Brown-Forman Corporation, TD Cowen's 2nd Annual Sip, Snack & Scrub Summit 2024
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Presentation

Robert Moskow

This is magically going to work, I've been told. But this is a virtual meeting with Brown-Forman. Kate, do we know if they're on right now? Or are they close?

Lawson Whiting

Rob, I'm here.

Robert Moskow

You're here. Okay. But no video, is that right?

Lawson Whiting

No video, sorry.

Robert Moskow

Okay. You will be a voice from the stars. All right. So this is Brown-Forman. It's one of the largest distilled spirits companies in the world and a market leader in the American whiskey category. In 2024, the company generated over $4 billion in sales, $1.4 billion in operating income.

And with us today is President and CEO, Lawson Whiting, joining us virtually. So thanks a lot for coming, Lawson. I appreciate it.

Lawson Whiting

Sure. Good to be here.

Question and Answer

Robert Moskow

Okay, great. So we're going to start with kind of a broad question for you about the U.S. spirits industry and your thoughts and outlook. Look, this has been a rough hangover post pandemic. Sales in our Nielsen tracking data and NAPCA show things are just kind of flattish right now. Drinking patterns probably haven't normalized. There's price sensitivity. Just broadly, why do you think it's taken the industry so long to return back to its normal growth rate?

Lawson Whiting

Yes. So look, you said it correctly, it's this sort of hangover post boom and volatility periods that we did right after COVID. I think to step back for a second, this time last year, basically Labor Day weekend of 2023, so 4 months ago, the U.S. spirits market was around between 5% and 6%. So still kind of at an elevated level, less than it had been in the year or a couple of years before that, but still very solid growth.

By the time we got to Christmas, it was near 0. So markets in a period are almost at a quarter or a quarter and few months, drop off of that much has been the big question that everyone has been asking, and it caught everyone by surprise. I mean we ended up lowering our investments a couple of times last year as we didn't predict that kind of drop off, and apparently, nobody else did either.

So then the question is, what is driving that? And what I – and now I've said for probably the last 6 months, it's – we call it the big 3. So it's – is it GLP-1s, cannabis and Gen Z? And they've all got – all 3 of those, I would consider potential long-term headwinds. But I don't believe that it's really what's driving the number from 6 to 0 in a heartbeat.

So we really – and I still believe this, it's a combination of, obviously, inflation and a consumer that is pinched is probably – is the biggest single part of it. But I also really believe a lot of this – the GLP-1 drugs for example, that a lot of people have cited, have – that is a long-term thing, but there's just not enough people on it yet to really drive the number down. And there's some consumer studies even that we've done that would say those consumers that are using some of the GLP-1s are not really the spirits consumers anyway.

But I do think the other part of it is the consumer cabinet that has also been pretty well publicized. And it's one of those things where you can't reach into a consumer's cabinet to figure out what they have in there, so it's very difficult to sort of scientifically do it. So there's a bit of making assumption, there's a bit of anecdotal on it, too.

But consumers bought a lot of bottles in that '21, '22, first half of '23 time period. And some of those bottles are still sitting in their cabinet at home. And we're – a lot of people have said, well then, when is that going end? And that's what is – that is a tough question.

Generally speaking, we do know that the casual drinkers, so about 80% of consumers in the United States drink about 2 bottles a year at home. And so then you've got to estimate how many bottles do they have at home, but I think it's a reasonable assumption. I know I'm tying together a few dots that are not that easy to tie together. But I would say that the turnaround ought to be coming relatively soon.

And so we're just going to have to see that – you're also finding consumer that is weak, and so they're both at the same time, are contributing to the challenges. But I think the outlook has gotten a little bit better for the consumer in the U.S. with inflation coming down a little bit, gas prices coming down a little bit. There are some green shoots out there that make me feel like there is some light at the end of the tunnel.

Robert Moskow

Thanks. Lawson, kind of a follow-up to that, just – this might be irrelevant because I'm really asking about last year. But like you said yourself, like Labor Day last year, growth was still kind of normal in terms of consumption, like mid-single digit. But also what happened just before that, I think there was a massive distributor inventory deloading which you recently lapped. Did the distributors get a sense that demand was slowing before the rest of us? Like – or am I jumping to a conclusion there?

