

Brown-Forman Corporation, Investor Day 2014

2014-12-10

Presentation

Operator

Ladies and gentlemen, Jay Koval, Vice President, Director Investor Relations.

Jason Koval

Good afternoon, everyone, and thank you for joining us today for Brown-Forman's 2014 Investor Day. We couldn't be more excited to have you here today as we lay out our plans to further develop our leading portfolio of American Whiskey brands around the world, and drive the next decade of outperformance. We've got a full afternoon planned. So let's quickly review our Safe Harbor language and then look at the agenda.

Today's investor presentation contains forward-looking statements based on our current expectations. Numerous risks and uncertainties may cause actual results to differ materially from those anticipated in these statements. Many of the factors that will determine these future results are beyond the company's ability to control or predict. You should not place undue reliance on any forward-looking statements and the company undertakes no obligation to update any of these statements, whether due to new information, future events or otherwise.

On this page, we've listed a number of the risk factors that you should consider in conjunction with our forward-looking statements, other significant risk factors are described in our Form 10-K, 8-K and 10-Q filed with the Securities and Exchange Commission.

Each of you in the room should have today's slides in front of you, and for those of you who weren't able to join in person, the meeting is being webcast and our slides have been posted to Brown-Forman's website under the Investor Relations tab.

So with that, let's turn to our agenda for the day. Paul Varga, our Chairman and CEO, will kick off the meeting and presentations will run until roughly 2:30, when we'll have a quick break for you to check e-mails and use the restrooms. After the break, we'll return for additional discussion and presentations before having Jane, pull it all together with some numbers. We're targeting to open up the floor to Q&A at roughly 4:00 p.m. and then we'll wrap up at 5:00 p.m. So you can enjoy some of our great brands that are in the cocktail reception.

Before I turn the floor over to Paul Varga, I wanted to share a video that summarizes what an exciting time this is Brown-Forman to be the leader in American Whiskey.

[Video Presentation]

Operator

Ladies and gentlemen, Paul Varga, Chairman and Chief Executive Officer.

Paul Varga

Well, good morning, everyone or good afternoon now. It's our pleasure to welcome you to the conversation that I don't think we need a lot of introduction from the theme that you saw there in that video. I think if you look at the backdrop I've got here behind me and of course, in traditional form for our industry, barrels and bottles of Bourbon, which sets the theme for what we're going to talk about today.

We will talk about, in fact, Brown-Forman Corporation with a specific focus because of many questions we received from you and others about what's happening with American Whiskey. So we thought we'd spend a majority of our time today to actually talking about that. You saw on Jay's agenda that you'll hear from not just me but a number of my colleagues in the leadership ranks of Brown-Forman today. We always enjoy hosting you either as small groups or as individuals, whether it's here in New York or some

other facility, sometimes our own production operations in Louisville, Kentucky at various times. And so this is another such opportunity for you to get to know Brown-Forman, but I hope you'll get to know more of the people that sometimes you don't get to see through your individual visits and experience with the company. And you saw that you'll hear from 10 of us, and – but there are more than 10 here today and during the breaks and particularly, afterwards, the reception, you'll have an opportunity to talk to all of those more closely. And there's these particularly 2 people that I wanted to introduce who weren't on there, who don't have formal speaking roles but will be around for the remainder of the afternoon because I just think you'll might enjoy getting to know, one is Chris Morris, who many of you would have seen or met before, he's our Master Distiller, and is really chock-full of information as it relates to the making of our products. And one of the reasons that we think that this revitalization is going on in American Whiskey is because of what's in the bottle, and Chris, better than anyone, can be articulate on that topic. As well, Campbell Brown, who is one of the Brown family members, the founding family and controlling family behind Brown-Forman today. Campbell oversees our Midwest division in the United States, so he's very current on the United States business, but he's also really integrally involved in the work of the Brown family and its engagement with Brown-Forman. So there's a lot that you might be able to – Campbell and Chris have both worked all over the world for Brown-Forman at various times, so they're intimate, in terms of their knowledge about the company. So I just want to make sure you're aware of them. In addition, to all my colleagues who you'll hear from and there's a nice section at the back of the presentation book that you have to have bios of all the folks that you're going to hear from. So I just found it useful to read about them and find out things about even my colleagues I didn't know. So an interesting to have that as a reference point as well.

I'm just going to start us out and hit – I will just call it maybe skimming over what you will hear over the next couple of hours from the representatives of Brown-Forman here,

today. And I know this is like playing your ace in a game of cards right off the bat but I thought I'd just share 1 slide we've used, this is a representation of the company's total shareholder return relative to a number of competitive benchmarks we utilized and have been doing this over many, many years. And what you'll see is the company's TSR relative to these benchmarks over 1-, 3-, 5- and 10-year horizons, and while it's not even an ambition of ours to always be #1 no matter what the period, it just so happens through October 31, as it was, I believe, very close to it at the end of April, that the company compares very favorably on this metric to very relevant benchmarks we think, for our company, which includes the public company competitors around the world that we track, a composite for the competitive set and we also look at the S&P 500 and consumer staples to see how the Corporation is tracking. And when we look at this, we, of course, thrilled about the progress of the company but we also wonder like you might and that's what today will be about is why.

