# Brown-Forman Corporation, Q4 2022, Earnings Call 2022-06-08

**Presentation**

**Operator**

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Brown-Forman Corporation Fourth Quarter and Fiscal Year 2022 Earnings Conference Call. As a reminder, this conference call is being recorded. At this time, I would like to turn the conference over to Ms. Sue Perram. Ma'am, please begin.

**Susanne J. Perram**

Thank you, and good morning, everyone. I would like to thank each of you for joining us today for Brown-Forman's Fourth Quarter and Fiscal Year 2022 Earnings Call. Joining me today are Lawson Whiting, President and Chief Executive Officer; and Leanne Cunningham, Senior Vice President and Chief Financial Officer.

This morning's conference call contains forward-looking statements based on our current expectations. Numerous risks and uncertainties may cause actual results to differ materially from those anticipated or projected in these statements. Many of the factors that will determine future results are beyond the company's ability to control or predict.

You should not place undue reliance on any forward-looking statements and except as required by law, the company undertakes no obligation to update any of these statements, whether due to new information, future events or otherwise. This morning, we issued a press release containing our results for the fourth quarter and fiscal year 2022, in addition to posting presentation materials that Lawson and Leanne will walk through momentarily.

Both the release and the presentation can be found on our website under the section titled Investors, Events and Presentations. In the press release, we have listed a number of the risk factors you should consider in conjunction with our forward-looking statements. Other significant risk factors are described in our Form 10-K and Form 10-Q reports filed with the Securities and Exchange Commission.

During this call, we will be discussing certain non-GAAP financial measures. These measures are reconciliation to the most directly comparable GAAP financial measures and the reasons Management believes they provide useful information to investors regarding the company's financial condition and results of operations are contained in the press release and investor presentation. With that, I would like to turn the call over to Lawson.

**Lawson E. Whiting**

Thank you, Sue, and good morning, everyone. I'm proud to share our results with you today, which certainly exceeded our expectations. We're able to deliver these strong results because we have some of the most talented people building some of the industry's strongest brands, and I'm pleased with our performance this past year.

We built upon our growth that we achieved in fiscal '21 and delivered very strong double-digit organic top and bottom line growth for this fiscal year despite numerous headwinds. These include supply chain challenges, tariffs, higher input costs and the impacts of the Russian invasion of Ukraine.

Our top line growth was broad-based and fueled by many of the same drivers that we've shared with you throughout this fiscal year. First, we experienced sustained demand due to the reopening of the on-premise channel and the gradual return of tourism and travel.

We also benefited from cycling against overall lower comparisons in the prior fiscal year notably in certain emerging markets and the travel retail channel. Second, our portfolio is well aligned with consumer trends, particularly premiumization and convenience. We're strategically positioned in the American whiskey, tequila and RTD categories, which we believe are high-growth categories with strong consumer demand.

In fiscal 2022, our reported net sales increased 14% or 17% on an organic basis, which includes approximately 4 points of growth related to rebuilding of our distributor inventories in the second half of the fiscal year. Jack Daniel's Tennessee Whiskey fueled the company's performance having a remarkable year increasing organic net sales by 23%.

The previous fiscal year was tougher for Jack Daniel's Tennessee Whiskey. It's one of the largest on-premise brands in the world, and it was heavily impacted by the on-premise restrictions. As we've shared in our previous calls, we believe the brand was impacted by disruptions that were circumstantial and temporary and largely related to COVID.

In fiscal '22, the brand added approximately 1.5 million 9-liter cases and has now grown to more than 14 million cases. We believe these results demonstrate the health and strength of the largest global premium spirits brand by volume in the world. The rest of the Jack Daniel's family of brands also delivered strong results.

Growing reported and organic net sales high single digits during the fiscal year as the consumer trends of flavor and convenience continue to drive demand around the globe for our flavored whiskeys in Jack Daniel's RTDs.

Collectively, Jack Daniel's Tennessee Honey, Jack Daniel's Tennessee Fire and Jack Daniel's Tennessee Apple achieved double-digit organic net sales growth. The continued international launch of Jack Daniel's Tennessee Apple, along with solid volume growth in the United States drove a strong double-digit organic net sales increase for the brand in fiscal '22.

Jack Daniel's Tennessee Apple was introduced in October of 2019 and is approaching 700,000 9-liter cases, which is impressive considering this brand has largely been built during the pandemic lockdowns and restrictions. Jack Daniel's Tennessee Honey and Tennessee Fire grew organic net sales for the fiscal year, while both were adversely impacted by supply chain disruptions largely related to glass supply.

Similar to our belief about Jack Daniel's Tennessee Whiskey last year, we believe the impact of these brands is temporary and circumstantial and that the brands remain healthy. Jack Daniel's RTDs grew organic net sales high single digits on top of very strong double-digit growth in the prior year. While the majority of our RTD business is international, driven by Australia and Germany, we believe the combined consumer trends of flavor, convenience and premiumization are driving demand for spirit-based RTDs in the U.S. and creating additional opportunities for growth.

With the strong consumer popularity of our spirit-based RTD in the U.S., we recently have begun its national launch. We also continue to be very excited about the current and long-term growth outlook for our super premium brands, even with the headwind of glass supply constraints which would reserves organic net sales grew double digits for the fiscal year with higher volumes and price increases.

We estimate that distributor inventories are still lower compared to last year, but the gap has closed significantly during the fourth quarter of the fiscal year. We believe we have some of the most authentic tequila brands to participate in the fastest-growing spirits category.

Herradura and el Jimador grew organic net sales by 28% and 27%, respectively, and collectively exceeded 2 million 9-liter cases in fiscal '22. In the U.S., which is the largest market by volume for our full strength tequila portfolio, premiumization trends continue in the tequila category, Herradura generated a strong double-digit volume increase and added close to 100,000 incremental cases in fiscal '22.

