Brown-Forman Corporation, Q2 2019, Earnings Call 2018-12-05

Presentation

Operator

Good morning. My name is Dorothy, and I will be your conference operator today. At this time, I would like to welcome everyone to the second quarter fiscal 2019 conference call.
— *Operator Instructions* —

I would now like to turn the call over to Jay Koval, Vice President and Director of Investor Relations. Sir, you may begin.

Jason Koval

Thanks, Dorothy, and good morning, everyone. I want to thank you for joining us for Brown-Forman's Second Quarter 2019 Earnings Call. Joining me today are Paul Varga, our Chairman and Chief Executive Officer; Lawson Whiting, Executive Vice President, Chief Operating Officer and incoming Chief Executive Officer; and Jane Morreau, 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, and you should not place undue reliance on any forward-looking statements and the company undertakes no obligation to update any of these statements, whether due to new information, future events or otherwise.

This morning, we issued a press release containing our results for the second quarter of fiscal 2019, in addition to posting presentation materials that Jane will walk through momentarily. Both the release and the presentation can be found on our website under the section titled Investors, Events & Presentations. In the press release, we have listed a number of the risk factors that you should consider in conjunction with our forward-looking statements. Other significant risk factors are described in our Form 10-K, 8-K and 10-Q reports 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.

One additional housekeeping item. We evaluated changing today's call given the passing of former President, George Bush, but decided that the change would be more disruptive to everyone's calendars than keeping our originally scheduled date and time. That being said, we plan on ending our call today at 10:50 a.m. to ensure that all of our participants have adequate time to join the funeral ceremony for our 41st President at 11 a.m. EST.

With that, let me turn the call over to Lawson.

Lawson Whiting

Okay. Well, thank you, Jay, and good morning, everyone. Today, Jane and I will be talking about the first half of our fiscal year 2019 where Brown-Forman continued to deliver top – solid top line growth. However, there are a couple of factors, most obviously and notably tariffs, that are causing fluctuations in our quarterly results. But overall, I'd characterize the first half as a continuation of the solid fundamental growth story that we have seen for much of the past decade.

So first, I just want to start off by thanking our 4,800 employees around the world for the solid start to fiscal '19, delivering 5.5% top line underlying growth on top of last year's strong 7% top line gain. We're planning for modestly faster underlying sales growth in the back half of the year due in part to easier prior year comps of 5% growth. More details to follow from Jane, but if not for the tariffs, we would be on track to not just deliver another great year of top line results but also bottom line where underlying operating income growth, ex tariffs, would be on track to be up in sort of the high single digits, consistent with our – sort of our most recent historical 10-year numbers as well as the ambitions that we have going forward.

Even so, we believe we have taken the appropriate measures that should position us for mid-single-digit underlying operating income growth for the year, which would result in EPS growth in the range of 11% to 18% for fiscal 2019.

So these tariffs have certainly presented challenges across many areas of the company, including our production and supply chain operations and, of course, our commercial teams in the affected markets across Europe, Mexico and Canada, to name a few. We're in a unique position as the market leader in American whiskey, competing against so many nonimpacted spirits categories. So over the short term, we're assuming the tariffs to remain in place.

In our first quarter earnings call, we reduced the midpoint of our underlying operating income growth for the year by roughly 3 points or approximately $35 million to $40 million net impact due to tariffs. That has not changed. As a reminder, the cost of the tariffs is going to be a hit – largely a hit to our gross margin. To date, we have chosen to largely absorb these costs so that we could maintain the solid commercial and consumer momentum through the critical OND period.

As we communicated previously, we are and we will continue to evaluate pricing on a market-by-market, customer-by-customer basis. In other words, our approach is what I would describe as surgical and we will continue to do this as long as the tariffs remain.

Despite these short-term headwinds, our long-term goals and our growth ambitions remain unchanged, which is what we'll be talking about next week at the investor conference in New York.

We'll spend the afternoon discussing our strategy and why we're so bullish on the global growth potential for our premium American whiskey brands and how we intend to lengthen our lead in a rapidly growing category. I will introduce our strategic framework as well as discuss how we have organized our teams to better focus and execute our strategy. Our Chief Brands Officer will focus on some new thinking on how we build our brands and share more specifics on how we intend to capitalize on the global demand for our premium American whiskey brands. We'll hear from our commercial leaders on where we see the greatest growth opportunities and how we will seize them.