Why has Brown-Forman consistently performed well against these wonderful benchmarks and how – why has it been consistent? And so I thought I'd take you through just a few summary slides as to why I believe that the company has continued to do as well as it has on these metrics. And it starts with some representation of the business, generally. And I always feel like for any business or any investment we make or that you might make in us that you consider is an attractive business. And on this particular chart, what I'm going to plot for you here are simply 2 things that we hold very high in terms of priority, which are the returns on invested capital and our operating margin. And I think using a 2x2 as we've done here, what you'll see is, I believe, see the efficiency with which we produce profit for the capital that's outlaid or for the sales we generate. And so what I first thought I'd show is using the benchmarks of the S&P 500 and consumer staples, you see pretty nice margins overall and average for the S&P 500 and for consumer staples, a little lower but very – but a higher ROIC.

When you compare our industry overall, what you'll find is that the industry has a much higher operating margin. So obviously, much more efficient in the production of profit from its sales and on par with the S&P 500 but below consumer staples on the returns of capital. And then on Brown-Forman's front, because of the nature of what you're going to hear today about our skew to American Whiskey and to this magnificent Jack Daniel's brand, predominantly, Brown-Forman is at the higher end, the highest end against these benchmarks of both operating margins and returns on invested capital. So it shows that we, at the start, have a wonderful we consider to be business model and a business worth investing and in perpetuating.

Now just because you have this, doesn't mean you can grow it. We all can think of wonderful businesses that at times, have a difficulty growing. So I think the second attribute that I would highlight that underpins our TSR is looking at our track record of growth. And in fact, if you compare it to these same benchmarks and this chart here we'll compare when we stop the clock in April 30, our FY '14 growth, and we'll compare it to the S&P 500, consumer staples and our industry set, which were low single digits. And Brown-Forman, as we completed last year, had operating income growth just over 10%, at 11%. And then, just to be fair, because 1 year doesn't always make a story. When you look at these same metrics on a 5-year basis, you'll see that Brown-Forman has a solid advantage relative to all these benchmarks. So you have an excellent business that has a track record of excellent growth. So the combination of those 2 factors that should be enough, typically, to make you want to invest behind your business.

I think a third attribute that we always add in is the degree of risk undertaken in order to achieve those rewards. And you might always find this to be an attribute, particularly at family-controlled companies but it's certainly, is an attribute at Brown-Forman. And again, against the same competitive set and using 2 metrics per risk here. One, the earlier days I showed, returns on invested capital, which are very nice for all 3 of the

benchmarks, Brown-Forman in the low 20s compares very favorably. So very capital efficient, so less capital risk associated with us relative to a number of these benchmarks. And then, additionally, on the – just on the borrowings of the company as it relates to debt-to-EBITDA ratio, you'll see just the efficiency with which Brown-Forman has lower risk as it relates to the balance sheet. And so when you put all these things together, I think at – from a just pure financial metric and ratio standpoint, it underpins the story of Brown-Forman. And, I think, what I would like for you to hear today, and you'll have an opportunity to ask lots of questions about this is, can we continue this? Is there opportunity ahead of us to continue this track record of really growing at a relatively low risk and excellent business? And doesn't mean there's not a lot of competition, not a lot of bumps along the road but our track record we feel is pretty good, so it's a wonderful time to talk about the Corporation and the industry.

Now this differential performance, we would've discussed some of this on – just even last week, when we released our midyear results for this fiscal year, but I think that what the difference that we would describe really falls into 3 buckets. One being our skew for the very attractive American Whiskey opportunity that we're going to talk to you about today. And within that, our skew within American Whiskey to what we consider to be one of the world's great trademarks of any kind, which is Jack Daniel's. So that would be 1 reason for our – and the fact that our company is in fact more skewed, not only in this category, but more dependent on Jack Daniel's than many of our competitors are. That they're dependent on their leading brand. So we really are in some ways a – we've become a very concentrated company particularly, after the sale of our consumer durables and our wine business a few years back. Second, is the global breadth and diversity of our business now, today, after spending the last 25 years or so on a globalization effort. And I would say that of course, the benefits of being as broadly distributed and broadly appealing as Brown-Forman through the Jack Daniel's trademark is today, is it gives us larger populations to whom to sell our products, it gives us longer runways for growth, which is important for

an enduring company and very importantly, when you have a hiccup in 1 country, such as this year's – the issues that we've been public about and you would've seen related to like, say, Russia or Poland, you can have other countries pick up the slack and continue the growth of the company. So the diversification that comes from this breadth is really – has been really important to the company as well.

And then finally, particularly, when you're as concentrated in American Whiskey as we are and it becomes a basis for innovation, particularly on Jack Daniel's, you can have, if you have a relatively small portfolio compared to your competition, when you have successful innovation, it will show up in your results more prominently than it might for other companies. And so in the cases of here, Tennessee Honey or you see Gentleman Jack or Woodford Reserve double up on a smaller basis, and even last week, we announced the rollout from an earlier market test on Jack Daniel's Tennessee Fire, we have possibilities and opportunities for these flavored extensions. So we really think the combination of our concentration to American Whiskey, the basis for innovation that, that provides and the impact of that innovation as well as the global reach and diversity of our company are the 3 primary things underpinning our differential performance versus our competition.