We entered the year with 4 strategic areas of focus; pricing, RTC expansion, emerging brands growth and increased digital marketing and e-commerce capabilities. I thought I'd take a moment to comment on each of these focus areas. First, given the strength of our brands, we were able to capture value growth opportunities through pricing as well as revenue growth management initiatives.

As a part of these initiatives, we increased prices in the U.S. on Woodford Reserve, Old Forester, el Jimador, Herradura and Chambord as well as Jack Daniel's Tennessee Whiskey earlier in the fiscal year. We also continue to evaluate pricing opportunities throughout the balance of our brands and geographic clusters as the health of our brands remain strong, supported by the investments we're making behind these brands.

Second, we launched new routes consumers with the addition of Taiwan, Belgium and Luxembourg. We strongly believe control of our distribution, which gives us ownership of our business along the value chain offers us an increased consumer focus and prioritization of our brands, and we will continue to look for additional opportunities ahead.

In the U.S., the investment we made 4 years ago in our emerging brands teams fueled the growth of brands such as Old Forester, Chambord and our Single Malt Scotches, GlenDronach, BenRiach and Glenglassaugh as well as Fords Gin.

In fiscal '22, we invested behind replicating this model in Europe and successfully increased our footprint for the Woodford Reserve family brands, Chambord, the Single Malt Scotches as well as our tequilas. Similar to our experience in the U.S. with dedicated teams focused on these brands, we're able to deliver very strong growth. Finally, in fiscal '22, we made an investment to create our integrated marketing communications organization, or IMC. The way consumers connect and engage with brands has evolved dramatically in the past few years.

By investing in IMC, we believe we can improve how we connect with consumers, grow our e-commerce capabilities, fully optimize our brand assets and leverage our data more effectively. Our team of marketers around the world are focused on driving the growth of our brands as the physical and digital worlds continue to merge.

Before I wrap up, I wanted to take a moment to acknowledge our continued emphasis on ESG, particularly in the areas of alcohol responsibility, environmental sustainability, diversity and inclusion and the investments we make in our community.

In 1870, George Garvin Brown wrote 5 words on the label of the world's first bottled bourbon, Nothing Better in the Market. This was the commitment he made then, and it remains our commitment today. These 5 words keep us on a constant journey to deliver better for our teams, our brands, our company and our global community.

This commitment is why we've been on the forefront of ESG before it was even recognized by those terms. Our ESG commitments have been interwoven into the fabric of our organizational DNA for decades, and today, they're integrated into our strategic framework. It's about living a spirit of commitment. These commitments are built on a sound, highly effective governance system comprising of our BF executive leadership team and our Board of Directors, and they're strengthened by our relationship with our controlling family shareholders, the Brown family.

We're committed to making an impact in doing our part. That's why we have integrated this spirit of commitment into how we do business every day because what we build now we build to pass on. As I close, I want to reiterate my continued confidence in our strategic priorities, our brands and our people. experienced numerous uncertainties and headwinds in fiscal '22 yet we were able to deliver very strong results. Thankfully, we believe many of these headwinds are becoming tailwinds.

Our results are made possible because of our long-term focus on building consumer demand for our premium and super premium products and because of the Brown-Forman employees around the world who exemplify our company values of integrity, respect, trust, teamwork and excellence. I have great admiration for the people of Brown-Forman, whose tremendous passion for our business is the overriding reason for our success.

Leanne, I'll now turn things over to you to share more on our performance and also the optimism that we are feeling as we look ahead.

**Leanne Cunningham**

Thank you, Lawson, and good morning, everyone. As Lawson reviewed the key themes for our fiscal year and the performance of our brands I will provide additional details on our geographic performance, other business results and our outlook for fiscal 2023. First, as Lawson mentioned, we built upon our momentum in fiscal 2021 and delivered another year of top line growth.

From a geographic perspective, we experienced broad-based growth across all of our geographic clusters, the U.S. emerging markets and developed international markets, along with the rebound of the travel retail channel, all contributed to our organic net sales growth.

The U.S. business has been resilient and delivered double-digit organic net sales growth for the fiscal year, even as supply chain challenges adversely impacted our business. Jack Daniel's Tennessee Whiskey was the largest contributor to this performance, driven by higher volumes and a favorable channel mix shift with the continued reopening of the on-premise channel.

In addition, distributor inventories increased compared to the prior year as supply chain challenges, specifically glass supply constraints continue to ease, allowing for the rebuilding of inventories. Woodford Reserve and Old Forester were also key contributors to the growth of the U.S. market, benefiting from increased volume and the positive impact of price increases taken earlier in the fiscal year.

Herradura and el Jimador continued the strong growth as premium plus tequila is among the fastest-growing spirits categories and continues to gain share. Beyond the spirits category, we are pleased that Sonoma-Cutrer returned to growth and surpassed the 500,000 case milestone as the reopening of the on-premise channel drove a double-digit increase in volume.

We continue to monitor consumer mobility trends observed by Google Mobility and OpenTable. And based on this data, the on-premise trends have fully bounced back after the Omicron disruption experienced in our third quarter and have continued to hover around pre-COVID levels.

In the e-premise channel, our market share was slightly above 2% for most of the fiscal year. The trend of at-home consumption remains strong even as the on-premise channel is reopening and consumers return to in-store shopping. This is approximately 4x higher than our share prior to the pandemic. While still small, e-commerce is an important space due to its rapid growth as consumer purchase patterns shift along with its attractive economics. Current estimates from our e-commerce partners indicate that profit per case and basket size are higher in the e-premise channel compared to brick-and-mortar stores, primarily due to product mix.