Jane will share how we invest to fuel growth and deliver returns for shareholders. Garvin will also be there and talk about the Brown family and their ongoing commitment to Building Forever Brown-Forman. And finally, Paul will be there in his final appearance as CEO to lead some bourbon tastings with the investment community. Easy.

So now I'm going to hand the call over to Jane, let her walk you through the first half of the year results and then give you some more color on our reconfirmed guidance for fiscal 2019.

Jane Morreau

Okay. Thanks, Lawson, and good morning, everyone. During my comments today, I will reference the slides we posted to our website this morning. This will help you walk you through the 2 main areas of focus that I plan on covering in my prepared remarks. These 2 areas include, first, a review of our first half results; and second, our outlook of fiscal

2019, which we reaffirm this morning. After I complete my prepared remarks, we will open the call up for Q&A.

Okay. So let's begin with Slide 3, and it highlights our first half results, reflecting solid top and bottom line underlying growth, even after considering the impact that the cost of tariff began to have on our gross margin in the second quarter.

First half underlying net sales grew about 5.5%, as Lawson said a moment ago. Tariff-related inventory buy-in, largely in Europe, and giveback associated with these buy-ins created quite a bit of noise in our underlying rate of sales growth for both quarters. On our last quarterly call, we estimated that tariff-driven retailer and wholesaler inventory buy-ins had contributed roughly 2 to 3 points to our 9% underlying net sales growth in the first quarter. We had anticipated that the buying-in effect would reverse by the end of the fiscal year, and indeed it did, as essentially the entire giveback occurred during the second quarter, negatively impacting second quarter sales growth by about 2 points. In other words, our underlying net sales growth of 3% in the second quarter was equally as unrepresentative of our trends in our business as was the first quarter's 9% growth.

The first half growth rate of 5.5% on top of last year's first half growth of 7% equates to an over 6% CAGR, as illustrated on Slide 4. As we look over the balance of the fiscal year, it should be noted that the second half comparisons ease considerably, plus 5% underlying net sales growth, implying that we should see modestly higher net sales growth in the back half given our current business trends, and that will keep us on track to deliver another year of 6% to 7% growth in underlying net sales.

Now the difference between the underlying operating income growth in the first half versus the second half is even larger. We grew underlying operating income about 4% in the first half of this fiscal year on top of a very strong 14% underlying growth registered in the same period a year ago. The combined impact of lower gross margins due in part to tariff costs as well as the fact that the A&P investments have been front-loaded this year pulled down our year-to-date underlying operating income growth to 4%. These factors were partially offset by the continued tight management of SG&A spend. Now the company remains focused on efficiency programs and reallocation efforts to ensure that we are both leveraging prior investments and positioning our brands for long-term success in the marketplace.

Now moving on to Slides 5 and 6. You'll see our reported net sales growth was pulled down by about 2 points due to foreign exchange and 1 point due to the adoption of the new revenue recognition standard.

Slides 7 and 8 dig into our results by geography. Let's start with the United States. We delivered 3% growth in underlying net sales during the first half of this year. The second quarter growth accelerated modestly despite a route-to-consumer change in the market and tough comparisons against last year's first half where our U.S. business grew 6%, helped by last year's first half heavy timing of promotional activities. As a result, our 2-year average growth in the United States in the first half is in the 4% to 5% range, as shown on Slide 9.

So acknowledging that there are always short-term fluctuations in 3-month takeaway trends, we believe our business in the U.S. is growing in the mid-single digits, and that's supported by the blended Nielsen and NABCA value takeaway trends during the first half of the year as well as the 12-month trends.

Our emerging markets delivered excellent underlying net sales growth. They were up 10% on top of 15% gain in the first half of last year. Our growth in the emerging markets remained broad-based, including strong contributions from Mexico, Brazil, Ukraine, China, Sub-Sahara Africa and India.

Similar to the first quarter, it was in our developed international markets that tariffs had the largest impact on our growth rate, the tale of 2 quarters, if you will. The first quarter benefited significantly from retail and wholesaler-driven buy-ins in several developed markets in Europe. And the second quarter experienced the giveback from those buy-ins. Given our estimates that inventories are now largely in line with historical levels, we believe that the first half underlying net sales growth of 5% is roughly indicative of the trends we have seen in our developed international markets over the last several years. Germany, Australia and Spain were standout performers, while we also registered solid growth from the U.K. and France.