It would be erroneous on my part not to say that the people at Brown-Forman aren't also part of the difference. I mean, if you think about it, I mean, we uniquely have our trademarks and we uniquely have our people. And those are the 2 things that a lot of companies in the brand building business bring. And I know it's a cliché to say that the people make the difference. But here, when I talk about people, I'll talk about 2 things: One, the employees at Brown-Forman, and we've got a cross-section here today of a few of us and I'll give you one sort of interesting statistic from the agenda that you've just saw. The 10 people that are going to talk to you today, they have a combined 165 years of experience at Brown-Forman. They've worked at greater than 20 companies before joining Brown-Forman, and on average, our executive group at Brown-Forman is

still in its early 50s, on average. So one of the things that I think is nice about that you get experienced people that still have runway to utilize that experience on behalf of the company against the opportunity we're going to describe today. So I think the people and the continuity, and it's not just the people that are in this room today, you can replicate this if you go to virtually every continent where we do business today.

I think the other thing and you'll see them represented in some way in these photos, you might recognize some of them, is the family that is behind Brown-Forman. We consider this to be a significant advantage. I mean a significant advantage. And this is what has been represented here just in the last year, where we saw our largest volume metric competitor in the American Whiskey business sold. So the family and their commitment to the enduring growth and prosperity of Brown-Forman and being able to take that longer view particularly, in the business that ages its products is a huge advantage, we feel, for Brown-Forman Corporation. We'll talk at various times throughout the day about the family. You will see, as we make some of the transitions between speakers today, you'll see videos that describe the company and the American Whiskey opportunity and representing – the voices in many of them are actually Brown family members, who are the people articulating their feelings and sentiments about the company and the opportunity.

So I'm going to close by really just saying in summary, when you think about us or when we think about ourselves, so it's probably putting us both in the same shoes, we think that the corporation is a unique investment opportunity today. And there's – you've seen just a summary of just what I've talked to you about but it really does go to the portfolio that we have concentrated in this area of an American Whiskey with a global opportunity. We think that – we've said this before, particularly, as we have globalized the company, we think that the concentrated nature of our portfolio and the focus of our people, particularly behind the Jack Daniel's trademark, when I think of our global competition, I do not know of a single competitor who is so exclusively concentrated with their focus and

attention on a trademark like Brown-Forman is around the world behind Jack Daniel's. They have much larger companies and they are oftentimes dividing their attention between any number of categories and brand because of the size of their portfolios. We really feel it's an advantage to be this laser-like focused on American Whiskey and very much in many instances the Jack Daniel's trademark.

We think, another very important part that you'll hear from Alex Alvarez is we take for granted sometimes as we've been in the business so long that we've got all these assets. The production and manufacturing assets, the integration into barrel making, these are a huge advantage particularly today, for our company as we seize this opportunity. And I also think you've got an experienced group of people not only here in the room with you today but around the world for Brown-Forman that can bring this to life, supported by a wonderful family who wants this business to go on and on with sort of returns of success that is highlighted for you here today.

So that's the background of what you're going to hear, you're going to get into it in much more detail. Again, it's our pleasure to welcome you here and I'm going to bring up our Chief Brands Officer, and somebody – many of you will remember from his Investor Relations days, Lawson Whiting.

Lawson Whiting

Thank you, Paul. Good afternoon, everyone, and welcome. Good to be here again. I know I've seen that there's a few faces here I haven't seen, since I was in that job and that was 11 or 12 years ago. So if you're still around, I know you've been with this company for a long time, I hope you've enjoyed a great run with us and look forward to today, and talking more about why we think future is just as bright as some of the things we've done in the past.

So Brown-Forman really does have a leading American Whiskey portfolio, and one of the

things we're going to try to talk to you about today, and all the different presenters are going to talk about is why. So not only the results and commentating on what you have seen but why we really believe that this portfolio is so great, and why we think it can continue to grow into the future. So I'm going to focus my comments today on both the category, and why the Whiskey business itself is a good business to be in and why we have so much confidence in it. I'm also going to talk a bit about say, why consumers are increasingly attracted to the category. That's something we're going to try to put some more color around as to what is it that's driving all these – this new generation, if you will, of consumers into the category. And lastly, I'll focus comments on both Old Forester and Woodford Reserve, 2 of the most important brands within our whiskey strategy. And then I'm going hand it off to John, who's going to come and talk more about Jack Daniel's and everything that we have going on there.

So whiskey is the growth leader in spirits as we would say, it's – if you want to be in the spirits business, whiskey has been the largest category in terms of growth, both on a percentage and absolute cases, over the last 10 years. So much better than brandy, rum and certainly better than tequila and gin. So it's been a good category to be in on a global basis. So once you're within whiskey, the price points, we can look at both standard and premium plus and then there's also obviously, the value categories and others but if you're going to be in whiskey, the best place to be is premium plus. And that's where most of our portfolio at least starts and we go up from there. So we're excited that we're in a great category called whiskey that is big. We're in a category, or at least price points that are very attractive and showing sort of mid single-digit growth rates across 3-, 5- and 10-year periods. So these are really sustained periods of true organic underlying volume growth across a long period of time.