Through our recent investment in our IMC organization, we believe we are well positioned to capture this opportunity and participate in the channel's growth. In fiscal 2022 and Emerging markets collectively delivered strong double-digit organic net sales growth despite the headwinds of supply chain disruption and the suspension of our commercial operations in Russia during the fourth quarter.

This strong performance was driven by broad-based growth of Jack Daniel's Tennessee Whiskey, notably in Turkey, Romania and Chile, innovation with the continued launch of Jack Daniel's Tennessee Apple, led by Chile and Brazil, where consumers have embraced its refreshing flavor and our full strength tequila brands, Herradura and el Jimador, driven by Mexico as the premiumization trend continued, and we benefited from a healthy pricing environment leading to double-digit organic net sales growth.

Collectively, developed international markets grew organic net sales double digits for the fiscal year with the reopening of the on-premise channel and the rebound of travel and tourism in some markets being the key contributors to growth while facing the headwind of supply chain challenges.

The Jack Daniel's family of brands continued to drive overall gains as Jack Daniel's Tennessee Whiskey delivered strong double-digit organic net sales growth, led by markets such as the U.K. and Germany, where we are gaining market share and Spain, which is benefiting from the gradual return of tourism.

Japan and Korea also experienced strong growth as we rebuild inventory in Japan and Korea benefited from a shift in whiskey consumption to international brands. This consumer shift in Korea also benefited the growth of Jack Daniel's Tennessee Honey.

Jack Daniel's ready-to-drinks delivered another year of double-digit organic net sales growth for the fiscal year lapping very strong prior year comparisons, largely driven by Australia and Germany. As we have previously shared, in fiscal 2022, we invested in the increased focus of our super premium portfolio, such as the Woodford Reserve family of brands, Chambord, Single Malt Scotches, Herradura and el Jimador through the international expansion of our emerging brands group model, particularly in the U.K.

With this increased focus, these brands collectively delivered very strong double-digit organic net sales growth. The travel retail channel experienced a strong rebound as it continued to cycle against easier prior year comparisons due to the impact of the pandemic lockdown and restrictions, growing organic net sales 67%, driven by increased volumes.

While our Travel Retail business continues to recover, it remains below pre-pandemic levels. Lastly, for net sales. Volume represented 9 of the 17 points of organic net sales growth for fiscal 2022 and price/mix was 8 points. Favorable price mix was driven by faster growth from our higher priced brands led by the strong resurgence of Jack Daniel's Tennessee Whiskey and the favorable channel mix shift due to the continued reopening of the on-premise channel.

Moving to gross profit and gross margin. For the full year, reported gross profit increased 14% with organic growth of 17%, which was in line with our organic top line growth. Reported gross margin expanded slightly ahead of our expectations, increasing 30 basis points year-over-year as favorable price mix and the positive effect from divestitures in the prior fiscal year, were largely offset by higher input costs and the negative effect of foreign exchange.

Consistent with our comments throughout the 2022 fiscal year, the increases in our costs were driven by additional logistics costs supporting our efforts to minimize the impact of supply chain disruptions and input cost headwinds related to grain and agave.

In addition, due to the impacts of the Russian invasion of Ukraine during our fourth quarter, we reduced the value of our inventory in the related markets.

Turning to operating expenses, which represents the investments we make behind our brands and our people that drive sustainable long-term top line growth. Total organic operating expenses increased 8%, in line with our expectations.  As we continue to invest behind our brands. Our reported and organic advertising expense increased 10% and 11%, respectively, driven primarily by higher investment in our developed international and emerging markets to support Jack Daniel's Tennessee Whiskey as the on-premise reopen as travel and tourism returned and in support of the continued launch of Jack Daniel's Tennessee Apple.

We continue to invest behind our people. G&A expenses increased 3% on a reported and 7% on an organic basis as we lapped lower discretionary spend during fiscal 2021 due to restricted mobility related to the pandemic, higher compensation and benefits-related expenses and expenses related to the impacts of the Russian invasion of Ukraine.

From a reported perspective, the increase in SG&A was partially offset by the absence of the prior year $20 million commitment to the Brown-Forman Foundation. Reported operating income increased 3% for the full year, driven by net sales growth and the absence of the prior year Brown-Forman Foundation commitment, partially offset by the effect of acquisitions and divestitures, a non-cash impairment charge for the Finlandia brand and the negative effect of foreign exchange.

As noted in our earnings release, in the fourth quarter, we recognized a $52 million or $0.09 per share non-cash impairment charge for the Finlandia brand name. The impairment reflects a decline in the long-term outlook for Finlandia due to our suspension of operations in Russia, which is a key market for the brand.

Organic operating income, which excludes the impact of acquisitions and divestitures, the Brown-Forman Foundation commitment, foreign exchange and impairment charges grew 27%. Diluted earnings per share decreased 7% to $1.74 per share as the increase in reported operating income was more than offset with a year-over-year increase in our effective tax rate along with the estimated $0.20 per share prior year benefit from the gain on sale of Early Times, Canadian Mist and Collingwood brands and related assets.

In regards to capital deployment, we approach our decisions with the core objective of sustainable long-term value creation. Our long-term perspective and commitment to our shareholders has made Brown-Forman a reliable source for growth. We believe our capital allocation philosophy and strategic priorities will continue to drive superior returns. In fiscal 2022, we returned $831 million stockholders, which included a special dividend of $1 per share or approximately $480 million and $351 million in regular dividends.

And finally, to our outlook for fiscal 2023. We are optimistic as we look ahead even amidst the current volatility and uncertainty of the global macroeconomic and geopolitical environment. In this dynamic operating environment, we believe the strength of our portfolio of brands and the strategic investments we have and are making will support continued growth. Strong consumer demand for our brands continue to be a tailwind. However, we remain cautious due to the potential impact of inflation and rising energy prices on consumer spending.