And then finally, Travel Retail continued to grow well into the double digit, with underlying net sales growth of 14% on top of last year's first half growth of 11%. This growth was fueled by an increase in travelers, growing demand for the American whiskey portfolio and new product introductions such as Jack Daniel's Bottled-in-Bond.

And moving on to Slide 10. You can see it highlights our well-balanced delivery by growth, our growth by brand, with the Jack Daniel's family of brands underlying net sales of 5% and our premium bourbon, including Old Forester and Woodford Reserve, up 24%. We're particularly pleased with the continued U.S. leadership of Woodford Reserve in the super-premium bourbon category and very optimistic as we ramp up our investment and focus globally on Woodford as well as our super-premium whiskey portfolio. Further, tequilas, including Herradura and el Jimador as well as New Mix, continue to grow nicely, up 12%.

Slides 11 and 12 examine our margins and other rates of growth. What I thought I might do now is spend just a moment talking about gross margins, which, as expected, began to experience the cost of tariffs during the second quarter. Specifically, when we started the fiscal year and in the absence of tariffs, we expected modest declines in gross margins, similar to what we experienced in fiscal 2018. And recall, this anticipated decline was due to higher input costs, including wood and agave, as well as the incremental depreciation expense associated with our multiyear capacity expansion program.

You may also recall on our first quarter call in August, we revised our outlook for gross margin declines to over 200 basis points for the full year, reflecting the net impact of tariff-related costs as we sought to invest behind maintaining the consumer momentum in our business.

As a reminder, as one of our tariff mitigation items, we shifted a couple of months of inventory to Europe, which, in conjunction with our normal inventory levels and considering the timing of tariffs when they took effect, protected the majority of our business in Europe through the first 5 months of fiscal 2019. Thus, during our second quarter, we began to realize the net tariff-related costs as well as the expected increase in input costs.

These factors, combined with the impact from the adoption of the revenue recognition standard, reduced our gross margin during the second quarter by 200 basis points, resulting in 100 basis point decline during the first half. And you can see this all illustrated on Slide 12.

So now moving on to our operating expenses. Our underlying A&P investment grew 7% in the first half, a few points above sales growth due to the timing of spend. Underlying SG&A grew 3%, driven in part by costs associated with organization-related changes and the early retirement program the company offered in the first quarter. In the aggregate, our underlying operating income growth through the first half was up 4% and was negatively impacted by roughly 2 percentage points due to the incremental costs associated with tariffs. A 19% effective tax rate, fueled by tax reform, helped drive the 8% growth in earnings per share to $0.93.

So now, let me move on to my second topic and share with you our reaffirmed outlook for fiscal 2019, that you can see on Slide 13. So despite the tariff-driven lumpiness in our first and second quarter results, the underlying net sales growth in the first half keeps us on track to deliver another year of strong top line growth at Brown-Forman.

Our takeaway trends for the brands remain solid and supportive of our growth ambitions. Second half results in the U.S. should benefit from the focused promotional support that we had planned for the large holiday selling season. As a reminder, top line comparisons ease by 2 percentage points in the back half.

In total, our outlook remains unchanged from our first quarter call as we expect another year of 6% to 7% growth in our underlying net sales in fiscal 2019.

Also unchanged from our first quarter guidance, we're assuming that tariffs, as Lawson said a moment ago, remain in effect throughout the remainder of fiscal 2019 in the EU, China, Mexico, Canada and Turkey. We continue to assess the timing and the amount of additional price increases on a market-by-market basis, but we do not expect that additional increases would offset the cost of the tariffs or the higher cost of goods we had already anticipated for the full fiscal year. As a result, we believe the gross margin pressure will continue during the second half of the fiscal year and cause an over 200 basis point decline for the full year, which is really consistent with what we've communicated to you in August.

While first half underlying A&P growth came in well ahead of our underlying net sales growth, we anticipate that these 2 metrics will grow roughly in line on a full year basis. We expect tight management of SG&A should result in flat spend for the year, creating some modest operating leverage from gross profit to operating income. As a result, we are reaffirming our full year expectations for 4% to 6% underlying operating income growth for fiscal 2019.

Our earnings per share outlook is also unchanged at $1.65 to $1.75, and this range represents a growth of 11% to 18% over last year's EPS of $1.48. As a sensitivity, EPS over the balance of the year will be impacted by roughly $0.04 as foreign exchange rates move 10% in either direction.

