating margin, ROIC or the growth investment and profitability, it should lead to great returns to our shareholder in the form of depreciation of our stock as well as cash to our shareholders. And coming full circle from the first chart I shared with you, which was our 10-year TSR, indeed it did.

So let's look at the numbers more in terms of an investment. So if you had invested in S&P in consumer staples, nice investment, you would have more than doubled it over that period of time. In our end – our competitive set, it would have been more than triple. So if you invested in Brown-Forman $100 10 years ago, it will be worth $500 today. That's double the investment of the S&P in the consumer staples.

So I know we're getting near the end of our formal presentation and so we thought it would be a little bit of – have a little fun here and get our mouth all watering for a good cocktail coming up here in a second. And we want to share with you our favorite recipe, which is the Brown-Forman creation recipe.

So pull it altogether. By the way, this is making an Old Forester Old Fashioned behind me, which is one of my favorite cocktails.

So what's the first ingredient for this recipe? I'll call it 3 parts sustained mid-single-digit growth in our net sales. That's going to be driven by our continued leadership in American whiskey, our continued strong growth, solid growth from our developed world and an even faster growth from the emerging markets. So that's the 3 parts.

One part leading operating margin. I shared that with you a moment ago. You saw some of – we're going to do that from the mix of our business as it grows and gets bigger, more premiumizing, so just the mix of the higher angle and faster, as well as just some of the productivity initiatives that I mentioned here.

One part top tier ROIC. So I think about our cash that we've spent over the past decade. We're passed some of those large capacity expansions. Not that we won't continue to invest behind the business, for sure we will. You may see those more in efficiency plays and technology investments, but still leading to a top tier return.

And one part disciplined return of cash to our shareholders, as I talked about just a moment ago.

And the secret ingredient to all this is really brought together by our 4,800 employees around the world, call that the secret recipe. They're engaged. They're passionate about it. They are the ones that will execute this. And all this combined then will, we believe, deliver excellent returns to our shareholder in the future.

That's it. That's all. So with that, we have one more person that's going to come up here and talk, and that's Garvin Brown. He is our Chairman of the Board. So welcome up here.

George Brown

Thank you, Jane. I did notice, I think you poured a double. That was 2 parts ROIC.

But, look, thanks so much for coming today. I'm just going to – I've just got a few things I'd like to say before we go to Q&A. But thank you on behalf of my family. On behalf of our Board of Directors, thank you so much for your intellectual and financial partnership. There's at least one family here today who's another family that's a multigenerational shareholder of Brown-Forman Corporation. We went public in 1934. My great-grandfather came to this city and floated the business after prohibition when we were starved for capital.

We feel that we owe you, the public and the public's representatives, analysts, et cetera, we owe you professionalism. As your partner, as a family, we owe you a certain amount of reliability in the way that we govern ourselves. And so I want to assure you, as I've said other times that I've been with you, that we're still marching along on that path, certainly on our own governance. And there are tweaks that we make to it every few years depending on the circumstances of either the global economy or of our family, which is now heading into the sixth generation. We've got a cousin here in the fifth and 3 cousins here actually today in the sixth generation.

Just to illustrate some of this, I thought it would be fun to show you a photograph of some members of my family and spouses. I just had a global meeting in June where we celebrated Paul Varga. So in this photograph, you will see some employees. I can eyeball supply chain, accounting, Old Forester, Global Travel Retail, communications. I see a member of the Family Committee. I see at least one Board Director. I see 2 – I see a father of 2 members of the sixth gen who are here today, a former Board Director for 10 years after we did a fifth generation rotation on the board, after a decade. And so that's a great snapshot of some of my family that live in Louisville or live in other places and came in for the global meeting really to celebrate Paul.

So in my world, my job description, I think of 3 things. First and foremost, it's governance. Governance intersects then with the corporation, that second thing, around – in the boardroom. And the most important thing that a Board of Directors actually does, I mean the boards do many things, that what always seems to make the news is the backward-looking nasty audit stuff that boards do. Hopefully, if you have a well-run company and well-run board, then your board doesn't do much of that. And the forward-looking stuff really, first and foremost, is around succession planning.