Lawson Whiting

No, I don't think so, because I didn't think that, that – the inventory days coming down was really in – a lot of it was at least in calendar '24 – yes, calendar '24, I'm getting my fiscal years and calendars mixed.

Yes. So they – and it's – you're correct in that distributor inventory days were high at the end of fiscal '23. And then they spent a lot of last year dripping down to the point now where we would say they're pretty much at a normal range now.

But certainly, I think what they saw that they didn't predict necessarily was the retail side of things taking inventories down. Particularly in the national account world, in the drug channel and in the mass channels, you had significant destocking across the industry in that retail tier. And then there's the question now, is that in a normal spot? I think most people are saying that largely, the damage from that has been done. But that's – I think internally, for our own Brown-Forman, we have pretty good visibility into that. We feel pretty comfortable where they are now.

Robert Moskow

Okay. Got it. Maybe talk a little bit more about your company-specific strategic pillars for growth. What are the key things that you are working on internally to drive the business? And what resources have you put against taking – exploiting those opportunities?

Lawson Whiting

Well, if you look at – anybody that's followed Brown-Forman for a little while, we have what's called strategy [will], it's all over our website and things like that. But it's people, geography, investment and portfolio. And I'll focus really on portfolio and then geography as the 2 big drivers and really strategic growth – strategic growth drivers.

So where – and this is why I feel pretty good about our long-term algorithm, which we can talk about it in a little bit, too. But if you backed up this company – honestly, if you backed for 20 years, we are a completely different looking company than we were then. We had loads of wine brands and relatively low-priced wine brands. We had a consumer durables business. We had so many random businesses propped into our company, and we have virtually gotten rid of all of those. In the last 10 years, we had some big brands that were not growing.

And so if you put yourself back in – probably 10 years ago, Jack Daniel's, and it was growing tremendously back then. That was the – those were the early days of the bourbon boom. Jack Daniel's honey, we had a lot of things lining up that really had a high growth rate on the Jack Daniel's family. But then you looked at the rest of our portfolio and there was no growth.

We – at that time, Woodford Reserve was small – but I mean it was growing, but it wasn't big enough to really move the needle back then like it does today in a much more meaningful way. Even Old Forester was a shell of the size it is now. And then we have brands like Southern Comfort and we have Early Times and Canadian Mist and others that were all big brands and declining. And it was very difficult. You couldn't get enough Woodford to offset the declines of those other brands.

We have subsequently reshaped our portfolio so much that all that – the declining brands are gone. And we've done the acquisitions or the innovations around, say, our single scotch portfolio. So we've got 3 really nice brands there. The Fords Gin and the more recent ones of Gin Mare and Diplomatico, brands like that are all growing – are solid brands that I think, long – medium to long term, are all going to be well above any sort of company-wide needed growth rate. And so it's gone – that rest of the portfolio has gone from a drag to a plus. So I think that's one strategic pillar that we have improved greatly and should set us up for some decent future growth.

The other part of it is the international growth of this company has been enormous. When I – I've been here 27 years. But if you go back to the beginning of my career, we were 80% U.S., 20% international. Today, we're 45% U.S., 55% international. And those numbers continue to separate a bit as our international businesses have been growing faster than the U.S. business for quite a number of years now. So there's a lot of places that we see a lot of growth potential for us. We're not in a lot of some of the bigger spirits markets in the world.

We've played the international growth journey a little bit different than, say, Diageo and Pernod, which went heavy in China, heavy in India. And we diverted a little bit. And we went heavy in, say, Mexico and South America, particularly Brazil. We've invested in different markets across Asia and most recently in Japan in a very significant way. So we've gotten our international growth a little bit differently than some of those other big companies, but it has worked. It's worked for us.

And now we've got – I'll talk about South America for a second. I mean, Brazil is a brilliant market for us. And a lot of other companies are struggling there. But the Jack Daniel's brand is very strong and that country, they really like the Jack Daniel's flavors, and that has also been a nice growth driver.

Robert Moskow

Okay. Can you talk a little more specifically about just order of magnitude, like Brazil is – how big of a market is it as a percentage of your sales? And your specific strategy, say, in Brazil, you mentioned flavors. But is it also more distribution strength, partnerships? How does it look? How do you market there differently, say, than you market here?

