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Presentation

Operator

Good day, and thank you for standing by. Welcome to the Brown-Forman Corporation First Quarter Fiscal Year 2026 Earnings Call. — ***Operator Instructions*** —

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Sue Perram, Vice President, Director of Investor Relations. Please go ahead.

Susanne Perram

Thank you, and good morning, everyone. I would like to thank each of you for joining us today for Brown-Forman's First Quarter Fiscal Year 2026 Earnings Call. Joining me today are Lawson Whiting, President and Chief Executive Officer; and Leanne Cunningham, Executive 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 first quarter fiscal year 2026 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 2025 Form 10-K and from time to time in our Form 10-Q report filed with the Securities and Exchange Commission.

During this call, we will be discussing certain non-GAAP financial measures. These measures, a 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 conditions 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 Whiting

Thank you, Sue, and good morning, everyone. I'm glad to be with you to share the highlights and drivers of our first quarter fiscal 2026 top line performance with a focus on our geographic performance, a few unique headwinds to our business and strategic innovation.

Then I'll turn it over to Leanne who will share additional insights on other financial highlights, including gross margin and operating expenses before she wraps up with comments on our full year fiscal 2026 outlook, which we are reaffirming. But before I begin, I wanted to take this opportunity to recognize Leanne and her 30-year career at Brown-Forman. As you likely read in our news release earlier this week, Leanne has made the decision to retire on May 1, 2026. She's been a respected colleague for the past 3 decades and a valued partner of mine since she joined the executive leadership team 4 years ago. I've seen the impact she's made not only on our business results and culture, but on the many people at Brown-Forman that she has mentored and developed over the years.

Leanne, on behalf of the entire organization, thank you for everything you've done for Brown-Forman. You will be missed.

So now on to our results. Overall, I'm pleased with the start to our year. Our first quarter fiscal 2026 reported net sales declined 3%, but organic net sales increased 1% after adjusting for the A&D impact related to Sonoma-Cutrer, Finlandia and Korbel as well as the negative effect of foreign exchange. From a geographic perspective, our organic net sales growth was led by the emerging international markets, which grew 25% in the Travel Retail channel, which increased 7%. This growth was partially offset by a 9% decline in the developed international markets collectively and a 2% decline in the United States. While there are a number of markets influencing these results, I'm going to focus on a few emerging and developed markets as well as the United States, which highlights some key successes, challenges and transformations that we're driving across the business. I'll start with key emerging international markets where we have positioned ourselves for strong growth. The economic environment in Mexico remains challenging with consumers trading down. But despite this, our organic net sales increased 22%. In addition, we gained market share in the RTD and Whiskey categories and continue to outperform in the takeaway results. Within RTDs, we've continued to lead the category in Mexico with the world's first tequila-based RTD New Mix. In an environment where consumers are seeking value, convenience and flavor, we're well positioned, having leveraged innovation to fuel our growth and attract new consumers while continuing to engage our current consumers. Brazil is another key growth driver of our emerging markets where organic net sales grew 30%. This is a result of many years of strategic focus on building the Jack Daniel's family of brands in the city of Sao Paulo. With this strong foundation in place, we've been expanding our geographic reach, increasing distribution for Jack Daniel's Tennessee Whiskey, along with Jack Daniel's Tennessee Apple, Honey and Fire. In addition, we believe premiumization is an opportunity in the market. Through additional focus on our super premium whiskey portfolio, we've driven increased distribution for brands such as Woodford Reserve, Jack Daniels Single Barrel and Gentleman Jack. While off a small base, these brands are growing at a very strong double-digit rate.

Turning to our developed markets. I want to focus on Europe, where consumer sentiment and confidence remain pressured in most European economies. Despite this, premiumization is still evident in some countries, and we're gaining share of the whiskey category in 7 of the 8 top European markets. Organic net sales in Germany declined 13% as economic conditions remain challenging for consumers and tariff uncertainty caused disruptions in ordering patterns from retailers, which negatively impacted the year-over-year trends. While total distilled spirits trends are in the mid-single-digit decline and the competitive environment is intensifying, Jack Daniel's Tennessee Whiskey grew value share in the market. We also saw double-digit growth for super premium brands such as Gentleman Jack and Diplomatico Rum. Similar to Germany, economic conditions in the U.K. are negatively impacting consumer spending, contributing to an organic net sales decrease of 16%. While total distilled spirits trends, including the whiskey category, are in mid-single-digit decline, Jack Daniel's Tennessee Whiskey again gained market share. The tequila category remains a bright spot, growing double digits with el Jimador gaining share. El Jimador remains the #1 premium 100% agave tequila in the United Kingdom. We continue to see el Jimador as a key introduction to consumers globally on how mixable and great tasting a 100% agave tequila can be. I'll wrap up my market comments with the United States where the decline in total distilled spirits trends remain in the low single-digit range. While organic net sales declined 2%, the results were ahead of our depletion-based results and takeaway trends. This was largely influenced by the launch of Jack Daniel's Tennessee Blackberry and the U.S. distributor transitions, which were effective on August 1. I'll talk more about Jack Daniel's Tennessee Blackberry in a few moments. But before I do that, I'd like to share a few thoughts on the distributor transitions. As you may recall, this was the first time in 60 years we had made a significant change to our distributor partners in the U.S. We began our work on the RFP process over a year ago with the goal of driving improved performance and a material impact to our business in the U.S. And while we're very much in the initial stage of the transition, we're pleased with the early signs from our distributors and believe these changes will unlock growth, strengthen our distributor partnerships and position us to compete effectively in the evolving U.S. beverage alcohol industry. Key outcomes of the RFP process, whether our relationship with the distributor is new or existing, include increased dedication, updated business relationship terms and expanded relationships and diversification. The increased dedication comes from an almost 3x increase in headcount dedicated to the Brown-Forman portfolio, dedicated selling divisions and dedicated roles in those divisions, which will bring greater focus and coverage to our brands. We have also updated our ways of working, investment and margin expectations with an increase in distributor investment and improved margin structure.