So in summary, our company continues to register solid top line momentum. And as Lawson also said a few moments ago, in the absence of tariffs, we would be on track for another year of high single-digit underlying operating growth and operating income.

Despite this short-term challenge, we continue to manage the business as we always have for the long term. We believe we have some of the best premium American whiskey brands and assets in the world, which, when combined with our whiskey-making knowhow and brand-building skills, position us well to continue creating shareholder value.

Our results are well balanced, helped by our fast-growing business outside of the United States. Our business in the United States continues to benefit from our portfolio of SKU towards the fastest-growing categories, including American whiskey and tequila. We believe our portfolio, including our leading premium American whiskey brands, are significantly underpenetrated today relative to their long-term potential, and our teams are working hard at executing our 2025 strategy to capture this growth, which, by the way, you'll hear more about next week at our Investor Day.

Equally important, we have invested significant capital in the United States to expand our business to fuel the growing demand we expect from current and future consumers of our brands around the world. This includes a multiyear period of stepped up CapEx and inventory investment, which had been a significant use of cash over the last several years. We expect to leverage these working capital investments in the coming years to drive additional free cash flow generation and provide opportunities to return cash to shareholders as we always have, thoughtfully, disciplined and opportunistically, [that's a fit] to the broader environment, including our recent dividend increase of 5.1 percentage and our share repurchase activity in the second quarter.

And so with that, wraps up my remarks. Dorothy, we can please open up the call for some questions.

Question and Answer

Operator

— *Operator Instructions* — Your first question comes from the line of Brett Cooper with Consumer Edge Research.

Brett Cooper

Two questions for me. I was just hoping you could help us understand, I guess, from your perspective the puts and takes on timing-related items that are a little bit harder for us to see. So specific off the release, promotional timing and distributor changeover, just trying to get a sense – I appreciate that the 3% is against the 6% a year ago. And if you put those together, you're growing roughly in line with the category and given your portfolio – at least I would expect it to grow a little bit better. And then the second is really on the topic you brought up last call, and that's with respect to the creation of the emerging brands group. The brands that are in that group could get a heightened focus. I suspect Jack Daniel's and Woodford in the U.S. make a lot of money for everybody, so those will get left behind. And I was just wondering if you could offer your take if there's a transition period in terms of shifting of responsibilities before you get the impact from the changes in a similar way that the reallocation of Southern Comfort resources took a bit to show through the results. And then finally, just what comes of the nonfocused brands as a result of the shift?

Jane Morreau

Thank you, Brett. So let me start with the United States and see if I can help. There is a lot of noise, as we said, in the numbers. And so if you look at the first half, just to reiterate, our growth in the business was 3% at the top line. There's a couple of things I called out. One, there was a distributor change in one state. It pulled our numbers down about 1 point. That's behind us. And then there's some other timing activities that did happen. I'd like to focus specifically timing being on our really heavy promotional activity that we did across the board last year on Jack Daniel's, Gentleman Jack, Honey and Fire. And we chose to push that through the OND – through the holiday period and later this fiscal year. So when we consider both of those factors, we think our business is running in the U.S. in the 4% to 5% range. And again, that is consistent with the syndicated data growth. One thing that we don't have that we've had in the past, perhaps something, this is getting to your question, we do have Rye out there. We can talk about that in a little bit more detail. But the innovation lift to our business that we had for so many years with Honey and Fire, which are both, by the way, growing still very nicely in the United States, but they aren't – the new innovation is not propelling this above the TDS growth at this point. So I don't know if that helps a bit on the puts and takes as it relates to the U.S. business. And you know that when we look at our U.S. business, we also have the easy comps next year, so we were comparing the 3% to our 6% growth in the first half. And then if you look at the second – and again, that's driven in part by this change in route-to-consumer and the promotional timing. And then you flip it to the last half, our growth in the last half is 4%. So we're flipping our timing of promotional activities back there and have the change in the distributor stay changed behind us. So that's the U.S. I don't know, Lawson, if you want to on the emerging brands or add anything else to the…