Lawson Whiting

Yes. So I don't have – the number you can find in our earnings release, it's in the top 10 market. But I don't have it off the top of my head. But I can tell you, the strategic view, it is interesting because it is something about us that we're asking ourselves. Why don't we do this in more of these really big countries that are hard to get your arms around, places like China and India?

So we went into Brazil in a big way, it's probably 15 years ago now, might even be a little bit more than that, but really focused on São Paulo. Did not succumb to the temptation to spread it out all over the country quickly, which often happens in our industry when you're going into a new market. But spent more – well, most of that 15-ish years focused on just one city, albeit a big city.

But we, I think, did a nice job in seeding it in the right way. We lost money on it for years, but got it into the on-premise in a way we wanted to develop the relationships and build the brand. And the flavor has just come later, but it just – there are some countries in the world that love Jack Daniel's flavors, whether it be honey, it's mostly honey and apple. But both brands have had a really nice run in a bunch of countries.

And in Brazil now, so the expansion plan is we're now in Rio, for instance, and we are moving into some more cities. So just now, we're getting geographic expansion within a country. And it's continuing – the momentum has stayed there. And so yes, it's just a great market.

Robert Moskow

Got it. And in terms of channels, is on-premise most of the time where you start, because that's where the thought leaders are?

Lawson Whiting

It depends on the market, but yes, that would be a general – it's kind of a generalization. But was the old line? There used to be a line we used – you build in the – whatever it is. Most markets – your on-premise isn't going to be bigger than your off-premise or there would be very few instances where that would be true. But it is a nice way to get influencers and get sort of real organic growth as you're building the brand.

Robert Moskow

If you build it, they will come. Is that what you were referring to…

Lawson Whiting

Yes. Yes.

Robert Moskow

I just saw Field of Dreams a couple of nights ago, so fresh in my mind. So Jack Daniel's is – the brand is about 65% of your volume. It's down more recently. We can attribute that to the post-pandemic behavior. But my concern, and I think others too, is that with all of the premiumization going on and the consumer that's where the real growth is, can Jack Daniel's grow or at least maintain itself if the growth in whiskey is in the premium market?

So what have you seen in terms of like – in terms of that interaction? Is the brand losing consumers who are trading up? And then what are you doing from a marketing stand-point to stabilize it?

Lawson Whiting

Yes. So look, the premiumization story, particularly within American whiskey, is largely a U.S. phenomenon, first of all. So – and keep in mind, we're growing – as I said earlier, international side of things are growing much faster than the U.S. But truth, it is – at the end of the day, it's a much more competitive category as the last 10 years, you've seen the bourbon boom, they call it, has brought in a whole lot of new competitors into the category.

So I will say one thing. For at least in the short term, over the last year, if you look through the top – the top 20 largest brands in the United States, the largest brands are the ones that are having the biggest hangover right now, because I believe those are the ones that have the consumer home cabinet full. Does that makes sense? Those are the brands that were booming during COVID, they are the ones that are most apt to have left over in inventory. So that has something to do with it.

If you skipped the last 12 months, I can tell you, we, over the last 5 years, over the last 10 years, over the last 20 years, the growth rate for the Jack Daniel's family brands is right in the mid-single-digit range over all those different CAGRs. So if – is it how the math works and gets into sort of the medium- to long-term algorithm. And I know there's been a number of companies that have been sort of taking that algorithm down. Obviously, this year, we're not guiding to anywhere near what we would consider the long-term algorithm.

But the math works. If we can continue to get 5% out of the family of brands or even less than 5%, we have the rest of the portfolio that can grow at a much faster rate and the math works. And so I do feel confident that we've got the right mix in there and that we've got – between Jack and the rest of the portfolio, we can make it work.

Now having said that, it's hard. I mean the competitiveness of the category has gotten enormous, but we do have things that we've really tried to do differently. Formula One racing is an example of getting involved in the fastest-growing sport in the world. And those are the right fans that we want. They're higher income, and they're a meaningful way to reach legal-drinking-age consumers.

And so we're also – it's important to stay relevant in pop culture. And for anybody that's listened to Shaboozey in the last 3 or 4 months, you can't miss it in a college football game, but that's kind of an anthem to Jack Daniel's. And so we've got some good things there, and it does – the brand itself plays very well in music.