While many of the international markets have stabilized, as we cycled against the early days of the pandemic, we remain confident in the collective strength of our U.S., developed and emerging international markets.

We anticipate our results should continue to benefit from the reopening of the on-premise channel internationally and the further return of tourism, along with stronger pricing and innovation. We also expect Travel Retail will continue to recover and that we will not resume operations in Russia.

Further, we do not expect the non-core business mainly used barrel sales to have a material impact on our results this fiscal year. Quantitatively, we expect organic net sales growth for fiscal 2023 to reflect our longer-term growth rate in the mid-single-digit range. It is important to note that the seasonality of our fiscal 2023 results will be impacted by the abnormal seasonality of our fiscal 2022 shipments due to the impact of supply chain disruptions.

In the first half of fiscal 2022, distributor inventories did not increase ahead of the important holiday season as is typical and we experienced stronger shipments in the second half of fiscal 2022 as supply chain challenges continue to ease.

In the first half of fiscal 2023, we expect distributor inventories to return to more normalized levels. Therefore, we expect our growth rate in the first half to benefit from the net change in distributor inventory while the second half will lap the increase in the net change in distributor inventory related to rebuilding of our inventory position in the prior year period.

The disproportionate impact of the EU and U.K. tariffs on American Whiskey on Brown-Forman will be a significant tailwind as the EU tariffs were removed January 1 of this calendar year and the U.K. tariffs were removed last week on June 1. We also expect to continue to benefit from the favorable pricing environment, and we believe the cost associated with supply chain disruption will be less of an impact in fiscal 2023.

As inflation increased in fiscal 2022, we have planned that it will remain a headwind in fiscal 2023. Based on these headwinds and tailwinds, we are projecting reported gross margin to expand slightly for the full year as our trajectory of expansion continues.

As we have shared during our 3 years of being negatively impacted by the EU and U.K. tariffs on American Whiskey, our plan has been to reinvest a portion of this relief back behind our brands once they were removed. We are very pleased that, that time has come and that we are positioned to further support our top line growth ambition as we invest in an increased level of focus on Herradura in the U.S., our super-premium portfolio internationally, Jack Daniel's Tennessee Honey and Jack Daniel's Tennessee Apple in Europe, and Jack Daniel's Tennessee Whiskey globally.

We will also invest behind our people to support our business needs in a post-pandemic environment while continuing to leverage new ways of working. Based on these expectations, we anticipate organic operating income growth in the mid-single-digit range for the full year. We expect our fiscal 2023 effective tax rate to be in the range of approximately 22% to 23%.

And lastly, for capital expenditures. Over the past 10 years, we have completed a number of major projects to expand our capacities to support the strong consumer demand for our American Whiskey portfolio as well as 2 expansions with a significant focus on providing an exceptional customer experience, namely the Old Forester urban distillery and the Slane Irish Whiskey distillery.

We also completed a major technology-driven modernization, which is a cost savings project at our largest barrel-making operation. Based on the continuing strong consumer demand for our brands, specifically our age products as well as Herradura and el Jimador, further expansions are required to support this growth.

We estimate that capital expenditures will be in the range of $190 million to $210 million for the full year. In summary, we are pleased with our very strong broad-based growth in fiscal 2022 from both a brand and geographic perspective, which delivered double-digit organic top and bottom line growth despite the many significant challenges and headwinds. While we have been disproportionately impacted by tariffs and supply chain disruptions largely related to glass supply and impacted by the pandemic and the consequences of the Russian invasion of Ukraine, Brown-Forman's portfolio of brands and its team members continue to demonstrate a high level of resilience and ability to deliver continued top line growth.

We believe we have the right long-term strategic priorities to guide us to continued long-term growth further supported by the investments we made and the strategic initiatives implemented in fiscal 2022 partnered with stronger price positioning and the removal of the EU and U.K. tariffs on American Whiskey creating tailwinds for fiscal 2023. We are proud of the results and accomplishments of fiscal 2022 and are optimistic about the year ahead.
This concludes our prepared remarks. Please open the line for questions.

**Question and Answer**

**Operator**

Our first question or comment comes from the line of Nadine Sarwat from Bernstein.

**Nadine Sarwat**

Lawson, Leanne, really strong set of results. And I'd like to focus on the F '23 guidance, please. So firstly, you're guiding to reported gross margin expanding slightly. Could you elaborate on what order of magnitude, you mean by slightly? Are we looking at less than 1 percentage point greater? And then secondly, where are you seeing agave prices right now versus what you had expected before? And where do you anticipate them going over the next year or 2?

**Leanne Cunningham**

I'll start and then Lawson can follow on with -- starting with our gross margin. For F '23, we had talked about, and we've been working on our stronger price positioning. We expect that to benefit us in F '23 as well as innovation that's going to be led by our U.S. national launches of Jack Daniel's Bonded and Triple Mash which are helping us accelerate the premiumization of the Jack Daniel's family of brands that's going to be launching in the U.S. in May, and the international launch will follow later in the fiscal year.

We're going to expand the U.S. launch of our Jack Daniel's spirit-based RTD, which has been incredibly well received by the consumer for flavor and convenience trends that we're seeing here as well as Herradura Legend, which demand for tequila is high, and this will be placed in the plus $100 price point.

We do -- we've said it in our prepared remarks, the removal of the EU and U.K. tariffs will be a headwind, and we will see less impact from supply chain disruption. So in all our price mix and the removal of the EU tariffs are planned to more than offset the cost, and we can go into costs later, if you like. But specifically to your tequila and agave pricing question, as we have discussed over the last few quarters, our agave prices are below their peak and they've stabilized around the MXN 27 to MXN 29 per kilo.