And so, first, more than anything, I want to make sure that you know how excited my family is and our board is around the succession planning that Paul and I would have done together in the last decade. We didn't know it was less than a decade ago, but we started the process a decade ago. We do have a bias to internal hires. And you know the stats as well as I do, those tend to work better. And so we were very lucky to have found, making progress through the company, a man that you all – some of you would have met as a head of our IR in 2001 when I moved to Louisville and – Lawson Whiting. And thanks to a variety of experiences he's had running Europe, running our brands business, global strategy, his financial acumen, I always say he wears his smarts easily and he's just such a good cultural fit for our company that this is a great moment for us to be able to go from one nonfamily CEO to another nonfamily CEO. And therein lies some of the balance that we try and strike as a family and as a corporation between being a family company and being a well-governed public company. We want to have the finest possible human being we can find sitting in Lawson's chair. And we think we've found it.

So, look, you've heard a lot today about the business, okay, that's the third thing, governance, corporate stuff, the business, what I call the beverage business. And I just won't be able to – I can't resist but talk a little bit about the business too. If you're in my shoes, you're the – if you're a family Chairman of a 148-year-old business, in our industry, and you're always trying to have perspective, you know, what altitude should I come in and out at? I'm wearing this pin on my lapel for a reason. It's the old No. 7 bottle, and that's about the altitude that I think is appropriate if you're a family Chairman of Brown-Forman Corporation.

Look, I love our whole portfolio. Obviously, Old Fo, Old Forester, my name's on the bottle, George Garvin Brown. It was started by my great, great-grandfather and all the rest of it. I was at the market in Nassau County yesterday. I got to see great [facings] of Old Fo, Woodford, Herraduras, rocking and rolling out there, very exciting, even saw some RTDs. [Of course, not in liquor stores in the city or for whatever] and – but moving away from as much as I love all that good news and these brands around the room, if you're the family

Chairman, you really got to watch out for Jack, and that's where I argue your interest should be in our beverage business.

And so I'll offer up – you saw a bunch of market share data today. We don't often look at the global TDS number because it's got national spirits in it. Oh, national spirits, it's the sloppy end of the business. It's certainly not premium and it's got [Scotch shots] in there and Baijiu and all that good stuff, but, look, what if you're the Chairman of a 148-year-old company and Jack Daniel's is your brand, then maybe you would want to look at the entirety of the industry if you're in it for the long run. And if you remember that actually since, say, the end of the Cold War, 600 million people on this planet have pulled themselves out of abject poverty and that all of those middle classes are coming on in China and in India and in sub-Saharan Africa and in Brazil, and then you're Brown-Forman and you realize actually in Brazil that Thomas talked about, we even haven't left São Paulo yet, really.

So we take all that on board. And you recognize that actually Jack Daniel's, for all of its great success, is less than 0.5% of global TDS. Take all that on board and you're a family member, you're one of those kids in the sixth gen at the back of the room and you're thinking about the future and reflecting on the health of the company, 74 years, I think, of dividends, paying dividends. I think we raised them for 34, hence, the dividend [or a scrap] thing, look at that well-managed business, Jane showed you all the stats, operating margins, balance sheet discipline, not acquisition-crazy, and we're focused, very focused. In Spain, that business, 90% of their business is not just Jack. It's one SKU. It's 70 cl. Ditto Brazil, they, like the leader, 90% of their business is one SKU, the Jack Daniel's leader.

So if you digest all that and how would you feel about being a Brown-Forman family shareholder and you're from Kentucky, you got to have a piece of this and your roots are in Kentucky. But Jane mentioned very grounding sentiment for me is to simplify this whole thing. We're distillers and we're from Kentucky. If that's who you are and this is your business, I'm betting you're not going to sell your shares. And so I say all that to recommit to you and give you some transparency as to how the Brown family is feeling about things. We're feeling pretty committed to Brown-Forman, to this brand – these brands in this country, to this team and to our new CEO, Lawson Whiting.

That's the object for me. And we've got cocktails after Q&A, all right? So I'm going to bring up now Lawson and his team for some Q&A. Okay. Thank you.

Question and Answer

Lawson Whiting

We got one more coming? Okay. We're a little bit behind schedule, but I also don't want to cut off the Q&A, somewhat like we had to do last week in our earnings call. So we'll extend this to about 4:15, if we can. We've got people with microphones both – on both sort of in the center aisle and over here. If you just stick your hand up in the air and then we'll try to get through as many of the questions as we can. One sort of ground rule, if we can, just because I know we're a little pressed for time. One question per person when we start these out so that we can get around the room a little bit and try to get through to everybody. So if you all, I guess, I can take the middle and we can – okay, Vivien, in the front row, you want to start with a little bit and then we'll sort of – we'll move it around.