We've got a lot of super-premium line extension work that we're doing. We continue to get good growth out of the flavors. And so it's a battle out there. It is not easy. I'm not saying that, but we still feel pretty good that we can continue to do what we – not to say what we've been doing for the last 10 or 20 years, but continuing to build on what has been one of the most successful brands in the world. We've just got to get through this – what has been a really challenging last 12 months.

Robert Moskow

And I've seen all the marketing around Jack Daniel's domestically. I think I asked this on the last earnings call, but like is the primary objective to bring younger consumers to the brand for the first time? Or is it to remind the lapsed users to come back?

Lawson Whiting

Yes. That's one of the biggest questions sort of out there around – even internally as to how you balance recruitment and retention. And the reality is you're going to do both. And we have been doing both. And it doesn't mean you've got 2 different messages out there. You can find – like music as an example. We think we can do recruiting and retaining with the music platform.

And so we're not skewing one way really or the other. We don't do quite as much in the U.S. as much Lynchburg-based advertising as we used to. Everybody remembers that Jack Daniel's advertising is the black and white ads in the one-stop [town]. And if you happen to be in London and you're on the underground, those big black and white ads are still up on the walls there. So different markets playing a little bit differently, but the reality is you've got to do both at the same time.

Robert Moskow

Got it. Maybe let's pivot to the premium brands, Old Forester and Woodford, which have been great growth stories and resonate so well with bourbon experts. Can you talk about like how you balance the need for growth at the company with the need also to preserve the specialness of those brands and create reserves that are – that uphold that image? How do you balance those 2 kind of competing factors?

Lawson Whiting

Yes. So a few different things. One, I can say American whiskey and then tequila actually has some of this, too, are the best 2 categories for premiumization and innovation. So just take American whiskey first, take Woodford for a second. Woodford has a line extension called Double Oaked, which has been a phenomenal brand for something that it costs $55, $60 a bottle, something like that, has gotten meaningful in size. And it's because you can do different things with it.

So Double Oaked means it is Woodford Reserve for most of its life, and then we dump it and put it into a new oak barrel for another 6 to 12 months. And now so you've got double barrels, Double Oaked, and you can charge twice as much for it. So there are some pretty neat things in there, but the core Woodford Reserve is still – it's the most – well, it's one of the strongest growing brands in all of the U.S. right now, and it's been one of the most – best developed brands in the industry, I would say, in the last 20 years.

So it is – just happened. We built that brand back in 1996. And that was a time when no one was building bourbon brands. The category was in decline. We didn't have a whole lot of competition. We started – it's another one of those. We started out – every year, I think they had – it had like 20-some-odd years in a row of double-digit volume growth, but it was done in the right way. So you build it in the right accounts, patience.

And that's what it takes to really build some premium brands. You get a lightning-in-a-bottle brand every once in a while, but that is one that was carefully built over a long, long period of time to the point now where it's one of the strongest brands in our portfolio and continues to grow.

Old Forester is a different story. It's the founding brand of the company. So it's a 154-year-old brand. And it like just about every other American whiskey brand ex Jack from 1970 until 2010 or so, was in decline. And it went from 1 million cases to 100,000 cases. And now it's up over 500 again.

So it's been built in the right way. We have – just with its core 86 and 100 Proof, but also we did what's called the Whiskey Row series, if anybody that knows the brand. The different series are represented by a year, there was something special about each one of them that tells a little bit of a different story. But that's been a way to premiumize the brand and really has done – makes the P&L a whole lot better as those extensions are much more expensive. They probably start in the mid or high 40s and goes up well over $100 a bottle.

So we've done pretty well there. And it's been fun for the family, to be honest, because the last 5 or 6 annual shareholder meetings that I've been overseeing, I've gotten up in front of the family every single time and said, once again, Old Forester is the fastest-growing brand in the company, significant brand in the company. And there's a lot of pride around here in that. And it's just not that often in this world that you take a brand that had gone from, as I said, 1 million to 100,000 cases and you turn it around and grow it again. That is not easy to do, but the teams have been really successful at it.