And then also, so we like whiskey, we like premium-plus whiskey, and then within all the whiskey categories, we really like U.S. whiskey or American Whiskey. And if you just look

at that, you can see incremental cases over the last 5 years, U.S. whiskey has delivered the most case volume growth of any of the other categories, and scotch which is multiple times, bigger and aggregate than U.S. whiskey, it's still exciting and growing but it is not holding up to the pace at which the American Whiskey brands are growing. So certainly, Irish has been an attractive category and others also. But U.S. whiskey has been the best place to be over the last, say, 5 years.

Now – so that was the last 5 years. I'm going to back up and do a little bit of history over the last about 50 years, what we often called the Golden Age and then into the Dark Ages. So if you go back, this starts in 1952, if you can see it on the screen, when whiskey was the predominant category in the United States, much bigger than all the other white spirits categories combined. And it was the Golden Age, there were lots and lots of brands, a lot of brands that possibly don't exist today, that they've gone away but there were a lot of brands that got very, very big and it peaked around 1970, and then it moved into what we call the Dark Ages. So Dark Ages were a lot of brands went from 1 million case brands to nothing or 1 million case brands to 50,000 things like that. And we owned a couple of them, honestly, Old Forester and Early Times, both got caught up in that. And it was a very difficult time. If you look at the top say, the top 10 spirit suppliers back in 1970 and then who they are today, the vast majority are gone, they've either combined or merged with somebody else or sold out altogether. So, and I do think it's always interesting is how did Brown-Forman make it through the Dark Ages when we were such and have always been largely a whiskey-based company. I mean, it was simply the power of the Jack Daniel's trademark, that in 1970 the brand was actually relatively small and had about 2% share of the U.S. whiskey business, or whiskey sold in the United States it had about a 2% share, and it's about 10% today. So while Jack Daniel's was able to transcend the different categories and compete, and compete very successfully with the vodka brands and tequila brands and others that were growing through those times, a lot of other whiskey brands in this country went away.

So taking a look a little bit – so that was a 50-, 60-year sort of window on how whiskey has evolved in the United States. Let's look at a little bit shorter term. So it really started to turn around 2010. So we'd been in this pretty long period of decline as a category and then, it started to slowly build up again. And we saw accelerating percentages of growth, all the way through, this is IWSR through 2013. And if you look at any of the consumer take-away data in the United States right now, those types of numbers are continuing through 2014. So we're really, really excited about the shorter-term growth that had – or the recent results, I should say, in this category plus 6% in volume growth that is tremendous figures. Now if we take that 6% and we split it up, it's about half flavors and half more traditional, mostly Kentucky bourbons and Tennessee whiskey. So it's been a very balanced growth over the last few years and we're quite excited about that because, we think, it really does provide or bode well for the future.

So we talk a little bit about – a little bit of why, why is this generation discovering whiskey? And then importantly, how long can it go? Or do we – how much confidence do we have that these trends are going to continue? And I'd cite sort of 3 big buckets of reasons why we do believe that this generation is discovering whiskey.

It starts with taste. We believe we have authentic and interesting brands and premiumization. And so let me tell you what sort of within each of those, what we believe or what I believe. First of all, taste, flavors do broaden consumer appeal. We know that we are bringing in new consumers into new occasions, and it's just an easier taste to acquire. I mean as much as I love to drink a nice bourbon on the rocks, we know that younger consumers in particular, struggle with that in some cases. And so we're making it easier for them in a lot of ways and making flavors into a broader appeal. So that is important. And we know that through all sorts of research that millennials overindexed into these flavored brands, different multicultural consumer groups overindexed into these brands, and so they're just millennials in general. And so we know we're bringing lots of new

people into the franchise.

The other important part, I think, or one of the other important parts is authentic and interesting. I mean interesting, may be a sort of, it's a very general word, I guess, on why we really believe in this category but I think it can best be described as, because one of the questions we get is what about you're in craft year and now you've got 50 different of them. All 50 states have their own craft distilleries and they're growing and there's lots and lots and lots of them coming up every day. So what makes us think that what's going to happen – what has happened in beer over the last say, 10 or 15 years is not going to happen in whiskey.

And I would – it's maybe a couple of different things, one, I think, if you go back 10 or 15 years and look at beer. Beer is by nature, it is meant to be tasted the exact same every time, it comes to you either in a can or off a tap but it is meant to be the same temperature and generally, have the same taste every single time. And people didn't – you have a couple of brands who might put an orange slice in there or a lemon or whatever, but largely, it is pretty much the same thing every time. And I do think that they were open up for innovation and competitive reactions, sort of people trying to get into the beer space because they could and because consumers were looking for something a little bit more interesting.