Vivien Azer

So I wanted to touch on the top line commentary, Jane, please. As I reflect back on your last Analyst Day, the company laid out a 2025 target for volume growth in the range of 3% to 5%. So your target for mid-single digit is within that range, but it sounds like maybe there are some underlying tweaks in terms of the composition of volume versus price versus mix. So can you comment on that?

Jane Morreau

Yes. So I think Mark actually talked about that earlier. So still into mid-single-digit growth in net sales. The composition of that, as he showed up with the Jack Daniel's family of brands, we're still in that 4% to 5% range. So – and then of course, with the rest of our portfolio growing faster, meaning, faster from our higher-end tequilas, from our Woodford Reserves, you'll get effectively a price mix in there. And we've been seeing it in about 1-point to 2-point range. So I think that's – you can continue to expect that.

Lawson Whiting

Sure. I think [Sharon's] a little bit behind. There's a couple over there, so we can do.

Kevin Grundy

Great. Kevin Grundy with Jefferies. My question relates to the U.S. pricing environment. Some of the commentary there seemed pretty cautionary. I was hoping we could come back to that, how you see that evolving over the next 12 to 24 months, how concerning is that for you? Maybe you could touch on a little bit some of the brand scores and the brand equity scores for Jack Daniel's? And then just lastly, maybe touch on how constrained that may be with respect to delivering on the earnings algorithm?

Lawson Whiting

Oh, was that a one question rule? All right.

Kevin Grundy

I'm sorry. It's all the questions.

Jane Morreau

You're the first.

John Hayes

I mean, I think I outlined it pretty well that we've dealt with the price value environment for many years right now. I'd say that over the last couple of years, you saw it. There was, especially in the American whiskey side, some erosion in price, but we have seen it coming back. But right now, to the best that I can see, it's pretty much in a flat zone right now within there. So I would be hopeful that the pricing environment will, as it always does, continue to improve. But in the short term right now, we're just managing our price value relationship for our brands compared to what the competition as well is doing.

Lawson Whiting

I think we can add on to it a little bit. The bottom of the cycle seemed to be 12 to 18 months ago where, particularly in the whiskey, people were going down and going down pretty aggressively. That has calmed down a little bit to sort of flattened. It's still a little bit down I think for a lot of the brands out there. But another interesting dynamic I think that's happening in the U.S. business, when you look through – even if you just look at TDS value versus volume numbers, there's a huge gap between them these days, much bigger than I remember going back in time a little bit. And that's not organic price increases by brand, it's mix. But it's still a nice way to deliver a more premium, higher rate of return because you're getting so much positive mix out of the business, so…

Lauren Lieberman

Great. Lauren Lieberman from Barclays. I was just curious. I think this year, part of the plan had been to step up investment behind some of the more premium products in Europe, and I was just wondering if given the tariff environment, there's been sort of any change or delay in the way you're approaching it. Or is it a situation where you lean in more because the profitability on those brands is higher despite the tariff environment? So tactical adjustments, I guess, given tariffs in Europe.

Thomas Hinrichs

For me?

Lawson Whiting

DO you want to try it? Yes.

Thomas Hinrichs

I can speak within Europe where we have started to invest more, and that is unchanged. We kept that course of adding resources, dedicated resources, and extra investment behind that super-premium portfolio of ours there. It's still selective in a couple of markets, it's not broad-based, but the plans we had 6, 7, 8 months ago are still intact.

Lawson Whiting

And in particular for the Woodfords of the world or Gentleman Jacks or some of these other high-end brands, at this point, we're going in with a pricing strategy that really is ex tariffs. They're not big enough to move the needle from a corporation right now. So we want to get them established, think a little bit longer term than just this time of the tariffs. Now Tennessee Whiskey, it's a little bit of a different situation, but for those higher-end brands that are really just getting seeded, we're basically sticking to our plans and just absorbing the costs. Do you want to add to that or – okay.

Attendee

I guess, just a question about margins, right? So leading margins is I guess an expression of leading in the industry. I'm not sure what we're – just to clarify we're leading. And does it imply that margins actually expand or really depends on what industry margins do? And just, if you could in your answer, just address geographic mix, if that at all is a sort of a driver at all in terms of how we should think margins going forward?

Jane Morreau

Yes. So as you saw from that chart, our margins have expanded quite nicely over the past decade, and it has been driven by geographic mix as well as our portfolio – premiumization of our portfolio. That piece will continue. And when I'm talking about the – to point-blank answer your question, when I said leading, I am talking about industry margins. And so as I think about margins, of course, there's a lot of things coming at us right now. In the short term, we've got tariffs and things like that. But short of tariffs going away I want to continue to deliver excellent margins that we have been doing. Yes.