And we have that kind of stabilized price through the full fiscal '23. And it's about the greater demand for the entire category. And for us, it will be a little bit of a tailwind because with that strong demand, that will mean we will source more on the spot market versus the percentage that we have of our internally grown agave. So we have that all included in our F '23 plan.

**Lawson E. Whiting**

Yes. Let me -- I mean, Nadine. Now, let me talk a little bit more about the pricing side of things. I know you've written quite a bit about that -- about Brown-Forman and our place in that. I think it's worth actually spending a few minutes on this to back up even thinking about the last 5 or 10 years, where pricing in the spirits business was relatively weak, volume growth was relatively strong, particularly compared to beer where volumes were pretty weak, and they were very aggressive on pricing.

And so fast forward to -- or really over the last year, we began this internally really a push for better pricing about a year ago, which, thankfully, as Leanne said, was enough to offset our cost this year. So I think that will be something that sticks out terms of our ability to drive pricing enough to offset our cost. Challenges is certainly a positive point to the past fiscal year.

But we have been successful in driving pricing through and really on a -- pretty much on a global basis. We have taken price increases on almost the entire portfolio. So that has been something new and different and certainly badly needed as inflation really has spiked up over the last few months.

But I just think it's worth pointing out that our pricing changes have been going on for a year, not just in reaction to what has happened really over the last, I guess, 3 months. So -- but yes, so I'm feeling pretty good about our positioning right now and where it's -- what we can deliver even to the next fiscal year.

**Nadine Sarwat**

Got it. I appreciate you preempting my pricing question. And can you touch on how do you expect that to go on over the coming year? Should we be expecting the same strategy of pricing to continue or more? Any color you could give.

**Lawson E. Whiting**

Yes. I mean it's -- look, in my opinion and what we are pushing the organization to do, it's about low single-digit pricing but doing it on a consistent basis year-over-year-over-year. And so we want to get back into a more balanced volume pricing situation. And so I would say it is kind of similar to what we were able to deliver over the past year.

**Operator**

Next question or comment comes from the line of Andrea Teixeira from JPMorgan.

**Drew Nolan Levine**

This is Drew Levine on for Andrea. Congratulations on the strong results. So I wanted to touch on what you're seeing from a consumer perspective. Obviously, the results have been really strong. So it probably suggests you're not really seeing too much impact at this point from inflationary pressures or elasticities from some new pricing in the market.

But I guess as you think about the spirits category going forward, primarily in the U.S., are you seeing any signs of slowing premiumization trends? I guess how is that informing your guidance outlook for this year? And if you're seeing anything different internationally between developed and emerging markets?

**Lawson E. Whiting**

Well, I mean, a couple of pieces to that. I mean it's interesting. We are not seeing yet, at least, pressure on the consumer in terms of spending on spirits. I mean it -- we obviously had a very strong fourth quarter. Some of that is refilling inventories around the world, but we're not seeing a degradation from the consumer yet, we're not seeing the trade down. Now I'm not saying that may not happen if gas prices stay elevated like they are right now, and that continues for the rest of the year. But so far, so good.

This business still is in pretty good pretty good state. And I think that's true both for the U.S. for our developed international and our emerging markets. Business is pretty good across all 3.

And if you step back also, I think it's worth saying, if we -- we step back and look through sort of fiscal '19 to '22, when you compare those 3 big geographic clusters, they've all had pretty similar results, and pretty strong throughout what has been a very volatile and crazy few years.

**Leanne Cunningham**

And then to inflation, I would just say that we have a portfolio of premium and, super-premium brands that's well positioned to stand the impact of inflation. In any kind of typical year, we have generalized inflation over a period of time of around 3%.

As we look to F '23 and the inflation impact there, it's a bit higher than that. That's mostly driven by our glass, which is being impacted by high energy costs. Aluminum freight, as Lawson mentioned, is due to high fuel costs and then grain, but for us, that's more of a higher cost due to the global demand of core.

I've already mentioned agave. So -- and also to strong consumer demand, I think if we take a longer-term perspective, it kind of goes to our capital expenditures that we have planned because with over 85% of our strip net sales coming from aged product, we see strong consumer demand well into the future. And I know we've been focused on expanding our capacities in -- for our American Whiskeys over this past decade, most recently with the Kentucky distilleries.

We also have recently said last year, we are expanding our Single Malt Scotch distillery. And we will be beginning to expand our tequila distilleries because of the strong long-term demand we see well out into the future and then, of course, the associated warehouses with those.

So again, to Lawson's point, we don't see any. We are closely monitoring the impact of inflation and energy prices on our consumers and that we're also watching the macroeconomics and the geopolitical uncertainties that are out there, which for us, one of the things that impacted us just since the last quarter was the suspension of our operations in Russia.

And as that relates to our F '23 outlook, that was 2 points of -- of approximately 2 points of top line growth that we would have played had we not suspended that business.

**Lawson E. Whiting**

You know I think on the cost side, just to add another point on that, it's something to differentiate, I think, Brown-Forman from rest of beverage alcohol and for that matter, CPG in general.

We, as you all know, we have really suffered from input cost inflation over the last 4 or 5 years. That is predominantly from 2 things, which we've talked about many times, wood and agave. And that's kind of unique. I mean we are a whiskey and tequila company for the most part. So it is different than the rest of the spirits world, but those are costs very specific to our industry, certainly not across CPG.

So our problems have been around for 4 or 5 years, and that's what has hurt our gross margin over that time period. I don't know if I hesitate to use the word, it's in our rearview mirror. But it largely is and where you're seeing much of the cost inflation these days in fuel, in real estate for that matter, in a lot of commodities, those are not particularly heavy input costs for us.

And so we were able to deliver a small improvement in our gross margin and hope we can continue that because we're just simply not seeing the input inflation to the extent that many others are.

**Operator**

Our next question or comment comes from the line of Lauren Lieberman from Barclays.