We have a different situation. I do think whiskeys are a little bit different. One, you've got the natural barriers to entry, which others are going to talk about today. Just the general nature and the capital intensive nature of getting into whiskey makes it harder for people to get in quickly and particularly, if they're looking to make a true high-quality say, a bourbon in this case, and want to wait 4 or 5 years is a very expensive undertaking. And so there's some natural barriers there. But just as importantly, I think that whiskey actually is interesting in that, you think about the media. The media is covering it like crazy. Think

about bartenders. Bartenders love to talk about whiskey these days, they love to make great whiskey drinks. And so where if you're a mixologist, if you're in Manhattan and you're at one of these sort of high-end restaurants or bars in town, serving beer doesn't really check your mixologist credentials, if you will. Where making an Old Fashion, really does. And I think that interesting element to it is a bit of a barrier to keep from lots and lots of brands coming encroaching in into our space, if you will. So it's because consumers still find it to be such an exciting place to be. And the entrée continues to find an exciting place to be, and the media and everybody else is covering it, we really do think we've got a bit of a defensive – not a defensive nature so much. But we really do believe we can defend our turf I guess, it's a better way of saying it. So we do think our future is a little bit different than maybe what's happened in beer over the last few years. I don't want to say we're naive to it. I mean, we're not watching it and thinking about it and talking about it a lot but we do believe that we've got some very defendable positions here, and we do think we'll continue to be successful.

The other factor is just premiumization, in general, which is happening across lots of consumer product categories but has – it has been happening in spirits for a number of years, but is really happening in whiskey now. If you look at the growth rates of the brands that are up there in that super-premium and ultra-premium space, the growth rates are phenomenal. And I think that brings excitement into the category, it makes – there's something to graduate to. There's different profiles, we call them different grains that you can play with, different ways of drinking the whiskey that just keeps it exciting and interesting and new. And so I think we've put those 3 factors together, and we really do believe that we've got a long-term runway in front of us.

Now so how do we play in that – in this space? And this is a graphic, a 2x2 that we've used internally a number of times to talk to our, even our own employees but thought we would bring it out in front of you because it is a little bit of a different way to look

at the Whiskey business. So price is on the y-axis and then we've got grains off to the right and flavors to the left. And we, basically, we all know it starts with Jack Daniel's Tennessee Whiskey in the center of it all, and then we look at our portfolio as we go around this wheel. So – excuse me, as you look at sort of in the lower left box, there tend to be less expensive products that have a little bit more flavor. They're bringing lots of people into the category. Different occasions, different ways and formats that you can drink the products. You've got your Honey and Fire in there. And then moving up sort of, if you just kind of go around like a clock up towards the upper right, you've got all our super-premium and ultra-premium products, most of which are growing at very, very rapid paces right now and are great businesses to be in. So we look across our portfolio and you've got Southern Comfort in there, and Early Times and some other brands, Old Forester and Woodford Reserve are also in there. So in total, we feel like we've got this space pretty well covered but there are still white space in there too, whether you go to the upper left, I do think that there's potential opportunity for flavors at a higher price point, and we may go play there or we may go bottom right. People have avoided sort of that space for at least the time being because when you talk about different grains like a rye or wheats and things like that, there's not enough of it out there. There's not a lot of people selling it at real cheap prices but there's certainly, a lot of consumer interest in these different grains and we think that there will be long-term opportunities to play there too.

So now, I'm going to talk a little bit about a couple of brands. One – first, Old Forester and then into Woodford Reserve. Old Forester is the founding brand of Brown-Forman, been around for a long, long time. And it was one of those brands I mentioned earlier, in the Dark Ages that started to decline back in 1970. And we unfortunately got caught up in that. This is actually a graph – good to go. This is what Old Forester's trends have looked like over a 40-year window. Not something we would typically show at a conference like this. To show that a brand went from 1 million cases down to 100, you think, what? Why?

What are you doing? But about 2 years ago, the tide started to turn. And given this is our founding brand and how much we, as a company our associate and particularly, in Louisville or in Kentucky with it, got excited again on this brand, and it started to turn and we saw decent growth last year and it is just accelerating again this year. And interestingly, actually one of the fastest-growing markets for this brand in the entire country is Manhattan. The bartenders in this city have taken to this brand in such a way that gets us very excited in terms of the long-term potential for this brand. It is a very – when I talk about the Old-Fashioned earlier, but the Manhattan and other sort of high-end cocktail drinks that these mixologists are making, they're using Old Forester for it. And it gets us very passionate, gets the company very excited about it. So you would've seen – that opening video before even Paul came up. Some of the news reporters talking about building a new Old Forester homeplace and distillery in downtown Louisville on Main Street for those of you that have been there. So we bought this property almost and we're going to build a new distillery, something that we haven't done like this in a long, long time. We're going to build something that's just going to be out of this world, fantastic consumer experience. And I do think it shows – we're putting \$30 million behind this thing at least, to develop what was a great consumer experience and interaction with this brand and take it – sort of take it back to the next level. So we'll see, we're going to try to get it back to its, eventually, to its 1 million case mark, we'll see. That's a long way to go but we're quite excited about the prospects for Old Forester.

So now Woodford, Woodford reserve is a brand that I'm sure you all have seen by now, it is one of the hottest brands in the entire industry. It is something we are all very proud of and the company is really rallying behind it, and excited to see the type of growth that we're seeing. And I'll show you a short commercial here, just take a little break and then we can talk a little bit about – more about where this brand is growing.