Lawson Whiting

Let me add just one more point on the U.S. sort of timing promotional calendar differences. One of the other results of the shifting of our promotional calendar is that our pricing's – relative price positioning went up over the last few months. So we were going up a bit and our competitors are going down, so the differential got spread and that hurts volumes a bit. We're getting a little bit sharper with that now. And so it's just one more reason why we think the second half of the year, you'll see an acceleration. I'd also want to point out, too, that Woodford, which you mentioned in your question, remains very, very strong. It's actually become now as the #1 incremental growth driver – as tracked in Nielsen, it's the #1 growth driver in the entire American whiskey category. So it has become very meaningful to our business and continues to grow and look good. And the other bourbon brands, really, Old Forester, the tequila brands, particularly Herradura, also sort of accelerate our growth rates. So we feel pretty good about the premiumization wave that continues to happen in the U.S. and how it is benefiting some of those brands. One sort of a final point on the U.S. is really, I think we have to admit that after a summer of digesting a number of organizational changes, which started with me but trickled down through the organization, that's now behind us. The entire U.S. organization is very focused really on delivering OND in the rest of the fiscal year and they are in a good place, which brings in the topic of the emerging brands team and how that's going. It – we put it in place really didn't get – I would say the first meeting wasn't really until August. And so I have a hard time saying that's the reason some of those brands are accelerating right now, but the good news is that they are. So if we look to not only Herradura and Old Forester, which are sort of the anchors – the anchor brands within that division, but thankfully, GlenDronach, in particular, is starting to accelerate its growth rate in the U.S. It took us a little bit longer maybe than we would have liked to get it – to sort of get the momentum behind it, but it is happening now and we feel pretty good about that. Same thing on Slane, where some dedicated resources and focus, we think, is what it needed and it's also beginning to accelerate. So we feel pretty good about the direction it's going. It's just that it's a news deal that it's tough to cite that as the reason that many of these brands are accelerating, but it has to be a contributor.

Operator

Your next question comes from the line of Dara Mohsenian from Morgan Stanley.

Dara Mohsenian

So obviously, there's been a lot of concern about macros in Asia and then Travel Retail. It seemed like your Travel Retail results were still pretty strong in the quarter. Was just hoping you could give us an update on those areas. So what you're seeing on your own business in Travel Retail, maybe what you're hearing from an industry perspective as well as China. Any changes sequentially as you move through the quarter, any signs of weakness so far in fiscal Q3 and maybe just general thoughts on the level of macro risk in those areas.

Jane Morreau

Yes. I always like to start off with our business just in general, a concentration of our emerging brand – our emerging markets group, I think that's what you're focusing on when you say Asia, and really, parts of Global Travel Retail are pretty broad for us. It's not the same as perhaps some of our other competitors broad-based. And so if I look at the growth we had in the first half, I'm very pleased with it, on top of the 15% growth we had last year, so double digit, on top of double digit. And we're forecasting for the year for that not to change, continue to be very, very strong contribution. So we're not seeing things slowing down, if you will. I will say that China is a very small business for us. We've talked about this before, but I'm excited about some of the things that we're testing and doing there as it relates to the e-comm off-premise business. In fact, we had a wonderful Singles Day. Perhaps we'll talk about this next week at our investor conference on 11/11, where our volumes have doubled in 1 day versus the same period a year – or just a little touch of stuff. As it relates to the Global Travel Retail business, it remains strong. Yes, travel is still up, as we said. Some of it is driven by us and new introductions there, as we said. The innovation, and it's doing well, innovation being Bottled-in-Bond. The scotches that Lawson was referring to in the U.S. actually are doing very well and our Global Travel Retail business. And as we continue to introduce travelers around the world and they become more familiar with American whiskeys, our American whiskey portfolios continue to do well there. So we haven't – as I look again to the full year for the Travel Retail business, I expect it to remain a strong contributor to our growth.

Lawson Whiting

And on the emerging markets question, Dara, I know you largely know this, but the markets that are driving that sort of double-digit sales growth around Forman are different than the markets that drive most of our competitive emerging markets' buckets, so Mexico, Poland. Really, Eastern Europe, which no one really ever talks about, is a sizable business for us and growing at very, very nice rates. Brazil has been a star for years now and continues to grow very nicely, and then Russia. So we have a different set of markets than is a little more common in the India, China world. We feel – so one, we think that's a big opportunity and something we will be talking about that next week. But it's – that's an area we see in the future being a decent growth driver for us. But for now, those core markets of Mexico, Poland and Brazil really are driving our emerging markets business.

Jane Morreau

I would – I want to just build one more point on when we combine our emerging markets and Travel Retail, they're well over 20% of our business now, and some people take it for granted. I mean, that's a pretty good chunk of our business. And when it's growing double digits, it begins to be very meaningful for Brown-Forman. So when we consider other places of the world, I think we cannot lose sight of the nice growth there and the fast businesses up and coming.