Lawson Whiting

Do you want to try this side of the room?

Robert Ottenstein

Robert Ottenstein from Evercore ISI. Just wanted to ask a question on China. You guys think very long term, right, and China is potentially an enormous market, obviously dominated by Baijiu. So if you're thinking 1-decade, 2-decade forward, love to get a sense of what you're doing now to address that market and whether you need an international partner. There was some talk a number of years ago of you guys, I think, partnering up with Remy. That didn't materialize. It's a very tough market to crack. So just really love to get a sense of how you're thinking about how to address that market potential over time.

Thomas Hinrichs

Shall I answer that?

Lawson Whiting

Yes.

Thomas Hinrichs

I think we look China not much different than we look at other opportunity in emerging markets and have never done so. And we keep on looking, we keep on looking at the landscape, the opportunity, the timing of it. And that will continue to be the case. So there's no clear path to something larger, bigger at this very moment. It's other than –

that we apply the same rigor around the China opportunity that we see in India or we have seen in Brazil or in Mexico. So that's the same. It's – we are very active and successful in 2 of the so-called BRICS. And in the other 2, we still see – seek out the opportunity. And I think when you look at the whiskey market there today, it is certainly one that is not – it is small and very contained, and therefore, I think it might take a bit.

Jane Morreau

So I might just build on to that. One of the things that we are focusing on [is firstly], understand the consumer and how they purchase over there, where they do their research, they do it all online. And so we are – have gotten into e-premise and testing a lot of things on the e-premise front. That's the way that we can get there and tell the story, extend our reach, as Mark was referring to earlier. And so far, some of our tests that we've been doing are pretty good. So again, it's how do you introduce the Chinese consumer to American whiskey, and then we're talking to him and doing it in a different way that the Chinese consumer can relate to. We're excited about what we're seeing so far.

Attendee

I was just wondering if you can talk about what is it that drives the decision to expand the portfolio in a given market. And so why Woodford now in other developed markets? And what informs when you need incremental brands within a market like the U.S., and if we can continue that onto emerging markets and how we get there when Woodford gets there, and things like that?

Lawson Whiting

So make sure I understand the question. So it's – the question is when do we decide to actually move forward with portfolio expansion as opposed to just staying really on the Jack Daniel's franchise?

Attendee

Yes. What are the flashpoints? What are the decision points that you use to guide that?

Lawson Whiting

Do you want to try it, Mark?

Mark McCallum

I mean, I can add some context to it. As we evolved over the last 10 years from third-party arm's length distributor partners in most of those markets, the ability for a competitive company, which generally was our distributor – Bacardi as an example, in many markets in the world, were our distributor. Their ability to focus on anything beyond Jack Daniel's Old No. 7 was understandably limited. So as we have evolved our route to market and established our own organizations in a number of both core and emerging markets, the capacity of those organizations has definitely increased and the long-term interest to develop a broader portfolio for the company is also there. And with that said, I very much refer back to some of Thomas' dedication to focus, even in markets where we have our own organizations, is true. But it is also true that those 10 trademarks, the Jack Daniel's trademark in particular, enables a sales and a marketing team to get after more than just the beating heart of the Jack Daniel's business, the Old No. 7 brand. It is as easy to take Gentleman Jack and Woodford Reserve into an on-premise account and talk about our American whiskey portfolio, just as an example. So our own organizations in these many markets now is a real enabler of a slightly extended portfolio focus for us. Remember, we had 32 brands wand – within those 10 trademarks.

Lawson Whiting

I'll repeat a point that I made too – in the U.S., the U.S. structure with the 3-tier system and just the nature of the market and the size and scale and the premiumness of it all, you tend to have broader portfolios, and we will always continue to go forth and do that.

And when you're dealing with a 3-tier system in the middle, they're carrying thousands of brands in some cases, and so incrementally, it's not much to add some brands to their world. Developed international is more about leveraging the RTC decisions we've made in many cases to then grow forward and be selective. I mean, we're not talking 25 brands, we're just saying, we're only adding 1 or 2 brands at a time. The emerging, some of it is the resistance to prevent them from doing more than just Jack Daniel's. They're so not – I mean, the brand is so underdeveloped in many, many of those markets that short of a little bit of Scotch and some sort of selective – it depends on where you are, there are going to be exceptions, but for the most part, it's restraining them back and say, just focus on the Jack Daniel's family. So many hands there.