I'll turn now to a couple of items that are somewhat unique to Brown-Forman, used barrel sales and the trade dispute between the U.S. and Canada, which created significant headwinds to our first quarter organic net sales results. Organic net sales for used barrels decreased over 40% with demand and pricing reflective of the current industry operating environment, particularly the Scotch and Irish whiskey suppliers. Canada's organic net sales declined nearly 60% as beverage alcohol products produced in the United States remained off the shelves in the majority of the Canadian provinces. while our non-U.S. brands, such as Diplomatico and el Jimador continued to deliver growth, they were not able to offset the decline of our brands that are produced in the U.S. That said, we remain optimistic based on our recent developments related to tariffs under the USMCA.

Finally, let me provide a few thoughts on strategic innovation, particularly for the Jack Daniel's family of brands, which saw the launch of Jack Daniel's Tennessee Blackberry in the U.S. a few weeks ago. When it comes to innovation, our goal is to extend the brand's appeal to new consumers and capitalize on new occasions while strengthening the parent brand. The launch of Blackberry has been incredibly promising and was based on insights such as innovation, particularly from flavored whiskey and U.S. whiskey being the largest growth contributor to total distilled spirits. Jack Daniel's has a proven track record of leveraging our global footprint and capabilities to extend the impact of new flavor launches. Blackberry is a globally relevant flavor trend across food and beverage categories. In consumer testing, Jack Daniel's Tennessee Blackberry had high consumer appeal resonating with a very broad audience. Distributors are excited with shipments already exceeding our expectations, and we're getting wonderful feedback and buzz on the new product from existing fans, new consumers, customers and the media. While we're excited about the start, we remain cautiously optimistic. Our work isn't done yet, and we need to fuel this excitement to drive continued momentum and strong consumer takeaway. While we're certainly proud of our strong track record of innovation, the long-term growth and resilience of the Jack Daniel's family of brands is also fueled by strategic relationships, such as our McLaren Formula One and music sponsorships. We're also leveraging an evolved on-premise strategy and our new media campaign to engage a new generation of legal drinking age consumers while remaining intently focused on retaining our core consumers. As a result, compared to a year ago, we are seeing improvements in brand health driven by young adult spirit drinkers. Across key measures of penetration, affinity and uniqueness, we see significant positive shifts in brand performance over the last year, in particular, among legal drinking age to age 34 consumers but also among consumers aged 35 and above. These positive shifts across both age categories affirm that our strategic actions are reaching new consumers while not alienating those who have been friends of Jack for years, and we will continue to take bold actions to further enhance the health and growth of Jack Daniel's. We look forward to sharing more on this during our upcoming Investor Day on October 15, where our focus will be entirely on Jack. While in-person attendance is limited, the presentations will be webcast. Details regarding the live webcast of the presentation along with the Q&A session will be shared in the next few weeks.

Overall, I'm pleased with the start to our fiscal 2026 and believe we are still positioned to achieve our full year guidance. During the first quarter, we focused on strategically growing our portfolio of brands globally through a strengthened route to consumer and thoughtful innovation to help navigate the difficult short-term conditions. We're benefiting from our streamlined and simplified workforce structure, which will increase our agility in responding to this dynamic operating environment, and I'd like to thank our Brown-Forman employees for their efforts and dedication.

With that, I'll turn the call over to Leanne who will provide more details on our first quarter 2026 results.

Leanne Cunningham

Thank you, Lawson, and good morning, everyone. As Lawson mentioned, I will provide additional insights on other financial highlights, including gross margin and operating expenses. I will then conclude our prepared remarks with comments on our full year fiscal 2026 outlook.

First, to our gross margin. In the first quarter of fiscal 2026, our reported gross profit decreased 2%, resulting in a reported gross margin of 59.8%. Our gross profit margin expanded 40 basis points due to a 240 basis point A&D benefit largely related to the absence of the prior year transition services agreement for Sonoma-Cutrer and Finlandia. This benefit was partially offset by points of higher costs, largely due to the impact of inflation on our input cost and lower production levels, 50 basis points of unfavorable price mix due to the strong growth of New Mix and lower used barrel sales and the 50 basis points of negative effect of foreign exchange, driven primarily by the strengthening of the Mexican peso.