Dara Mohsenian

That's helpful. And then just, Jane, one quick clarification. It sounds like SG&A may be a little more favorable in your full year guidance based on the release. Is that being offset elsewhere by gross margins maybe being a little worse than expected? Or does that just sort of put you in a better place in terms of your EPS range, albeit unchanged? But maybe looking like you're more favorably placed within that EPS range, just trying to understand that.

Jane Morreau

Yes, I mean, I think – yes, Dara, thank you. I started off the year, I think we expected SG&A to be flat and modestly – may change it modestly with the first quarter. But really, it's just – it's this tightening and continue management of our costs and taking a closer look at what our full year forecast is. So I'm back to where I was at the beginning of the year, really. It keeps us firmly in our range.

Operator

Your next question comes from the line of Peter Grom with JPMorgan.

Peter Grom

So the tone on tariffs seems to kind of have changed since August. And at the time, it seemed as if one of the reasons you decided to absorb the tariffs in August was the result of the positive commentary in the press. So I understand you guys are still planning to absorb the tariffs for now, but is there anything out there that may alter your strategy as you move into the back half of the year? And has there been any positive developments of late?

Lawson Whiting

Yes. I mean, I wish I could say there were positive developments. And I think, obviously, the Mexico, Canada has been moving in the right direction or it feels that way. China seems to be a rollercoaster a little bit, and Europe's gotten quiet. So – and for us, Europe is the largest of all those buckets, for sure. So in terms of tone changing a little bit, I mean, you're probably right in saying that when we were, I guess it was August call, we were optimistic that the tariffs may get settled a little faster than they seem to be. But we're sticking with it and we're – we do continue to absorb the costs for now as we would say we are investing in the momentum of the brands. So – but as we move farther into the fiscal year and into the summertime, we're going to be more motivated to take – to recoup at least a portion of these tariff costs, and we're starting those conversations now. So we will see. I don't think our overall position has really changed very much, but we're trying to stay agile as the situation is pretty fluid, and the entire tariff discussion remains a very big part of how this fiscal year is unveiling.

Jane Morreau

It's definitely a balancing act, I think, for us as you consider the affordability of our products to our consumers and then just the relative pricing when you consider the competitive sets that's not subject to these tariffs. And then we'll consider the margins, so it's a balancing act with all of those factors as we look ahead. We have actually taken some pricing in a handful of markets. So I'm sure that you understand we have taken some, we took it earlier this year.

Operator

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

Brian Velez

This is Brian Velez on for Vivien. So this weekend at the G20 Summit, we saw U.S., Canada and Mexico essentially sign NAFTA 2.0. Are there any implications for your Mexican operations or import businesses into either geography?

Jane Morreau

No, there is not any implications from – matter of fact, just so you – we understand, the signing of the tariff, I think, has actually got a period of time before it actually becomes – it's got to go through Congress and other things to fully be approved before it comes in place. And that is separate and apart from the steel and aluminum tariff and the retaliatory tariffs that were put on American whiskey in response. So that's the first step. And then the second step would have to be the rescinding of those tariffs. That part is still impacting our business, the tariff that's still on aluminum.

Brian Velez

Great. And then separately, so Woodford continues to outperform despite higher ASP relative to its peers. Can you just comment on the price gap evolution in super-premium bourbon and whether these price points are increasingly bifurcated?

Lawson Whiting

Well, I mean, we have been steadily increasing the price on Woodford now at a very low single-digit rate for quite some time. There are certainly other brands that are just below us that continue to grow and grow nicely, too. And I – you've probably seen that, I'll call it, the American whiskey business in the United States is accelerating right now again. It sort of dipped a little bit over the last 6 months and then – and started coming back, and I think it's over 10% now or in that range. So we feel pretty comfortable that the brand is strong enough that it can continue to take some small price increases and continue to defend its turf as really the #1 super-premium whiskey out there. It's a great success story for us and one that we're very proud of.

Operator

Your next question comes from the line of Steve Powers with Deutsche Bank.