Attendee

I think, Lawson…

Lawson Whiting

You're going next. Hang on 2 seconds. I'm sorry. What did you say?

Doug Thomas

For me? I think – Doug Thomas, JET Equity Partners. As long as Mr. Brown is here, I thought it'd be interesting if I might ask him a question about something that you haven't talked about today with – you said 148 years in the family experience and so forth. Just your view – maybe the family's view on what's going on in the cannabis market? And another issue that has faced illegality for many years and sort of how you – how the family views the company's positioning with respect to what's going on in the growing cannabis trade?

George Brown

Okay. Lawson and I rehearsed this actually. So I will pass it over to Lawson at some level. But I'll just offer up that, look, we – let me try and again take a different – let me come out of the weeds a little or – look, first and foremost, just so we're clear. The family does look to the Board of Directors, on which sits the CEO, for strategic direction on Brown-Forman Corporation. So the family won't end up having some idea on, "Boy, I wish the company was going to do this," and then go along and say, "Lawson, can we please do this?" In this case, it might be a marijuana investment. So that – it just doesn't happen. I mean, really, the strategic decision-making with regards to how to leverage the balance sheet and make incremental or different investment decisions all come out of the management team and the Board of Directors. Look, obviously, everyone's talking about the marijuana thing. I am half Canadian. I've got lots of Canadian friends – my wife is Canadian – who are in the industry now, a CEO, a CFO, a lawyer. I know the guy that's doing all the IPOs in Toronto. So, yes, we're around it a lot, we hear about it a lot. I've got my own – I mean, maybe over drinks later we could talk about it, my own sort of sarcastic views as to really how the governments given an industry a tax break for 70 years, and we've all been competing against it really in one way or another. Surprise, surprise, it grew so well with all those tax breaks. But with that said, I'm just going to get myself in trouble. So maybe Lawson, do you want to take over on marijuana for now?

Lawson Whiting

Yes. So I mean, look, like – I mean, obviously, it's covered. Many of you, I'm sure, studied it. We've worked with Vivien on a number of levels on what we think this space could be over the long term. Having said all that – and this maybe a better hallway conversation because this is a long answer, but it is a business that is very, very different than premium spirits. And while people try to tie them in together and a lot of, particularly the beer companies, have gone in that direction a little bit, we've challenged ourselves to say, where are the synergies, why can we win in that space relative to a pharmaceutical or a tobacco or a retailer? I mean, make it up. So our true synergies in that space or our competitive advantage is probably the better way to say, I'll be honest, is not much. And so our right to play in that space to me is still very much, it's out there a little bit. Until

I get a better sense for how that – how we might be able to do it better than somebody else, I don't think you're going to see us move too far forward in the space.

Doug Thomas

What about from a competitive point, I mean, taking away volume?

Thomas Hinrichs

Second question.

Lawson Whiting

That – I mean, that's another…

Jane Morreau

We haven't seen that happen.

Lawson Whiting

Yes. To date, that hasn't happened. It's a hard analysis to do. I'm sure some of you have tried to do it. There's a lot of different assumptions that go into the mix. Just look at TDS right now in the United States, it's growing and it's accelerating. So to date, I don't think it's not a short or even a medium-term threat to the business. I can think of 10 other things that I worry about every day more so than that.

Jane Morreau

And just remember, marijuana has been around, what, since before Christ, I don't know, since the beginning of time. It's run parallel with – I don't know. It's been in parallel – in the same space as alcohol for some time, so it's not as if it hasn't existed.

Lawson Whiting

Okay. One more or – well, a few more?

Attendee

When I kind of look at your white spaces among emerging markets, I'm just curious is there are sort of 2 or 3 markets that if we're having this conversation a few years from now that they come up as sort of the 5 – top 5 countries that sort of comes into that 50% of sales? And if they are, what do you need to kind of get to that point? And then just a quick follow-up on margins, to [Bryan's] question. So a little bit more short term because I know this is an unusual year where your margins are going to be down on a year-over-year basis. Next year, you still have 5 months of tariffs that you're going to have to lap. So do you have other sort of initiatives in place to kind of mitigate against that headwind for next year as well?

Lawson Whiting

Do you want to close out the margin question?

Jane Morreau

I can do the margins. I was attempting to share all the activity that we have going on today, and it wasn't even all-inclusive of all the activity, the productivity initiatives that we have, the focus on improving efficiency, leverage and asset. So those are intended to continue beyond where we are today. So those initiatives would help for next year as well. So – and beyond. They're not just a 1-year or 2-year play, they're beyond that. So continue to see efficiencies come from that.