Continuing with our other financial highlights, I'll turn to our operating expenses. In the first quarter, organic advertising expense decreased 3% as our long-term philosophy is to align A&P spend with our depletion-based top line trends and we are thoughtfully managing controllable expenses in this dynamic environment. We continue to believe our level of brand investment is healthy, which is evidenced by how we have increased our brand investment at a 4% CAGR over the last 5 years and that the strength of our brands enable us to remain competitive in the current environment.

Our organic SG&A investment decreased 7%, which reflected lower compensation-related expenses related to our workforce restructuring initiative we announced in January. Our new structure creates a more streamlined organization, leveraging greater synergies and enhanced ways of working, which we believe will enable us to fuel the growth of our brands, our business and our people at a more rapid pace. In total, reported operating income decreased 7% and organic operating income increased 2% in the first quarter of fiscal 2026.

In addition to the $19 million nonoperating postretirement expense, these results led to a 13% diluted earnings per share decrease to $0.36 per share.

Now that we have been through our financial highlights for the first quarter of fiscal 2026, I'd like to turn the attention to our full year fiscal 2026 outlook, which, as Lawson shared, we are reaffirming. The operating environment remains volatile as the geopolitical and global macroeconomic conditions have created sustained levels of consumer uncertainty. We continue to expect that the behavior of the consumer and the level of trade inventories will not change meaningfully during the fiscal 2026 year. While the global trade environment remains dynamic and fluid, our guidance assumes the current tariff impact on our products will remain unchanged. We strongly believe that the strength of our portfolio, the benefits of our route-to-consumer transitions and our evolved workforce structure as well as strategic innovation will help us in navigating these short-term cyclical disruptions. From a geographic perspective, we expect continued growth in our emerging markets and the depletion-based trends in the U.S. and developed international markets to remain similar to fiscal 2025 with the exception of Canada. While we are encouraged by recent discussions, American Spirit products have been off the shelf in Canada for months. This had a significant impact on our first quarter of fiscal 2026, which will impact our full fiscal year results and has been included in our full year guidance.

In addition to Canada, the other cyclical driver is the year-over-year change in our used barrel sales. Our used barrel sales are returning to levels that are more typical and challenging an uncertain operating environment for our industry. We still expect used barrel sales to be lower by more than half of fiscal 2025 level, which is a significant year-over-year headwind. We continue to execute our long-term pricing strategy and expect to benefit from our revenue growth management activities and strategic innovation, particularly Jack Daniel's Tennessee Blackberry, while anticipating product mix headwinds due to the faster growth of our RTD portfolio and agency brands as we ramp up these businesses in Japan and Mexico.

As we prepared for the launch of Jack Daniel's Tennessee Blackberry and the transition to our new distributors in the U.S., we experienced unusual phasing in the first quarter of fiscal 2026, leading to higher shipments compared to the year ago period. We continue to anticipate that shipments will roughly equal depletions in fiscal 2026 and which will result in higher depletions and lower shipments as we progress through the remainder of the first half of our fiscal year.

As our new distributors become fully integrated and the initial launch of Jack Daniel's Tennessee Blackberry concludes we anticipate that ordering patterns in the second half of the year will normalize to reflect more typical seasonality. For fiscal 2026, based on the currently known factors, we expect a low single-digit decline in organic net sales and reported gross margin expansion as we believe price/mix will largely offset cost and that we will benefit from A&D. While input costs will continue to benefit from lower agave cost, we project higher costs compared to the prior year period, largely driven by the impact of inflation and lower production volumes.

In addition, as we shared previously, following the divestiture of Finlandia and Sonoma-Cutrer brands, we entered into transition services agreements, which had a negative impact on our overall reported gross margin. the TSAs had ended, resulting in a positive impact on a year-over-year basis. Also, the absence of Korbel is expected to benefit reported gross margin. Our outlook for organic operating expenses in this challenging environment continues to reflect investment behind our brands, utilizing our long-term brand expense philosophy to align A&P spend with our depletion-based top line growth. We also continue to expect a reduction in SG&A related to our strategic workforce restructuring initiative. Based on the above, we are forecasting organic operating income to decline in the low single-digit range. We also expect our effective tax rate to be in the range of approximately 21% to 23%. And then our estimated capital expenditures will be in the range of $125 million to $135 million for the fiscal year. While this range is lower than previous years, we have completed a number of projects and expansions and continue to fully invest behind our business.

In addition to lower capital expenditures compared to fiscal 2025, and we also continue to focus on reducing our finished goods inventory, which should further reduce our working capital and significantly improve cash generated. Our first quarter was a good start to fiscal 2026. While volatility and uncertainty will likely be words we continue to use throughout this fiscal year, we have taken actions focused on our geographies, our portfolio and our people that we believe will enable us to navigate the short-term challenges as well as position the company to deliver long-term growth.

Before opening the call to Q&A, I also wanted to take a moment to say thank you. It's impossible to put into words what the last 3 decades of Brown-Forman has meant to me. This journey has allowed me to travel the world, build some of the most iconic spirits brands and work with the most talented teams in the industry. My greatest accomplishments are not personal achievements. They are the shared success that come from working with exceptional people who are passionate about making a difference. I look forward to working with Lawson and the entire executive leadership team to ensure a thoughtful seamless transition to my — ***indiscernible*** — successor and remain committed to delivering our fiscal 2026 ambitions.