Stephen Robert Powers

So I know that directionally, some degree of tariff impact was expected in this quarter coming out of last quarter. But it looks to me like the tariff impacts maybe start to flow through a bit more intensely than expected in the second quarter, both in terms of the reversal of the first quarter demand sell-in as well as some of the negative impacts to gross margin hitting in the second quarter versus more of a delayed impact toward the second half. So the first question, is that a fair depiction that you're feeling more tariff impact a bit earlier than anticipated? And if so, is there an explanation as to why? And then secondly, in that context, realized price/mix fell off dramatically in the second quarter from the first quarter at a total company level, which seems counterintuitive given the tariff impacts ramping up. So maybe can you bridge the sequential falloff in pricing in the quarter that was just finished and then perhaps provide some color as to how that price/mix line should trend in the back half as you work to offset some of the further tariff impacts?

Jane Morreau

Yes. So, Steve, just to talk about the first half, I think you were talking about, were the tariffs a larger bottom line impact to us than we expected in the second quarter? They were not. So they were not. So answer to your question that they were not. We said they would start to expect – hit us in the second quarter. In terms of the timing of when they reverse, we really didn't know what the exact timing, this is new territory to us. We expected some to reverse by our fiscal year-end. And they all reversed in the fiscal – in the quarter, if you will. So the margin impact of this is really what I was talking about that we weren't expecting. What we expect in the second quarter margin impact was consistent. The timing was not what we expected, but it's behind us now. We just thought it would be all behind by the end of the year. So did that clarify both those questions?

Stephen Robert Powers

That does. But I still have a question as to the realized price/mix.

Jane Morreau

Yes. So the realized price/mix, so it's – we really – when we said this back in August, and Lawson was referring to it, we delayed for the most part in all of our major markets any price increases related to tariffs. We had [taken a] handful, it's very small countries. And so you're not seeing the pricing in the quarter. I think that's what you were trying to allude to, connecting tariff with pricing. That's because it didn't happen because of – it was very small, anything that we had. Any type of pricing that we would have later on tariffs – related to tariffs would be later in the year. And we do have a little bit of an improvement on that in the back half.

Stephen Robert Powers

Okay. And I don't mean to dwell on it, but in the first quarter, the 9% underlying growth was in part driven by 4 points of price/mix, if my number is correct, whereas this quarter, essentially all of the underlying sales growth was volumetric. So I'm just trying to bridge that 4 changing to 0 just quarter-to-quarter. And is there a mix impact? Is it timing? Because I just feel like it's a very abrupt falloff. I don't see anything in the year-over-year comparative to explain it.

Jane Morreau

Yes, it's really driven by the giveback, the mix of the giveback that we had in Europe. Okay?

Paul Varga

Yes. The way to think about it, first quarter would have been inflated by the inventory build, giving you more price/mix. And then when it reversed in the second quarter, you would, again, have the effect of the price/mix not being there, right? So I think that – just the way your question, I think that explains most of them.

Operator

Your next question comes from the line of Judy Hong with Goldman Sachs.

Judy Hong

So first, I just wanted to follow up on the U.S. trends, and I think that there are sort of 2 separate issues. One is just in terms of the consumer takeaway trends. I know that you talked about the 4% to 5% being kind of the underlying trend that you see. I guess the last couple of months, that does seem a little bit soft, at least in some of the scanned data. So I know, again, there's a lot of short-term fluctuations. So just wondering if you can kind of talk about what's causing some of the slowdown more recently. And then the second issue in the U.S., it seems to be more just a timing of your underlying sales versus kind of what you see in the consumer takeaway data. So when you say in the second half you're expecting an acceleration, is it more that the consumer takeaway trend should now be more representative in your underlying sales just as some of the comparison issues go away? Or should we be looking at somewhere in the mid-single digits? Or do you also expect consumer takeaway trends to accelerate in the back half and that gives you a boost in terms of the back half trend for the U.S.?

Lawson Whiting

Well, I think, Judy, that – kind of yes and yes. One, I would just – and you sort of alluded to it, but be careful with the shorter-term syndicated data results because they've often diverted from what we're seeing as our real takeaway trend. So that's happened a number of times in the past. But really, the 2 issues which we mentioned earlier but really is just the tough comps. I mean, that math is in the slide that you guys have. But the other part of it really is the promotional calendar timing, which we did weight to the second half of the year. And so as I've talked about a little bit earlier is the pricing gaps relative to our real – our big competitors got bigger. That was a nick on our volumes, and we've already – we've done some things to get that back in place again and we feel pretty confident that you'll see a second half acceleration. That acceleration should show up not only in our company sales numbers but also in the syndicated data.