[Video Presentation]

Lawson Whiting

Woodford Reserve is a brand, as I said, very passionate, very – inside of Brown-Forman, you've got a lot of people that really love this brand. It has been growing rapidly in the last few years, but it took a while to get there. And I think this is a brand building model that we have learned a lot from ourselves. We built – we started actually building the distillery back in 1994, we sold the first case in 1997, and it takes a while. I mean it takes a while to properly seed, get it in the proper way, particularly at these price points, it takes a while to get it into distribution and get consumers to really know it. It took a while to get to 50,000 cases, then 100,000. And then the base starts to get bigger, it snowballs a little bit. We get to 200,000. Last year, we crossed 300,000 cases, and we're well on our way to 400,000 and above. So a lot of excitement, a lot of passion for this brand. And at the price point that it sells at, it makes a great margin. So it's a terrific brand, it's something we really want to see growing and doing well going forward.

So I'm going to show a little clip here, just take a little bit of a short break on something that ran on Saturday Night Live a couple of weeks ago, a few of you may have actually seen this. This is one of those things where, as a brand builder and a brand company, when these things happen, we're all high-fiving in the backroom, getting excited about it, but yeah, it's been – this has been a fantastic little video.

[Video Presentation]

Lawson Whiting

I watched that thing 25 times now, and I still laugh every time I see it. It's a long – it's much longer than that, we obviously cut it down for this conference. But that type of PR, one, it's great for the brand just in terms of the visibility that it gives. But it does show you a little bit about how, when they had the chance to essentially pick any brand for the opening skit in Saturday Night Live, they chose Woodford. So once again, confident and

feeling good about it and really looking forward to the growth of this brand over the next few years.

So last slide, just thought I'd lay out kind of our vision statement that we've been using with our own – a lot of our own people something to kind of kick off the rest of the day. So be the global leader in American Whiskey led by our Jack Daniel's trademark, accelerating our existing portfolio growth around the world and entering other attractive Whiskey categories where we don't participate today. So we want to lead the global growth of American Whiskey and we have every intention of doing that. We focus first on our organic growth opportunities, really led by the Jack Daniel's trademark. We know that it's driving the boat these days, and we will continue to focus on that organic black label really, growth to start with but then quickly followed by innovation, we're working hard in innovation as a lot of others are too. But we've got obviously, Jack Daniel's Honey and Fire and others that you're going to hear about today. But the full portfolio of whiskey brands, all are looking at a lot of different innovative products and we're pretty confident we can be successful there. The third bucket would just be acquisitions. We've been public about our interest in other whiskey categories around the world. We still are interested in it, James' going to talk a little bit more about it later on today. But just know that we are looking to continue to grow in attractive business models and we think whiskey, in general, is an attractive business model. So excited about it, looking forward to the rest of this day. I hope you all get a really good feeling of what we're trying to do in the whiskey business. With that, I'll have John Hayes come up and...

[Video Presentation]

Operator

Ladies and gentlemen, John Hayes, Senior Vice President, Managing Director Jack Daniel's.

John Hayes

Good afternoon. Always a pleasure to be here and start after something like that, representing this great brand, Jack Daniel's. We – there it is, sorry. Well today, I'm just going to go through a little bit on setting up front where we've been, of course, a little bit about where we're at today, but more so for you, I want to leave you with why is this brand so successful. If I can accomplish that, we'll be good today.

The first thing, just in numbers, so you go back to 1956 when Brown-Forman acquired Jack Daniel's from the Matlow family. And back then, it was about 200,000 cases sold in just a handful of states, mostly in the United – in the Southern United States. You fast-forward all of these years later, in 2015, it is now a – about 14 million case brand, if you include our RTDs on a couple [ph] of cases and sold in over 170 countries around the world. And you can see our growth rates, which have been very nice and consistent over this period of time. Taking it back into the last 10 years now, our net sales growth for the family has grown a little over 2.5x at a 10% CAGR. So that same growth rate you saw, again, accelerating a little bit, whereas our volume has more than doubled with a CAGR of about 8%, right now. So we got a nice blend of volume and then pricing over the last 10 years. You can see our famous Old No. 7 brand growing at 5%; our RTD business, about 12%; Gentleman Jack, 14% and Single Barrel, 9%. And then, one that didn't exist until about 4 years ago, which has been one of our great success stories of Jack Daniel's, Tennessee Honey, which is now over 1.2 million cases, and I'll talk more about that a little bit later on.

This gets in a bit of what Paul was talking about of our diversification. So Jack Daniel's Old No. 7, as I said, delivered this 5% volume CAGR, where the rest of the portfolio has grown volume nearly 4x faster, and you can see that in – that our diversification within here is gone from being predominantly about 94% Tennessee Whiskey back in 2004. We've had a nice expansion of the rest of the portfolio where, although Tennessee Whiskey of course, as I said, growing at 5%, the concentration is now down to 83% here this year on volume.