While my career at Brown-Forman will conclude next May, I will forever wear the titles of long-term shareholder, brand ambassador and proud consumer of our highest quality Premium Plus portfolio.

This concludes our prepared remarks. Please open the line for questions.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question comes from the line of Peter Grom of UBS.

Peter Grom

Leanne, congratulations. Thank you so much for all the help over the years and best of luck moving forward. I guess I just wanted to follow up quickly just on kind of the distributor inventory impact. Clearly, a nice tailwind to sales in the first quarter. But I just want to understand and clarify kind of how you see that evolving as we move through the balance of the year. I think you mentioned, Leanne, that it would be largely complete by the end of the first half. So I just wanted to clarify that. As we look out to the second quarter, would you anticipate a 400 basis point headwind to organic sales? Or did I mishear that?

Or am I misunderstanding that?

Leanne Cunningham

Yes. I think for the entire fiscal year, we're expecting shipments and depletions to be in line, and that's including our U.S. where we're not expecting any significant changes in the level of our trade inventories. Now I know we tried – in our June call, we said that there would be some shipment disruptions as we've made these transitions in the U.S. So it's kind of challenging right now to see through to some of these numbers. But in general, we believe that our distributors are going to continue to target the low end of their inventories. They're in low end the normal range that retailers kind of have what they need. You [can see] for the first quarter in Schedule B that our shipments are ahead of depletion. That's really related to the launch of Jack Daniel's Tennessee Blackberry, the launch of the new el Jimador package and then the distributor transitions in the U.S. So you can see on Schedule D that there's a 6% increase in the U.S. in net change of distributor inventories and then also in our emerging international markets, a 10% increase. And that is due to just phasing comparisons over the prior year period for the UAE and rebuilding of some inventory in Paraguay and Uruguay because there was those importation disruptions that we had in fiscal '25. So we believe will be – so for full year, shipments and depletions in line with each other. Importantly, also at the first half, we should see our results to be in line with our full year guidance from a top line perspective.

Operator

Our next question comes from the line of Nadine Sarwat of Bernstein.

Nadine Sarwat

Lawson and Leanne. I'd like to focus my question on the U.S. I perfectly appreciate the distributor inventory build and the disruption that causes. So I'd like to look through at the underlying growth rate, which was down 8% weaker than what you had in Q4 and Q1 last year. So 2 questions on that. First, on the quarter, in particular, exiting the quarter, was the trend the same weaker, stronger and the distribution — ***indiscernible*** — Second question is, given the underlying performance, has your view on whether the weak U.S. alcohol trends, are they driven by structural or cyclical? I appreciate this question. It feels like we're beating a dead horse every quarter. But I'm sure you can appreciate, it is a crucial question. Would love to get any updated thoughts that you have on that.

Lawson Whiting

Take the beginning of that.

Leanne Cunningham

Yes, do you want to go ahead and start with the second part on [weak] cyclical?

Lawson Whiting

Yes, beating the dead horse Nadine, that's a good way of putting it because I don't think our answer is going to be a lot different than what we've said before, but let me take some time to go through this. Obviously, we knew this is coming. And there are some sort of new pieces of information, but this is kind of a long answer, so brace for it. Look, I think this conversation around structural and cyclical, which has really been going on for about 18 months or so now. On the cyclical side of things, I mean, there are certainly headwinds around consumer buying power. And we've talked about this in the past, but inflation and higher interest rates are certainly hurting consumers. Uncertainty around tariffs, I think that was not only in the U.S. that actually was more of a global thing, but certainly, that didn't help. But I do think, and I'll come back to something we've we have talked about before. But if you had to say or pick up, 1 thing that we think is the strongest factor that would say this really is a cyclical thing is back to where we were 2 years ago, basically today. I mean it was the Q1 earnings literally from – what that have been August of '23. So I remember that quarter because at that time, TDS was still in a plus 5% or 6%

range, which it’s hard to believe how much that has changed in a 2-year window, but I think the timing of it is what is important. So 5% or 6% up at the end of summer in ’23. By Christmas, it was 0, and then we got into calendar ’24, and it was essentially negative minus 2%, minus 3% for much of the year, and it’s stayed in that range ever since. But I would still argue that nothing – this was really a global thing, it wasn’t just the U.S. – can take a market from plus 6% to call it, minus 2 or sort of 8 points of difference in what felt like overnight or taking 6 or 8 months to get there. But I truly do not believe that the structural things that people talk about the most is we’re back to the cannabis GLP-1s and just a general health and wellness consideration. That just does not tank a market that quickly. I still don’t believe that.