Lawson Whiting

And the international question, just...

Thomas Hinrichs

I can start. And in particular in the emerging market space, as I said earlier in response to the China question, I think if we keep on looking and we have looked before and we will continue to look, we will sharpen our thinking. We have done now changes to the organizational setup, that might lead us to some new ideas, different ideas and different assessments of the opportunity. And there isn't I can't say a whole lot more than that. We will certainly invest more into the space, but I cannot identify a country at this very moment. It's maybe a little too early. But once we have something to share, we will. But we have done this in the past in terms of assessing, looking and things like Russia came out or Brazil came out, and there are still enough – a lot of space in the map of emerging markets. We know that too. We are getting more interested in it. We feel the moment is better now with the emerging middle class and all that, but there isn't yet one country that we have zoomed in on.

Lawson Whiting

And we will – we love the – we talked about that earlier, the balanced geographies that we have. I can think – a little thought piece for you. The – I look at whiskey – the whiskey market itself and the growth and the potential for premiumization of whiskey markets, I think, in a lot of cases, trumps just some of the macro demographic population-type factors. And so that would pull you towards an India, as an example, where they're drinking millions and millions and millions of cases of whiskey, but it's very cheap. The question is how quickly can those folks go up the price point chain where it becomes interesting for Jack Daniel's. So...

Mark McCallum

Just as you're passing the mic, I'd say the most likely suspects, remember the "green, green and green" shades of map? That mid-green, there were 22 countries that were at about the development index of Johnnie Walker, in that 22 countries clearly within that set, they're in there. If you're looking for the next 3 to 5 that would rise to the dark green, and therefore, core and very material.

Amit Sharma

Amit Sharma of BMO Capital. Lawson and Jane, you did talk about higher level of investments, whether it is capital or inventory. Can you talk about, if you want to use the baseball analogy, which inning are we in, in terms of those investments? And as those wind down, are you thinking a little bit differently from capital allocation? And in the same context, can you talk about Canadian Mist? We didn't hear about that brand at all today. Where does it stand in the portfolio? And could that be a candidate for divestiture?

Lawson Whiting

Okay. I didn't hear the second half of that.

Jane Morreau

I didn't hear all of it...

Lawson Whiting

But I'll give you – generally, I got your question. So it's basically how is the capital allocation policy going to change or evolve over time? I'll tell you for the most part, I don't think it's going to change all that much. I mean, we've sort of passed the peak of capital investments in our business in terms of inventory. Well, inventory will continue to grow, but capacity expansion of Jack Daniel's will be the really big one that we put a lot of money into, things like that. We've levered up the balance sheet a little more than in the past. And so some of that may go to paying down some debt, but for the most part, we're still going have a bias towards dividend – either dividending out or, in some cases, buying back shares. But those do tend to go very high on our priority list after taking care of the basic needs of the business.

Amit Sharma

And the Canadian Mist? That brand?

Lawson Whiting

I mean, to be honest, it's irrelevant to the broader discussion around how we allocate capital. It's pretty small. So the major reshaping of the portfolio, things that we've tackled over the last decade, the Hartmann – or Hartmann – the Lenox and Dansk and some of the consumer durables business or the wines, Southern Comfort, those were much, much larger transactions than anything that would happen on Canadian Mist. It has its own purpose. And it's – to be honest, it's covering some overhead for us. So that's not something we do much of. We don't have a lot of brands that we would say that, but each brand has to have its own role within our portfolio. And that one has its role.

Attendee

So Lawson, you described again today, just like you did on the earnings call, the tariff situation as a short-term headwind. And I think we all hope that that's true. But the longer we go – I guess, my question is at what point do you sort of view it more structurally? And how would your approach to offsetting it change if you did change that mindset? And I guess extrapolating forward, if part of that change might be a little bit more a proactive stance to try to realize some price governed by competitive realities, et cetera. If you did start to realize more price as we get further into this and then down the road, those tariffs did prove temporary, how do we think about that dynamic over time?

Lawson Whiting

Well, generally, and you all can pipe in on this, we've already started moving pricing in certain markets. And – but it's not, we're not – some places have contracts and most do not. But we're not tying it to the tariffs with the objective that if we'll see how it all plays out, and it's not easy to execute this. But we are trying to slowly move the price up and really not just tariff markets, in any market around the world on a sort of slow and steady basis. None of the price increases are going to be big enough to make up for the size of the tariffs themselves, and so it's just that steady sort of regular organic growth and pricing that we're trying to pull off. And so I guess what is – the tariffs aren't really driving that so much. We're trying to do it as a matter of regular course of business.