**Lauren Rae Lieberman**

Great. During your comments, you talked a lot about as you typically do the full year trends. And I know you said that inventories are still generally below where you'd like them to be. But I was wondering if you could speak a bit to: A, the degree to which you think kind of some of the supply chain challenges are behind you? Are we still very much in the thick of it?

And b, any comments you can offer on consumer takeaway versus shipments in the last couple of months, just so we kind of get a sense as we look forward on these dynamics between continuing to rebuild that inventory position and actual consumer takeaway?

**Leanne Cunningham**

Lauren, this is Leanne. I'll start with the supply chain disruption. Again, like we talked about last quarter, it took us several quarters moving into this. It will take us several quarters moving out of it. What we can say is our glass supply has continued to stabilize with our current supplier, we have increased capacity, improved yields and they are prioritizing our needs and as well as we continue to broaden our supplier base across our key brands and sizes.

So we're making strides in getting the glass supply back to the level of which we need. Our Jack Daniel's facility has been bottling at record paces. So now we kind of began to move more towards facing the global logistics challenges that many other CPG companies have been facing for a while, specifically shipping container availability. And then in the U.S., we still workforce challenges as it relates to transportation.

And we expect that these will be continued to be stressed through fiscal '23 and of course, the higher cost associated with that. We continue to have our cross-functional team in place, working to optimize where we can to meet the strong consumer demand. And what we are seeing right now is an increasing level of consumer demand.

So as we continue to get the glass that we need, the need to keep increasing. To your point, we do continue to believe that even with the progress that we made in F '22 that our distributor and retailer inventories remain below pre-COVID levels. And so we'll be working through out all of '23, rebuilding those distributor and retailer inventories.

But then when you look at the year-over-year impact. And like we talked about in our prepared remarks, in the first half, we'll be going against abnormally low levels of shipments. And then in the second half, we'll be comping the abnormally high level of shipments, but on a year-over impact -- year-over-year, we don't expect that 4 points of benefit to repeat.

**Lawson E. Whiting**

Yes. I mean I think a little more on the glass story. The -- as -- I won't get to the whole thing, but because we've done this on previous calls, but last summer, when we decided to reallocate the finite amount of glass that we had really to focus on Jack Daniel's Tennessee Whiskey, so core Black Label. That was largely because we saw the on-premise opening around the world, and we certainly didn't want to miss that.

And Jack Daniel's by our own estimates is either the largest or certainly one of the largest on-premise brands in the world. So that worked and you obviously see the numbers that Jack Daniel's was able to deliver this year was a spectacular year for Black Label.

But it came at the cost for pretty much every other brand in the portfolio, and so we've been trying to refill that all year. But it did take several number of points away. If you look at Gentleman Jack and Single Barrel, I know we've run through some of these. But certainly, Woodford lost probably 10 points of growth of Nielsen, I think it's not more of what we would have expected Old Forester and Herradura all lost a fair amount of growth that was disappointing. And so the question is what happens now? Well, the Q4, we -- the glass supply began to improve, some of -- a lot of that is because we are now sourcing from a number of different suppliers where we were really locked in with one before.

And so -- that is now coming. And I think that it has been shipped and sitting at the distributor. It hasn't really made its way to the retail shelf yet, and it's certainly not showing in the Nielsen yet. But we expect that will start to flow through in upcoming months or at least upcoming quarters.

I think we have said we expect glass to still be somewhat of an inhibitor to growth. We won't have everything we want until probably the second half of next year, but it is -- the situation is certainly getting better.

**Lauren Rae Lieberman**

Okay. And I don't want to be presumptuous, but with all of that as a backdrop and the comment that, that Leanne made on demand still accelerating. How conservative do you think the revenue outlook may or may not be for fiscal '23? There's nothing to sneeze out in what you've offered, right? But it just feels like the momentum is really strong and you've got tailwinds from just bringing in better supply. Separate from the innovation.

**Leanne Cunningham**

Yes, right. And this is where we -- I go back to the year-over-year having to comp the 4 points of benefit that we got in F '22 along with the suspension of our business in Russia, which again, like I said, we had planned that to be at 2 points of top line growth in '23, but which suspended that business.

And this is where in our international markets, we believe that with the double-digit declines of F '21 in some of our international markets to the double-digit gains that we saw this year, it's -- business is beginning to normalize.

And for us, we've been through the volatility of the tariffs, the volatility of the pandemic. And then -- so we believe we -- where a lot of our international markets, we're beginning now to see more normalized growth levels, taking all these other things into effect with its, again, strong pricing and innovation, but we've got Russia and some supply chain disruptions and normalization.

And it's all kind of coming back to near our long-term growth algorithm of that mid-single-digit top line growth.

**Lawson E. Whiting**

Yes. I mean it's -- to be quoted to say, return to normal. I mean, I've said return to normal several times in the last couple of years and I've been very wrong, and I've taken back my words. The -- but it does feel like it now. We are finally -- I mean there's been so much volatility in reported results and any kind of takeaway results in the U.S., everything, it feels like things are starting to normalize, and you should see, I think, results there sort of on par or maybe hopefully a little bit better over what we do than what we've done over the last, say, 10 years.

**Operator**

Our next question comment comes from the line of Bryan Spillane from Bank of America.

**Bryan Douglass Spillane**

Maybe just to pick up on that last Lawrence (sic) Lawson point, not to sort of beat up your revenue guidance. But I mean, depletions, I think, for the year, we're up 7%. The back half, I think was it 14% in the third quarter, 10% in the fourth quarter. I mean it just -- and I understand that there's -- you'll have the headwind from Russia. And there's some headwinds you've called out, but it just seems like it's a pretty dramatic sort of slowdown in depletions that you're expecting.