So while there is some continuum between cyclical and structural. I think we – I think generally, all of us would agree it’s somewhere in the middle there, but I still feel like the cyclical side is a little bit a bigger piece of it. Now a couple of other things. Moderation, in health and wellness and moderation, which is probably the most often talked about, and it certainly gets into the general media seemingly every day. Certainly, there are some people who are drinking on fewer occasions and others are just drinking fewer per occasion. And then you’ve got a few that are drifting towards either lower AB or no or no alcohol products. But the whole concept of drinking less but better has been around for a long time, and we think we’ve played pretty well in that space. The shift from beer and wine to spirits continues even over in recent quarters and months and that’s been going on as I think we all know for a long, long time. So what are we doing about it? Look, we’ve changed the portfolio. I think everyone knows that. That’s a longer-term play. But we prioritize premium and super premium products. And I do think, as time goes on, that will play out very, very well for us. A lot of folks were referencing the Gallup poll that came out was that a few weeks ago to talk about the number of Americans drinking at an all-time low. And I don’t want to spend a lot of time on that, but I do – we internally at least use IWSR a bit more, and then there’s Nielsen retail measurements, there’s shopper panels, we do all that kind of stuff. And the methodology and the – I should say really the data is pretty mixed. And so – while I do think and I think the data backs up that there have been a decline in the percentage of American drinking, it felt like that poll had – I don't know if exaggerated is the right word, but it wasn't quite to the extent that we saw. And it's not that many Americans we see that are actually exiting the category and not drinking at all. It's just they're reducing the consumption at the time. So A couple of other points. GLP-1s are often talked about in this whole conversation. That has – the growth in those has moderated quite a bit. So I don't want to jump on that too hard, but I don't think it's as big of a headwind maybe as it was a year ago. And cannabis kind of the same thing. I think that's always been a little bit blown out of proportion to its immediate – it's impact on – yes, spirits consumption, but there are the other – I don't know, I don't think we've talked much about these hemp-based beverages that are out there, and they're in – these are the ones that are hemp-derived and they're legal as a result of this loophole from the 2018 Farm Bill. So many – really all the states did not anticipate that potential that, that was going to go that way. We still have some concerns over basically the lack of a regulatory framework and the need to ensure consumer safety. So those things the net-net, I don't think that has a material impact on takeaway, but it's still there.

So Look, there are tailwinds, too. And it seems like the conversation has moved away from the tailwinds and is focused on the negative. And I think Gen Z, that's the 1 that was talked about quite a bit, sort of in the early days of these conversations. There are – the Gen Z does seem to be experiencing a very pronounced effect from these cyclical headwinds, and that makes sense to me. I mean it's – those are the folks that are in their 20s for the most part. And they don't have a lot of money in their wallet and with rent and all the things we've talked about over the quarter, food and everything else. They get hurt more than anyone else and that tends to be the age group that consumes the most alcohol or has the highest per capita. So that has been a headwind. But I do think step back for a second and think a little bit longer term, we've still got Gen Zs growing, and there's global growth in the LDA drinking age. And so that will be a tailwind. Middle-class consumers are still growing, all — ***indiscernible*** — I'd say, all around the world, but in many, many, many markets, and we think that's a positive. And even women getting into spirits is another trend that has been around for quite a while but continues. So Look, it's a long answer. I still – I think sort of conclude and get off the line here. It is a little bit of both. I think we've all accepted that. But I don't want folks to exaggerate the structural end of things. I just – I don't truly believe that. So I was laughing earlier because I think I've done more than 50 earnings calls in my career, and that's the longest answer I've ever given. So I apologize for that, but I do think, truly, it's probably the single most important question to ask on the long-term health of this industry.

Leanne Cunningham

And then hard to follow. But to your first question, Nadine, back to the U.S. and the exit rate. What we would say is we've got 13, 14 states, including California and transition. Every state has been unique. Collectively, we probably did decelerate as we neared the August 1 transition date, there's noise even in our depletion-based business due to these transitions. We do see in some of these states where there's a gap where takeaway is stronger than depletions. And as we think about where we will be for the remainder of this first half, we would expect depletions to accelerate and shipments to lower, again, coming in line with more of our full year guidance.

Lawson Whiting

Yes. That won't happen pretty quick, I think, as – we've shipped a bunch of Blackberry in the first quarter and hadn't depleted any. And so the depletions are coming. And we do have – I think you said, normalized here in a fairly fast fashion.

Operator

And our next question comes from the line of Andrea Teixeira of JPMorgan.

Andrea Teixeira

Leanne, I'm going to echo all the praises for you and wish you the best. Thank you for having the patience and teaching us more about Brown-Forman. I want to go back to a bit about the segmentation in the Jack Daniel's specifically. Just wondering if you can comment on, Lawson, you did mention that you don't believe any secular trends, but of course, like in the kind of like thinking about premiumization, but you still have a decent volume on that call it, mainstream Jack Daniels. Of course, it's a premium liquid. But I'm thinking of more as we see fragmentation and consumers on the RTDs, of course, you have a very strong RTD offering. But just thinking of long term how to attract the new – at the age consumers, LDA consumers in how you can change that? And how does that behave most recently within that net number in terms of consumption. Of course, we can see your shipments. But in terms of consumption, how has – have you exited your Jack Daniel's take the JDTW performance?