Jane Morreau

So, Judy, I thought I might just add one point to help on the first part of your question, just to put it into some type of perspective. I saw the statistic yesterday, I was looking at something, and it talks about our activity, our overall promotional activity, our spend, I guess, if you will, being down double digits over the last 3 months versus the year ago. So you can see it's fairly significant. It would have a fairly significant impact, and Lawson mentioned this early, because others – other competitors were continuing to do this type of activity during this last 3-month period. We do not. We zagged, they zigged, whatever you want to say, went the opposite direction. And so that big change was probably what you're seeing in the 3-month syndicated data. And we already had plan to move things and did move things as the only – that's what our plan was for the year. So we hope we see – we expect to see an acceleration as we go through the balance of the year, and you'll see depletions and our takeaway trends converge back to more the 4% to 5% range.

Judy Hong

Got it. Okay. And then just following up on the tariff impact question. So if I look at the slide where you talk about the gross margin impact from tariff, the 0.3%, so that's about $3 million roughly in terms of the second quarter. It sounds like the $35 million to $40 million impact that you called out last quarter is still intact. So I guess the $30 million plus kind of a number, it's your expectation that, that actually does flow in the back half of the year, and so the gross margin guidance is down 200 basis points. That seems more second half weighted still. Is that the way that we should think about the tariff impact?

Jane Morreau

You got it. You're absolutely correct.

Judy Hong

Okay. And then a little bit of a longer-term question on your mix of your emerging markets. So I think you even called out today that some of your growth that you've seen in markets like Poland and other markets, it's a little bit different than some of the other competitors that have obviously focused on markets like China and others. So how do you sort of envision the mix of your emerging market opportunity kind of changing over time? Is it more just you still see a lot of opportunity in markets like Poland and others so that's really where you're going to continue to focus on? Or would you think about diversifying that mix going forward? And how do we think about the investment level in some of those markets?

Lawson Whiting

Okay. That – I think that's a good question. That is something we're doing a lot of studying on right now, so where we see the best opportunities. But it's not that we would – not that we don't feel good about Poland and Eastern Europe and some of those markets going forward. They're still – particularly, as their consumers shift a lot of times, shifting out of Hoboken into whiskey, and that is sort of an underlying trend that has boosted those markets for a number of years and we're continuing to ride that way. But you asked about where we're – some of the markets where we're underdeveloped and we see some better performance going forward. I would cite South America in aggregate as one. Africa, in general, we are very, very small. And then India and China, both are growing markets for us. They're just not really all that big. And so expectations are going up on both of those markets. It's true, you'll have – we will have to reallocate some resources to build awareness and to build – to establish those markets and get them moving faster. And we have every plan – plans to go ahead and do that. But I wouldn't call – we're not going to go, what I call, silver bullet down on one market and say that's going to be the growth driver of our sort of future. It's going to be a spread of the bad thing as we continue looking. And really, the geographic diversification, they're going to be focused –those markets are really going to stay focused on the Jack Daniel's family and continue to push forward. I mean, they're all well seeded, it's just a matter now of extrapolating into bigger growth.

Paul Varga

Judy, one other thing to keep in mind related to – I know you know this. When you look at the relative position or performance of the companies in the industry in the emerging markets, I mean, sometimes it swings by the degree to which you're in cognac is one aspect of it, particularly when you talk about China. The other one is the degree to which your company is invested heavily in the local businesses. And the story of Brown-Forman is so interesting is that when we – ours for the most part is a very Jack Daniel's and, hopefully, ultimately, an American whiskey-led premium price point strategy at this stage in the emerging markets. And so some of the biggest differences you'll observe in our performance or penetration or position within these emerging markets versus our competition really goes back to what portfolio you're taking into them and at what price points you play. So – and of course, that moves in – it moves around with the passage of timing of cognacs in a fashion. For a while, it drops in a country or the emerging market, local businesses can be strong or weak. And so just – I just always like to remind people that the various companies do have different strategies and portfolio approaches to these emerging markets.

Operator

We've reached the allotted time for questions. I will turn the call back over to Mr. Koval for closing remarks.

Jason Koval

Thank you, Dorothy, and thanks to all of you for joining us today for our first half earnings call. Just a quick reminder, those who haven't yet RSVP-ed to next week's Investor Day at the Stock Exchange, please let us know by Friday so you can avoid any issues with security at the Exchange. And we look forward to seeing you then. In the meantime, feel free to reach out if you have any additional questions. Take care.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference call. You may now disconnect.