And I just want to make sure that maybe the normalization of depletions implies like mid-single-digit growth. But is that -- am I looking at that right? Or am I missing something?

**Leanne Cunningham**

Well, I think it's more of us thinking about what are all the uncertainties and volatilities that are out there, any further impact from a geopolitical standpoint, again, I've mentioned it already a couple of times here, but the impact of the Russia invasion on Ukraine to our business.

And then what does it look like with the impact to consumer spending, even though we know that we provide our consumers with an affordable everyday luxury with our premium and super-premium portfolios.

There's just -- I think it's more -- I'd just go back to the conversation we just had of -- there's a lot of -- there's really good positives. There's a couple of negatives with supply chain disruption in Russia. And then I think it just all weighs out to the extent that we can see right now of a normalization in that space. Now we want to be optimistic and think that our business will perform at a higher level, but we'll just have to continue this story on a quarter-by-quarter basis.

**Bryan Douglass Spillane**

Okay. And then just a follow-up. Lawson, we've heard kind of listening to retailers over the last month or so talk about some of the changes. This is probably more in the U.S. But one of the themes that seems to be recurring is that or be playing out is that we've seen in some other product categories outside of consumables even where the pandemic had some consumers that were maybe participating in some premium categories because they had some spare cash or the balance sheet where there was less things to spend money on.

And now you're beginning to see some of that transition out. And so I'm just curious if -- as you look at premium spirits or even your own brands, is there any sort of -- have you experienced any of that, any evidence that maybe you've had some temporary sort of consumers in the category that as the situation normalize, maybe they trade back out?

**Lawson E. Whiting**

Yes. I mean that's the trade down or trade up scenario. Look, we certainly have benefited over the last few years to the trade-up and the premiumization. But I think -- I mean, that's one of those trends that started before the pandemic only accelerated into the pandemic. And I find it hard for consumers, particularly our consumers, and we have a very premium portfolio.

I don't see fans of Woodford Reserve as an example backing down into less expensive bourbons. I just don't believe that we haven't seen it. It's muddy because the retailers, the Targets and Walmarts of the world get instant daily information. We don't really have that. So we haven't -- but we just -- we haven't seen it to this point. We will see how the year plays out. I mean, I think it will be one of the big -- it's one of the big uncertainties, but I feel pretty good. It will be in the spirits business these days in the super-premium spirits these days relative to lots of others.

**Leanne Cunningham**

And the high level of brand loyalty from our consumers with, again, our affordable everyday luxury.

**Bryan Douglass Spillane**

Yes. I think the idea wasn't so much your kind of core consumers. It's just that there were consumers who might never have purchased the premium spirit before, who now had some spare cash who were in the -- wouldn't be able to sustain in the category. So it's like you had some renters basically in the category. And we've seen that in other categories. It doesn't sound like that's been a big factor for you though.

**Lawson E. Whiting**

Not yet. Not yet, and I hope that it doesn't happen. I think the bigger macro ones, things like consumers trading out of beer in the spirits, just as an example. A lot of that has happened, and that's another one of those pre-pandemic, it was happening and it accelerated in this environment. we will see. We will see how that plays out, but I think that's a bigger factor.

The other one I think that is interesting these days as I was staring at some of the Nielsen data, boy, you want to be in the American Whiskey and tequila categories. I mean they are, by far and away, the strongest and so many of the white spirits are pretty weak.

So I think the company, Brown-Forman in general, is well positioned not only where we are, but in the right categories at the right time. And I also think it's interesting that American Whiskey, one of the reasons why I think both of those categories are doing so well relative to others, innovation plays a big part of that.

And as Leanne said, 85% of our products are aged. Well, if it's a barrel-aged product, boy, that suits -- that plays really well in the innovation world. And that's why I think American whiskey has sort of led all categories in terms of innovation. Tequila is not barrel aged, but it's certainly aged in the field for 6, 7, 8 years. And there's lots of things you can do with barrel finishing on tequila too that really, I think, makes innovation better. And I just think it's one of the reasons both categories are flourishing right now.

**Operator**

Our next question comment comes from the line of Vivien Azer from Cowen.

**Vivien Nicole Azer**

I was hoping to pivot to develop Europe a little bit, please. I'm curious to hear your perspective on the health of that consumer. I know there's a lot of chatter about gas price inflation in the U.S., but it's arguably worse there. And we did see a slowdown in Germany and France. So any commentary that you could offer there would be helpful.

**Lawson E. Whiting**

Okay. I mean, look, I think Europe -- I mean, first of all, Europe has remained extremely resilient and strong for us over the last few years. It's been some of our best markets. And I look through Germany, in particular, the United Kingdom, but really big markets in Europe are very, very strong. And so feeling pretty good about that.

Now the on-premise has been a little bit more challenged in Europe than it has been in the United States. Bars and restaurants really took longer to reopen. And so it's just been a little bit slower. So off-premise in Europe. I'm trying to look through some of the data that we have here.

I mean it doesn't look as good as the U.S. business looks, but for -- I don't say what for a reason, but for many, many years, Brown-Forman's European business we have outperformed the competition in Europe more so than any other place in the world, and that's true for like the last 10 years.

And so Jack Daniel's just is really well positioned over there and cranking along. And I think we've put these emerging brands groups together in -- it's really just started over the last year in Europe. And we're putting them into the major markets over there. really trying to develop higher-end brands that just haven't gotten the attention in the last 10 or 20 years from us.

So Woodford and our Scotches and tequila brands, I mean a lot of the very high-end super-premium, ultra-premium brands are getting focus now that they didn't previously have. And so hopefully, that is a sort of a nice growth driver over the next few years.