Lawson Whiting

Well, look, I think if you're referring to consumer takeaway of Jack relative to whether it's TDS or whiskey or hundred or other ways you can cut it. Look, we've been slowly narrowing the gap, and it does kind of depend how you look at it, but we think we're gaining it, gaining on TDS. TDS, I mean, look, if you want to find a green shoot out there, and this is a small one, you got to look hard to find it. But TDS is getting – has – for the last 4 months, 4 or 5 months, has gotten a little bit better. We're talking [10], so we're not taking jumps. But there are slight improvements in there. But if you look at – and this is – I think it's interesting, and I was just looking at this a little bit ago, if you look at Nielsen by price point, so you look at the $20 to $29 price point, that's cutting down pretty closely. So we're going to spend a lot of time breaking up TDS in too many ways. But we're in line with that price point, down between 4% and 5%. TDS is flattered very much by the RTDs these days. I think we all know that. So we're doing okay within that. Within the largest brands in America, we always go to that top 20 list that Nielsen has. Jack Daniel's it's holding its own and they are too sort of right about average, I'll say, within all those. There's now – I think we said 3 – only 3 brands in the top 20 largest that are even growing right now, and Woodford is 1 of those. And so we're happy about that. But back to the health of Jack Daniel's Tennessee Whiskey and how do you continue to sort of bring new consumers into the franchise. I mean the single biggest thing is we have really changed up our consumer communications over the last I don't know, 3 months or so it's been with our new campaign, that's what makes Jack, Jack. And I think it's been very successful.

Our initial sort of feedback has been very, very successful. And – the 1 – and I won't spend a lot of time on all the different consumer metrics but the most important one, in my mind, at least and the teams would say this is a meaningful difference. And that's where we're actually seeing scores improve for the brand. And that – Jack Daniel's has such a unique set of attributes to it that we weren't playing up enough, and now we've got it much more back and where space that we can own. And I think that is really, really important for the long term health of the brand. And then some of the things we said in our prepared remarks around McClaren, and we've gotten much bigger back into music again, we kind of had – we never really left it, but we're focusing on that quite a bit more. There's a – I don't think we've ever talked about our songwriters. I think this is just kind of a fun part of it, but we host Songwriters camp 3 times a year down in Lynchburg. And I don't know how many of you all are country music fans, but country music prefers to Jack Daniel's all the time. And the number of mentions we're getting in songs has gone up meaningfully, like tripled and quadrupled kind of thing. So we're still relevant with a lot of consumers. We're still very relevant in that space of Country music and rock & roll, but I know that we've sort of within the country world taken off.

So Jack's Garage is a very popular experience that we're doing around the world now. So we're pulling all the right triggers. I do believe that. And I guess the other one, which we have talked about a little bit is 1 of the big key initiatives is we got to get the on-premise in the – well, not only the U.S. but in our bigger markets, going again. And – that is important. We have added a lot of resources to that, particularly, we call it the Jack Pack, but it's about adding people to specifically focus only on the on-trade in the most important cities in America, and we hit the big ones. And so dedicated, focused people will do that. And I guess, lastly, and I'll stop, we have all these new distributors. They are very excited to focus on Jack Daniel's Tennessee Whiskey. It's a huge brand. And anybody who's a sales guy in America is going to want to sell that brand. And so while we just did the transition, it's only been 3 weeks. So it's – I would caution everyone to extrapolate too much about the first quarter. There's just a lot of noise – the system will settle down over the next few months, I think, and we'll see where things go. And it's our job to get that consumer takeaway going again.

Operator

Our next question comes from the line of Andrea Pistacchi of Bank of America.

Andrea Pistacchi

Yes. I wanted to go back to Jack Daniel's Black Blackberry a minute, please, which has been in the trade for a few weeks now. You were sounding quite optimistic in the prepared remarks on the launch. So could you give a bit more color maybe on the response you're getting from the trade and the pace of the rollout? And what's the ambition for Blackberry? Do you think it could get as – I mean, could it be as successful as other flavor launches like Apple Fire, which reached like 2,000, 300,000, 400,000 cases. And I think you sort of mentioned this also in the prepared remarks about the potential for the brand to travel across geographies. But do you see potential as much for Blackberry to travel as you as we've seen with other flavors.

Leanne Cunningham

Yes, I'll start with that, and Lawson can build on. For Blackberry, we are off to a really strong start. And to your point, we have only the second half of July, started to get those shipments out there in preparation for the launch. So there's really not a lot of depletion-based information or consumer takeaway that we can comment on yet, but we can say that there is a significant amount of excitement in the system from our distributors. There's a lot of wonderful feedback and buzz that we're getting from both existing and new consumers, customers, media, as we thought about this strategic innovation and we consider Blackberry. Again, it is a natural flavor. It is found largely around the world. It fits with consumers' pallets. And 1 thing we believe that we're strong here at Brown-Forman and is globalizing these flavors utilizing our existing network as we've done with Honey and we've done with Apple. And if you've seen, we actually had really strong results on Tennessee Apple for this quarter as well. So we do believe this is a brand that we can globalize and then it will resonate well. Outside the U.S., there's not as much competition in flavored based whiskey. So we're excited about what we'll be able to do with that. And again, all of that will layer in over time because we're just now in our very first weeks of shipping in the U.S.

Lawson Whiting

Yes. And just to add to that, I mean, the globalness of it, I think it is, as Leanne said, different than most of our competitors that are in this space, and that's important. We are going to use this as a growth driver over even multi-years. It's not all – not like we're blasting the world in Q1. So not just Q1, but even this fiscal year, we intend to spread this out with different sizes and different markets and all that kind of stuff. So we feel good at it as a sort of a multiyear growth driver. I'll add an anecdotal piece to it a little bit. One of the challenges in flavored whiskeys is the mixer. Like a lot of brands do shots, but there haven't been that many real natural mixers for a lot of the brands. This one has a great natural mixer in lemonade. So that's my anecdotal, but I will tell you, Blackberry and Lemonade is a great to drink. It's been one of the best tasting flavored whiskey things I've ever tried and it works. And we've needed that to really sustain it as a long-term growth driver, and I think we've got it.