Peter Grom

Peter Grom, JPMorgan. So I just had a question on tequila category. If we go back to that slide, it showed some pretty solid growth outside of North America, at least, which I was somewhat surprised by. So I guess how are you thinking about – or how do you see the tequila category evolving outside of North America longer term? And maybe what markets are the biggest opportunity?

Lawson Whiting

Do you want to try it or…

Mark McCallum

Yes, I will. There are 10 markets outside the U.S. Excluding Mexico, there are 10 markets, which make up the highest tequila category development. And so we've got infrastructure or organizational representation in all 10 of them, so the U.K, Germany, Russia, Australia, France, Canada, they're all – they're in there. And so they're actually – I think we're 6x over the last 10 years, sixfold increase in our 2-brand, one-two punch on that. And it's actually led mostly internationally by the el Jimador brand, which is it's super-premium or just below super-premium price points. So the category is developing there internationally, and there's a nudge – there's a nod to super-premium or ultra-premium. But that's why some of the brands that you know in ultra-premium are so successful, like Patrón and like Don Julio. And they're not so present yet, but that next tier down, we've got that el Jimador brand, which our sales and marketing teams in those 10 countries are really enjoying. South Africa is actually another great example of where tequila as a category is in double-digit growth.

Jane Morreau

Just building on what Mark said, I actually think the tequila category, he talked about the markets that – where we are in the 10 markets. But all the major competitors are in tequila now. And so I think it bodes well for development of tequila around the world. It's a spirit that's not very well known, and I think that we got into it early. We're the first one. They've all followed in the last few years. And I think that bodes well for the development of tequila growth continuing around the world as consumers get to learn it and understand what it's all about, how to consume it, that type of thing.

Lawson Whiting

And I've always thought tequila has a lot of parallels to bourbon or American whiskey, it's mixability, it's – there's a lot of things you can do and market to the consumers that you can't do in vodka and gin and many, many other categories. There's different aging, there's different ways that you – there's añejo and Reposado and all the different ways that you can communicate with consumers around the different products that are within tequila. So there's a lot to play with. There's a lot of stories that you can tell. There's people that can get connected to the brands. I mean, there's a lot of parallels there that I think we can learn from and use as it grows around the world.

Eric Serotta

Eric Serotta from Evercore. Just wanted to turn back to the margin question and hopefully a different way here. Two years ago, as part of the 2025 aspirations, you were talking mid-single-digit top line and high single-digit growth in operating income. Today, you're still at about the same place in top line, but you're talking about maintaining the same margins. So what's changed there? Obviously, commodities are a lot higher and tariffs have come, but those will come and go. What's changed in terms of your outlook for the business? Or am I just splitting hairs?

Jane Morreau

Yes. I think our aspiration long term is still to grow and have single digits. It is – you hit on it right now, the short term with the tariffs, as you know, this year's outlook is 4% to

6%. We still have – if they stay in place, beyond this year, we'll still have some more tariffs next year. So – but our long-term aspirations have not changed to have high single-digit growth in operating income.

Lawson Whiting

We went from 20 hands to none. Anyone else? So keep going on.

Robert Ottenstein

Robert Ottenstein. I wonder if you could talk a little bit about the American whiskey market in terms of what's going to drive excitement going forward, right? Single Barrel has been around for a while. Flavors seems to be slowing. Craft may or may not be slowing. I'd love to get your views on that. But certainly, it has slowed dramatically now in beer. So as we kind of look out over the next 5 years, what will drive new consumers to American whiskey? What will get the – keep the excitement going there?

Jane Morreau

Is your focus on the U.S. market?

Robert Ottenstein

Yes, the U.S. market.

Jane Morreau

Okay.

Mark McCallum

I could start, John, then you can be much more accurate. But if I could generalize without wanting to be dismissive of the way you asked that question, I'm thinking that it's clear. It's – the math works. If we increase – the only way to grow isn't necessarily through relevance or new, it's through increasing mental availability and increasing physical availability. If we do that, then the brand will grow in a category that does not get a technological trump. In other words, whiskey is a long, long generational-long category. So without being specific, I see no – innovation plays a key role. Flavored whiskey is still actually in growth as a category, and so with those 2 approaches of ensuring that our marketing and sales teams are focused on what those 6 boxes at the bottom of that penetration framework, I'm confident, and we see it every day, that if we can grow those elements of that brand then that brand will grow in a category like whiskey. And in innovation, as I think we said, we look back last 10 years, innovation was a 20% share of our growth. We look forward, and now it should be a significant share of our [full] generational growth as well in whiskey.