Robert Moskow

Okay. Well, let me push you a little bit on that because it is the fastest-growing brand, but it's not a household name. Like is there any interest internally to make it more of a household name? Or is it like, no, if we do that, then we lose the premium image of it?

Lawson Whiting

No, I don't think you lose the premium image of it. No, we're continuing – it's all the basic stuff. It is a household name, I'll say, in the Southeast of the United States. And it is in a handful of core markets, including Kentucky, where we want the brand to be really strong, and it's very much part of the bourbon trail. And so that helps to build awareness on it, too.

I mean our – just as an example, our distillery, the homeplace, which is down in Main Street, Louisville, particularly – I don't know how many days a week, this is true, but they basically sold out for months in advance on the weekends in particular. So I mean, it's building and it's growing.

It's very much known for being a great whiskey for the price. And that price has gone up quite a bit. We've been pretty aggressive on that. But I don't – it's not like you go national and somehow you lose the premium imagery of it. That isn't – it's not the way that works. And it's a great brand in the bartender community, and that's the place we accent quite hard when we're trying to grow distribution and grow the brand in the on-premise around the country. There's a lot of bartenders that really do look at Old Forester and would have it as a house brand. So yes, that's it, we've just got to keep going.

Robert Moskow

Okay. Can I pivot to your ready-to-drink strategy? You have a partnership with Coke now. And I think you're kind of swapping out of the Jack and Cola positioning to Jack & Coke. Can you talk about like what the overall strategy of ready-to-drink is? What's the main objective of it? And how is it going?

Lawson Whiting

Yes. So yes, first of all, Jack and Cola has been a product that we've had around for like 30 years, maybe more than that now. Jack Daniel's Country Cocktails is the other Jack RTD that has also been around sort of in that same time frame, too. And that was a much smaller opportunity, but it has doubled in size since we handed the reins over the past. So it's a nice entry and a nicely growing one.

But Jack & Coke kind of – that's a whole another thing. So Jack & Cola, as I said, is a very big brand in places like the U.K. – or was a very big brand in places like the U.K., Germany and Australia. Those are the kind of the big 3, but Europe in general, Jack & Cola is pretty big and meaningful and in many millions of cases, something that's been quite profitable and kind of flies under the radar a little bit.

So now we began this relationship with Jack & Coke a couple of years ago. It's only really been in – I mean, it's not even global yet, but we've been rolling it out slowly necessarily, but it's been paced around the world over the last 8 – not even 8, 15 months, something like that.

And Jack & Coke, we control the sales of this product right now in the U.S. and in Germany. And ultimately, we will have Australia, too. But the Coke system and the bottling system takes over for the rest of the world. And so from our perspective, there's a couple of strategic elements to it. One, you get the pure advertising of it. So there is plenty – not plenty, but there are significant amounts of advertising happening for Jack & Coke and a lot of it is on the Coca-Cola books. It's not even on Brown-Forman. So you don't always see that in the numbers.

But it is – I mean, it's been a very strong launch. It's tough to set expectations. Totally honest with Jack & Coke, I mean, it sounds – it's difficult to predict what was going to happen, and it continues to be a little bit difficult. But the one thing we do know is the Jack system is – I mean, the Coke system is so big that the strategic side is it's bringing the brand into markets that we haven't been in before. And a lot of that's Asia.

But even Africa, take places like that where – take Africa just as an example, a bottle of Jack Daniel's is really expensive, particularly relative to the incomes in that country. So it has never been a massive opportunity in many of these countries that just don't have the disposable income. But they do have the income to buy either a single can or a 6-pack of Jack & Coke. And so the Coca-Cola Company and the bottlers want to get this thing globally distributed, and we're kind of riding the coattails of that a little bit.

And so we think the potential for it is very, very big. But in the short term, it has been a little bit – it's been confusing, I think, to some of the analysts and others. I'll take the U.K. as the cleanest example where Jack & Cola was big. And now the Coca-Cola system is about to take over. So we've been withdrawing Jack & Cola from the shelves which would have been our sale and Jack – the Coca-Cola Company then does it. We still earn a profit by selling the whiskey. But from a pure revenue perspective, it's not nearly as great. So all of a sudden, you look at the U.K. and you say what happened, what's going on in that market? A lot of it is that.