Operator

Our next question comes from the line of Filippo Falorni of Citi.

Filippo Falorni

Leanne, congrats and thank you for all the help throughout the years. So maybe a question for you, Leanne, just on the gross margin. You had a 40 basis points of gross margin expansion in the quarter. Is the expectation for the year of still seeing some gross margin expansion on a full year basis? And maybe you can walk us through the components, how to get to the expansion. It seems acquisition and divestiture should be the biggest benefit. And then on the other side, if you can look to the cost side both on the commodity part, but also the used barrel sales negative impact on margins, that would be helpful.

Leanne Cunningham

Okay. So first of all, I would say we're off to a really strong start for our fiscal year. Our margins are well positioned with 40 basis points of expansion in the first quarter to 59.8%. We've given you kind of the breakdown for that, so I won't go back through that. From a full year perspective for '26, yes, we're going to continue to benefit from the absence of Finlandia and the Sonoma-Cutrer. The absence of those TSAs as well as the absence of Korbel. We do believe our price mix will largely offset our cost. And then as we said in our prepared remarks, our costs are really driven about the impact of inflation on our input costs and then lower production volumes. We are still benefiting from some lower agave cost, but that's being offset by the 2 things that I just mentioned. As it relates to used barrels, again, we are coming off 3 very strong years of sales, F'25 being our strongest year. So now as we normalize that high-margin business and the absence of that, all of that is built into the guidance that we have provided for the full year.

Operator

Our next question comes from the line of Eric Serotta of Morgan Stanley.

Eric Serotta

Leanne, congratulations. It's been a pleasure working with you and looking forward to toasting down in Lynchburg in October. Question for Lawson. What are you seeing in terms of the competitive and promotional environment, last quarter, you commented I think that surprisingly, everyone had been pretty rational thus far. I know first quarter typically isn't a heavy promo period, but any additional color would be helpful.

And then sort of as a consumer I'm seeing more allocated bourbons on the shelf. I'm not talking like the $200 suggested retail price bottles that would sell for a few thousand marked up. I'm talking bottles in the $30 to $60 range that for the past few years, you couldn't find or if you did, they were a couple of hundred dollars. Are you see a – are you seeing that in terms of your and competitor allocated products, leaving Birthday Bourbon aside. And b, is that having any impact, do you think, on brands like Woodford and Old Forester?

Lawson Whiting

That's a good question. look, I step back for half a second, then I'll directly answer your question. As I think we've said on these calls a number of times, American whiskey and then tequila even the 2 categories that serve or offer the best super-premium, ultra-premium line extensions, particularly as American whiskey largely because of the barrel. There's so many different things that you can do. We consider ourselves be leaders in that space, and we've had a lot of very unique and very successful innovations over time. So you're right. I mean there are — look, everyone – not everyone, but I mean people – the big brands have seen a lot of which we have led have seen what you can do with some of these higher-end line extensions, Double Oaked by far being – I say that, I think would be our most successful line extension that we've probably ever done. So there's lots of exciting things in that space.

Jack Daniel's has its 10-year-old. It's 12-year-old, it's 14-year-old, talk about allocated. I mean, there's – the demand is many, many times more than we have supply for. And there's a number of them in the Woodford and even Old Forester, you mentioned Birthday Bourbon, but we have others in President's Choice and some other really highly desired line extension. So yes, so I mean, I think you will continue to see those. That's a price point that we obviously love to play in. and we think we'll do quite well with that. Now shorter-term question, you had started to ask have you seen – I mean there's difference in promotions because there's more brands on the shelf necessarily, but pricing has continued to be — ***indiscernible*** — fairly rational. Tequila, as I think everyone has said, seems to be the most aggressive for obvious reasons. But American whiskey is holding up there again. The category, I think, overall, looking at it's flat. Pricing is flat. So in the last 13 weeks in Nielsen. So with all these – there was a lot of scares, and I think we've talked about quite a bit, actually, in the last few calls about the industry and supply, does that going to – is that supply going to eventually drag down pricing overall, and that's the part that I think is rational and it's still rational. It's just quarter-over-quarter, we've not seen much change in the way of pricing.

So we certainly consider that good news. In terms of the industry supply question that no 1 asked but I'll give you the answer anyway. The – it does seem to be rational. I mean the – as we – everybody knows that there are literally thousands of brands across the United States and those entrepreneurial-led brands are having a hard time. They're having a really hard time and there's a lot of them going out of business. The shelves are still very, very crowded in both American whiskey and tequila. But I do think, over time, that is starting to reduce. And so thank – I say thankfully but we wanted some shelf space back again. So I think that is a dynamic that is happening. But as we said, they never really got to meaningful market share, and it's still the big I don't know, 5 or 6 companies that control the industry supply and everyone has throttled back. And so – and I think you all would be surprised at how quickly these things come in line, especially if we get some volume growth. But – but everyone has throttled back quite a bit. And so I think that risk is less than it was maybe, I don't know, 6 months ago or a little bit longer ago than that.