You take that into our geographic diversification. So the world's biggest market, our home market over the last 10 years, the United States is growing volume at a 3% CAGR, which, again, during that time and the great recession that we had within here, it would've been more than what the spirits category had been as well as – this, of course, is not taking into account the pricing that we had going on throughout that time. While, of course, our international markets have been a tremendous success for us have grown 4 times faster with a 12% CAGR. So you can see back in 2004, the United States represented 54% of our business, the bulk of the business outside the United States of what we've referred to as "the other developed markets," which are essentially our Western European markets, Australia, New Zealand and Japan and our Global Travel Retail business is what would be in that bucket. And what we're describing as emerging markets is essentially everything else. So you can see in 2004, we just had 7% of our business in the emerging market world and now that's up to 18%, with still plenty of long runway to go for us.

And as a competitive environment, you can see back in 1985, going back, these are, by volume, the top 10 brands of Family of Brands back in 1985. We've seen Bacardi Rum at that time was the largest-selling spirit brand in the world, with 17.5 million cases; so Jack Daniel's #9 at just – at below 4 million cases. So you go to 2013, which is the latest numbers, 5 of those brands in 1985 are gone, not gone, but they've fallen off of the top 10. Jack Daniel's has risen to #4 behind Smirnoff, Johnnie Walker and Bacardi. Remember, these are their full Family of Brands. And for us, this includes our full-strength spirit brands, does not include our ready-to-drink business. And importantly, for us, of course, where we're selling value as well as volume, the Jack Daniel's family is now the – as measured by IWSR, on retail value sales, the third largest Family of Brands brand in the world, closing in on #2 quite rapidly. So that sets the stage. Why? Why is this happening? So first as my friend Ted Simmons said in the video, for us, it's in the bottle, this is a brand of whiskey that is a unique, very-well-made crafted whiskey in Lynchburg, Tennessee. So you've got to deliver the product. But more importantly as well, the brand has a very

powerful equity, that I'll talk about, that is translating extremely well all around world. Of course, it is global, it's the largest premium-plus whiskey brand in the world. And as we have found, it is very extendable.

When we sort of wrap this up, we talk about – in terms of – well if you're a fan of ours, why do I drink it? Some of that, we put down into just purely accessibility. The first within the brand is around the world, can I find it? And right now, I'd challenge that – I think, we may be, if not #1, #2 in any bar around the world, you most likely are going to find a bottle of Jack Daniel's, and so we are very accessible. We're there. If you want to have it, we're there. And we are – a lot of that as well is now through our route-to-market, and just all the great work that we've done out of the market. The second thing you might ask is, is it affordable? Well, yes, it is a premium-price brand, but Jack Daniel's is still within reach for many consumers around the world, whether it's in the pricing that we have, feature pricing that we may do in small sizes. For example, in Africa right now, we're doing tremendous business in our half-bottle sizes, where they may not be able to afford the full bottle; as well as in our RTD business, where you can buy an individual serving or, of course, a drink in a bar, we found that Jack Daniel's can be very affordable in a premium way for people around the world.

Then of course is do I – can I drink it? And for some, we talked about – Lawson talked, about is, for some, it's – they love the taste on the rocks or with water, like many of us do, but for many, that's still – it can be a challenge, so we found the brand through mix-ability, and particular, with Coca-Cola – Jack and Coke, around the world has been a tremendous force for us in the can-I-drink-it category as well as our ready-to-drink business. And now, more recently within our flavored whiskey business, is just allowing people to – that may not like the taste of full-strength whiskey are finding new ways to drink the product.

And then lastly is, do I like it? And that's where I'd probably spend more time on is peo-

ple love this brand and they take it personally within the brand, and we believe it's more within this equity, it's a very real brand. They can call it by name. The name "Jack" translates very well around the world and makes a personality for it. And, quite honestly, has become almost a friend for many people around the world. So with that, I want to move in to just show a little bit of a video of how this comes to life through popular culture in the United States and then export it around the rest of the world.

[Video Presentation]

John Hayes

So those are the famous people, and they adopt the brand, either personally or visually through their movies because of what that brands says about them. And this then translates into people all around the world. And our whiskey and our story has drawn them. It's almost like we have this secret weapon right now of millions of Jack Daniel's fans around the world who have adopted the brand and have become somewhat, almost salespeople for us in telling the story about the brand. To them, Jack Daniel's is more than a whiskey, it's an attitude, it's an emotion and it's a connection. There's a desire in this world to find substance. And in a world of passing fancy and reality TV, they're looking for something real, and Jack Daniel's gives them that realness because Jack is real after everything you've seen on some of these videos here. And still, this uncompromising spirit of every day we make it, we're making it the best we can.

So for our friends, Jack is consistency in a world of change. And it's interesting because they're – sorry, got this – they're bonded by Jack. Put some of these up here. These are some things we've grabbed off of Twitter and Facebook here, just from the recent few days now. So they're bonded by Jack, even though, they'll probably never meet the people that they're communicating with. So for them, Jack Daniel's is a proud badge that, essentially, begins to define who they are as well. So we really are taking these fans

and moving them to be just more than just drinkers of Jack Daniel's, they become what we call loyal advocates of Jack Daniel's. And you can see it on this digital world, we've got over 15 million fans on Facebook that we communicate with quite often. We've got millions of people on our internal database. It's interesting, our digital people will track daily. They can track that there's more than 8,500 conversations happening around the world of people talking about Jack Daniel's. If you go on to Instagram, there, today, of something in the neighborhood of 1 million photographs that people, not us, have taken about Jack Daniel's around the world. So it's this some - I don't think - there's very few brands around the world that would have this sort of a connection with their consumers. And I think that's one of the big reasons for the success that we have.