Robert Moskow

Okay. But from a consumer standpoint, is the objective to bring younger people to the franchise for the first time? Is it a gateway to the Jack brand?

Lawson Whiting

Yes and yes. So yes, sorry, I didn't say that before, but it is very much a recruitment tool, and it is very much a grow-awareness tool. The can-in-the-hand thing is important too, so consumers see it. And as I said, it's affordable. And so you can bring LDA or people in their 20s. It's very much a different occasion than Jack Daniel's Tennessee Whiskey, but it still makes the brand – everyone, Jack & Coke itself in the on-premise is the most often bar call in the world, maybe the margarita, but the margaritas are branded for the most part. So in terms of a branded call, Jack & Coke is #1 in the world.

So as much as we can explode that and continue to grow that, I think it is very important and something that can only help the brand.

Robert Moskow

Okay. Lawson, I know you as a really strong bourbon company. And – but you're in tequila and you bought Diplomatico and Gin Mare while also divesting some other brands. Like do you – in terms of your company's capabilities, do you feel comfortable that your diversification strategy is really working? I'm just thinking of it in terms of tequila is down 20% for you. Are you comfortable with your capabilities to run a diversified liquor company? Or is it more difficult in some of these other spirits?

Lawson Whiting

Well, it's – one, I wouldn't really call it a diversification strategy. That is not the way we sort of approach some of these acquisitions. We look at them like they're good businesses in and of themselves. And as you all know, the spirits business in and of itself is a great business with high margins, high returns on capital and just generates a whole lot of cash. And so we want more. We just want more of that. I don't mean to say that we're going to go do a bunch more acquisitions. But we've always had a full breadth of portfolio. Admittedly, some have been more successful than others. I'll talk to tequila in a second specifically.

But one of the bigger strategies we've had around here in the last – well, in the U.S., it started about 7 or 8 years ago was create an emerging brands group that our specialty people would do nothing but focus on these really high-end Diplomatico and Gin Mare type brands, but also put single malt scotch in there and a couple of others, and we've had powerful results out of that. So I know we've got the ability and the capability to be able to go do it.

We're really investing now in that concept outside of the United States, particularly mostly in Europe. And look, it's – some of those countries are like less than a year that they've gotten into that. And Woodford Reserve may fit into that group outside of the United States. And so you've got different portfolios for different countries, but we have continued to grow those very well. And we certainly – the fact we've been able to do Woodford and Old Forester just because they're American whiskey, I think it's all good old-fashioned brand building. It doesn't matter necessarily which category you're in.

Now tequila, just to hit that for a second. One, I would note, as you're seeing, which if you're looking in our quarterly results or things, you're looking at a global number, Mexico is significantly weaker than the United States. But over the last – let me get it here. Make sure I get these – the brand over the last 5 years has – both Herradura and el Jimador have been growing sort of in that 9%, 10% range as a 5-year CAGR, this last quarter [exempted], because I don't remember the number after that.

But it has – while we did not keep up with some of these celebrity brands, it's not like the tequila was a drag on the company or something like that. So it has been – and a lot of other brands, the tequila category, I think, more than any – this is anecdotal, but the tequila category more than any other category during COVID exploded. And a lot of those really expensive bottles, how many friends do you have, still have an expensive bottle of tequila sitting on the back of their home bar? They're like decorations, but they're not moving anywhere at the speed they were during that period.

And look, we are choosing purposely. It's – Herradura is the most important of the 2. And it is a real brand of craftsmanship and heritage and authenticity. We're focusing on the pureness of it, the lack of additives and really getting into Herradura Reposado as an example, which is the original sort of Reposado in Mexico. So we're playing on the classic cues, the super-premium, ultra-premium cues.

I know that's not a celebrity-driven strategy. And we've asked ourselves a bunch of times whether or not that would have been – that is a faster way to build big brands, I think, but it is also – it's a tough way to maintain over really long periods of time. And we're in this business for really long periods of time.

And so we've got to do better, I'm not trying to gloss over it really. But we've got to find some better ideas and some better ways to grow the brand faster, but it's still a great brand in a good place.

Robert Moskow

Okay. Well, we're going to have to stop it there. But Lawson, thank you very much for joining us and appreciate you participating. Thank you.

Lawson Whiting

All right. Thank you.