Operator

And our next question comes from the line of Kevin Grundy of BNB Paribas.

Kevin Grundy

Leanne, I'd like to extend my congratulations and best wishes to you and retirement, of course, as well question for both of you. This is kind of zooming out more 20,000-foot, but just – so Lawson, the approach to driving growth in the portfolio now geographically. I appreciate the time you spent talking about some of the success you've had in Brazil and emerging markets. And as we kind of look at or contemplate and the market contemplates your ability to kind of get back to that longer-term algorithm, and I think there's a lot of skepticism as you're well aware, it would be a strategy seemingly much more reliant on emerging markets than it has been in the past. So is there an opportunity to accelerate the pace? How do you think about investment levels from a portfolio approach, particularly when you look at the U.S. and developed markets and you're well aware of what the market is sort of pricing in and the market is of the view this is much more structural in nature than cyclical. So I'd love to get your thoughts on your ability to really lean in on emerging markets and accelerate the pace of growth as that becomes increasingly important and then what does that mean in terms of the achievability of your long-term guidance? So a lot in there, but I'd love your thoughts.

Lawson Whiting

I mean, it's a great question. It is – we are internally spending a lot of time thinking about that and talking about it. And it is – what – if this environment in the established big markets, I don't see it being a declining market. I just don't believe that's the even medium-term outlook. But does it get back to 4 to 5, I mean that's such a hard question to answer. And I don't really have a crystal ball. And I know some folks are coming out loud, saying – making some predictions on that, but I'm not going to do that. But I do think we've talked a lot about if it's a lower growth environment, how does your portfolio look? Are there differences you want to make there? But within geographies, probably even more so, what would you do? And we are naturally going to allocate more resources into these emerging markets because it's not only Brazil, that is growing. We have plenty in Turkey and UAE, and we have big eyes on Asia, and particularly India, which were relatively small. So that would be a good example of a market that needs incremental resources, and we think there is a meaningful opportunity there. And so I don't want to say that we're re-allocating away from like the U.S. because it's still the most profitable, biggest premium, all those types of things. We'd be crazy to try to back away from that opportunity there, which I just still think we've got the portfolio that fits the U.S. consumer really, really well. And so we don't want to back away from that. We want to make sure that we get our fair share of that. So – but yes, I do think in terms of emerging markets going forward, it's – from Mexico and all of South America has been where we've been the most successful in the last few years, and we will continue to fuel that, the momentum is still there. And so we're continuing to do that. I mentioned India, it sounds strange to talk about the Middle East, but there is a growing business there that is actually there, and we feel pretty good about that. And then Asia still has all the opportunities that we need to find a way to crack that and that will be a big one. And then Japan, we – I think you all know, we just put our own sales force in place about a year ago. And so we're getting our – I mean, we're getting up and going there, and it's a challenging market on a lot of levels, but it's a huge bourbon market. It's a very, very premium market. And now we're much better positioned to be able to get our share of that.

Operator

Our next question comes from the line of Bonnie Herzog of Goldman Sachs.

Bonnie Herzog

Congrats and best of luck, Leanne. I wanted to ask a couple of things. First, shipments, as we've discussed, we're well ahead of depletions in Q1. As a result, this was certainly a benefit to organic sales in the quarter, but could you quantify for us the EBIT impact of that load-in in Q1?

And then second, I guess I was hoping for some more color on your price/mix in the quarter. I think it was down around 5%. So could you maybe just touch on the drivers of that? And again, how we should maybe think about price/mix for the rest of the year?

Leanne Cunningham

To your first question, if you'll take a look at the bottom of Schedule D, we try to provide that all the way through the P&L. So you can see that information that you're looking for is there. And then from a price/mix perspective, a lot of it is about price/mix – I'm sorry, as far as like mix as far as the higher growth of New Mix and the lower used barrel sales that we had partially offset by kind of the launch of our Jack Daniel's Tennessee Blackberry.

Lawson Whiting

And I think – I don't know if I misheard you, Bonnie, but the on or whatever this is, the gross margin slide that we have in the deck, the price/mix impact, at least on gross margin was 0.5%. Not 5%.

Operator

This concludes the question-and-answer session. I would now like to turn it back to Sue Perram for closing remarks.

Susanne Perram

Thank you. And thank you, Lawson and Leanne, and thanks to everyone for joining us today for Brown-Forman's First Quarter Fiscal Year 2026 Earnings Call. If you have any additional questions, please contact us. We look forward to participating in the Barclays Global Consumer Staples Conference next week and hope to see many of you.

For those of you unable to attend our fireside chat on Wednesday will be made available as a webcast, accessible via the Brown-Forman corporate website under the section titled Investors, Events and Presentations. To wrap things up, the story of Jack Daniel's begins on a day in September about midway through the 19th century, but no one can agree on exactly what day he was born. One thing we do agree on, though, is that Jack's birthday is certainly something to celebrate and since we don't know the exact date, we choose to celebrate any day in September. So we hope you'll join us in raising a glass, which every day you choose, as we say happy birthday to Jack. With that, this concludes our call.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.