**Leanne Cunningham**

And again, we still see opportunity as the on-premise in Europe has continual reopening to do in F '23. And again, to build on what Lawson said, in markets like Germany and the U.K., we are seeing volume growth from a lot of our brands as well as in Spain. So there's -- we are seeing positive results coming out of our developed international markets. And again, we have that planned into the next fiscal year as well.

**Vivien Nicole Azer**

Okay. Understood. And if I can just squeeze in a quick follow-up. For the 8 points of price and mix that was realized in the year, is it possible to break that out between mix and rate, please?

**Leanne Cunningham**

That's the whole list, try to look for that. Vivien, that might be one that I'll follow up with you on. We have a...

**Operator**

Our next question comment comes from the line of Nik Modi from RBC Capital Markets.

**Nik Modi**

Lawson, I was hoping you can provide some context on just competitively what you're seeing in the market. As you take pricing, have you seen the competitive set move as well? Just any context around that would be helpful.

**Lawson E. Whiting**

Yes. I mean I think it is interesting that the as I said earlier on the call, that the spirits business didn't take a lot of pricing over the last 10 years and now everybody seems to be doing it at the same time.

But there has been more pricing inflation across the industry. It's one of the reasons why I think we -- it's not massive rates of price increases, but they're low-single-digit and they're steady. And most of our competitive set has done the same thing where you're starting to see a little bit of pricing across the industry.

And obviously, elasticities are better when the competitive set is also taking price at the same time. So yes, it's, from our perspective, a healthier environment.

**Nik Modi**

And if I could just follow up on your commentary around the consumer. I mean, over the last, let's call it, a few weeks, I've certainly picked up some feedback from the trade, both retailers and distributors that velocities have slowed and there is a concern that promotional activity is going to have to ramp to deal with the current consumer environment.

But I just -- I'm getting that feedback. I'm just curious on your reaction to that. I mean clearly, based on what you saw this quarter and some of the commentary, it seems like you're not seeing that, but I'm just trying to reconcile the 2 perspectives.

**Lawson E. Whiting**

Yes. I mean, I'm not sure how to answer your question because we truly have not seen that yet, but there's a lot of noise in our world because of the glass supply and the replenishing of inventories and not only replenishing of distributor inventories, but getting into the retail stores and actually replenishing the consumer shelf.

So I can't add much more on to that. We are certainly not planning incremental promotions in terms of -- or some kind of reversal in our pricing position that I would be very resistant for that given we've worked so hard to get the pricing to where it is. So I guess we're going to have to see how it plays out throughout the year.

I mean, we're not going to be naive about it. But our intention is to hold on to the price increases we've already made. And I said earlier to continue with that low and steady rate of increase throughout the fiscal year.

**Operator**

Our next question or comment comes from the line of Kevin Grundy from Jefferies.

**Kevin Michael Grundy**

Great. Congratulations on the strong results this year. Two quick ones for me, Leanne. First, just a housekeeping question on the guidance and what it implies for EPS. So just sort of making reasonable assumptions around the stronger dollar and the add back of the Finlandia charge. It seems like you're in the $1.95 to $2 in EPS. just confirm that for me, if you would not mind that I'm not missing any non-operating items, magnitude of FX in terms of how we're thinking about it. That would be helpful.

And then the broader question really for both of you is just the prioritization of investment with tariff relief, which you've been waiting for, for some time. And I asked that in the context, your mid-single-digit organic sales growth guidance and similarly mid-single-digit operating income guidance doesn't much in terms of operating leverage in the business, notwithstanding whether it's conservative or not, we'll see how the year plays out.

Leanne, you spoke to some of it around Jack Daniel's Tennessee Honey and Apple in Europe and JD globally. Just maybe just help us sort of understand the priorities and your visibility on the spend in the current environment.

**Leanne Cunningham**

Okay. As it relates to EPS, we haven't provided guidance for that. As it relates to FX, we also don't forecast that. That's why we provide an organic outlook. Now if we were to take the rates where they are today against the dollar, it would be a headwind for us in F '23 on a reported basis.

But again, with all the volatility, uncertainty, the 12 months ahead of us, we haven't forecasted FX and its impact on us. So we've provided everything on an organic basis. To your point on reinvesting, we continue from an operating expense perspective, the brand spend will be in line with top line growth.

And we've talked about the reinvestment of some of the tariff savings back into our business. We've been talking about that for 3 years. What we're going to do is we're going to remain agile and disciplined with our discretionary spending as we go through F '23. And as we talked about in our prepared remarks, the new ways of working that we have learned during the pandemic. And we believe that it will -- all of this will deliver mid-single-digit bottom line growth.

**Lawson E. Whiting**

I mean as for brands and allocation of investment, I mean, a couple of the ones that you may not be thinking about, I guess, so much. One is Herradura in the U.S. I mean the tequila category is obviously flying. And we really need to work on building awareness and distribution for Herradura.

So that is going to be a big effort over the next year. The establishment of these emerging brands teams, I talked about that earlier, so I won't repeat all that, but now that -- that will take up incremental resources, both people and brand-building investments.

And then it's back to broad-reach media on Jack Daniel's. We continue to -- we have already significantly increase that in the past couple of years, and we'll continue to do that. So those would probably be the big 3, I think, in terms of incremental investment for next year.

**Operator**

I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to Ms. Sue Perram for any closing remarks.

**Susanne J. Perram**

Thank you, Howard. Thank you, Lawson and Leanne, and thank you, everyone, for joining us today for Brown-Forman's Fourth Quarter and Fiscal Year 2022 Earnings Call. If you have any additional questions, please contact us. We look forward to presenting in person at the Deutsche Bank Global Consumer Conference next week and hope to see many of you. For those of you unable to attend the presentation will be made available as a webcast accessible via the Brown-Forman corporate website under the section titled Investors, Events and

Presentations. We wish everyone a safe and enjoyable summer. And with that, this concludes our call.

**Operator**Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.

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