John Hayes

I think, again, if you look at the numbers as well that we said here is that the category itself is still accelerating. And then just the demographics that go with the country growth within there as well as we penetrate new segments like we talked about, whether it's African-American, Latino or Asian, there's just so many opportunities in the demographics and expansion of American whiskey. I'd say as well even geographically in the United States where – and of course, it centers in Kentucky, but as it expands outward then, there's still tremendous upside in markets that would not have been big bourbon markets in the past. I mean, I was just up in the Northwest. In the standpoint of a brand like Old Forester, it's still, for this new generation, a new brand. I mean, they have not heard of it. And as the stories come out about Old Forester that this millennial consumer really responds to, and I think with the investment as well in our homeplace within that, just that one particular brand, which we've essentially doubled in volume in the last few years. But there is no reason that Old Forester as a brand can't be significantly bigger than what it is today. And just look at the mix that went with that on this – again, this Whiskey Row series as an example. So – and you can keep going on, on examples. I mean, Woodford Reserve Double Oaked is a brand that is – we talk about the small craft brands that get all the attention with this. It's very quietly become, in that price point, a pretty big brand

and still with a potential upside. So I just think through the category, the demographics and just the excitement around bourbon and American whiskey in the United States has plenty of upside.

Lawson Whiting

I may add a couple of points because they are really your slides and your presentation. When you look – you saw the one that had – beer seeding share of spirits now has been going on, I think, from my entire career. Within that, now you've got whiskey gaining share within spirits and sits very, very nicely. And I do think the recipes are there. I mean, the mixability, the taste, the approachability, the stories, the Americana part of it, all of that comes together to give what I think is an advantage to the American whiskey category relative to a lot of other categories that are out there. And if John's last slide, which had that sort of per capita that showed you peaking in 1970 and going up for the last – or going down for the last 40 years until the last 5 or 6, if we can get anywhere near those numbers, we have – I mean, would you say triple?

John Hayes

I think so.

Lawson Whiting

I think triple. [I even looked on your graph, 5 more]. So there is a lot – we feel pretty good about the confidence – pretty confident about the runway that's still in front of us.

John Hayes

And with a bit of humor, when Bob Dylan gets into the American whiskey business, you know there's something going on. So...

Attendee

So I just have a follow-up for John. And quick question about – all of that being said, we all went – took economics classes. And why the pricing pressure then? What accounts for the fact that so many competitors are willing to forgo that type of profitability that they could have if they just came into the category with higher prices? Is it just a matter of getting on a shelf? Or what accounts for the continuing price pressure in this category when they really don't need a discount?

John Hayes

I mean, I think that the price pressure tends to be more in the bigger brands and the larger companies that supply within that. And I don't see it as much in that – well, you call it in the craft – I mean, you can see these craft brands that are out there. They don't – they're not I don't think concerned about pricing as much as availability and then just staying small in craft. So where it tends to be at that point, large brands in that large business that essentially is in that, I'll call it the $15 to $25 price point, and there's a lot of competition within there of the big companies. I'd say one in particular, that is choosing a different model, and has disrupted it through their model within there. I don't know how sustainable it's going to be. We've been around, as Garvin said, for 148 years and been through this and, as he was saying, he didn't rehearse that with – [but tap into that] lapel pin on there. I mean, there's no question Jack Daniel's is the beating heart of this company. In fact, somebody asked about the measures. We aren't seeing any softening in our consumer measures at all. I'd still come back, there is price valuable relationships that go in to this category that can have an impact on Jack Daniel's. We're not afraid of it at all. And we just need to keep being very sharp in this price value relationship as we're going through it, but recognizing there's some competitors that are playing, I don't know, just a different game than we are.

Mark McCallum

Could I add, too? In these core markets with these established big brands, if elasticity is more than 3, which many of them are, it's profitable. It's – at these margins that these brands operate at, that is profitable business for us. So it's an interesting balance. It's not like fast-moving consumer goods. Our heavy users buy on average, 3x a year. Heavy users. That represents only 30% of our volume.

Lawson Whiting

Okay. You want to do maybe one more question and then – I think the room has gotten – getting thirsty.

Jane Morreau

Old Fashioned.

Lawson Whiting

Anymore?

Jane Morreau

[Of course, there's] Old Fashioned.

Lawson Whiting

All right. Let's call it. Let's go out to the hallway and get it.