So going forward, our key strategies, and I'll touch on these briefly, but of course, for me, I get asked, Paul will say, "Just don't screw it up," would be one thing. But doing what we've been doing all these years of continuing to reinforce this unique specialness of Jack Daniel's is what we intend to continue to do. We also are being very thoughtful and disciplined on balancing the value and the volume growth of Jack Daniel's, and a lot of this has to do with our pricing, our pricing power, and I'll touch on that. Something is - around our portfolio innovation, being very thoughtful within that, and I'll talk about that, and of course, geographic expansion. And, lastly, I won't get into today's strategic investment but of course, behind the brand itself are people, which Kirsten and others and then, Alex, of course, will talk about lot of the capital investment that's going at Jack Daniel's.

But first, on reinforcing the specialness. For many of you, might recognize on the left, is a famous - our black and white photography advertising we've been running since the 1950s in many places around the world, still do in the UK today. That's a picture of an ad last month in the London underground, and we continue, where it makes sense, to use that great story and that great advertising. But realizing, of course, the world is

ever-changing. This – on the right is an ad from China that we've now launched with our Jack Daniel's #27 Gold along with this "Master your craft." So of course, a very different look, still saying the same thing about the brand, but we're being much more, I'd call it, open and aware to making sure we're relevant to consumers around the world. And that means you can't be the same in its message content and form that you may be in the United States or the U.K. if you're talking to somebody in China or in India. So 2 examples of that are – I'll show 1 commercial here, which is running right now for Christmas time. It's our fourth year of running it and we run it in many countries around the world, and it gets great emotional connection around the world around Christmas time.

[Video Presentation]

John Hayes

So a great story. It tells the story in Lynchburg of how we make our whiskey and marry that with an emotional truth about the times of the holidays, and it's been very effective for us around the world.

Now an example that I'll show next is we had struggled in South – we had a great run in South Africa for many years, but about 6 years ago, we declined quite rapidly. And did a lot of work on why and, frankly, they appreciated all the story that we had – we'd shown them, which is similar to those, the black and white ads or these ads, but they – it wasn't really connecting as relevant as it needed to, but they still love what Jack Daniel's stood for. So for a lot of – through an insight of just finding out for young South African men and women in the new age of South Africa, it was about that people knew who you were and they knew your story. So that was an insight. So we said, "Well, let's spin our story and instead of us telling you our story, allowing the consumers to tell our story." So this is that example.

[Video Presentation]

John Hayes

So a different look. Still telling the same story, and we're pleased to say that our business, since we launched this about 6 months ago, we've seen a dramatic turnaround in our business in South Africa. So that's showing you an example of – that we're being very open to connecting our message in different ways around the world.

The second area we talked about was the volume and value and the pricing power of Jack Daniel's. And you've heard Paul probably talk about in the past what we call rarefied air. And I wanted to show, this is a little different take on demonstrating – the numbers you'll see here are brands that sell at least 1 million cases and have at least an average global retail price, as defined by IWSR, of \$25 a bottle. And you'll see that there's only 18 brands that make that list right now. And we were great to see that #18, our own Jack Daniel's Tennessee Honey, made the list this year. So you can see many names, great names, 7 through 18. Then you jump up to there's – between the 3 million case mark and the 4 million case mark, it jumps up. So there's – that takes you up to there's only 2 left, there's only 2 brands left that sell more than 1 million cases at more than \$25 a bottle. And, of course, the brand that we all admire and the largest trademark in the world for whiskey, Johnnie Walker Black Label, being the largest singular brand, at that price point, at 6 million cases, selling at \$38 a bottle. But then, there is Jack Daniel's Old No. 7, which is now selling about 11.5 million cases, so twice – more than about twice that size at \$27 a bottle. So again, what we believe to be rarefied air, large volume, high-price, nice margins have allowed us to create this great brand with great reinvestment behind it and with tremendous pricing power.

Moving on to our portfolio expansion. For some – we've expanded a lot. And I want to sort of illustrate here, we've been very thoughtful over the years. So up until 1986, there was, essentially, 1 brand, Jack Daniel's Old No. 7 Black Label Tennessee Whiskey. In 1987, we introduced Gentleman Jack. A couple of years later, we got into the RTD business

here in the United States, with our Jack Daniel's Country Cocktails. About 4 years, 3 years later, recognizing the size of – in particular, the Australian RTD market, we created Jack Daniel's & Cola in a can that was launched in Australia. Then we took off about 5 years before we came back with – in 1997, Jack Daniel's Single Barrel was introduced. Then we waited a long time, so all the way from 1997 to 2012 without really any innovation, other than some flavor expansion in our RTD business; and of course, introduced Jack Daniel's Tennessee Honey in 2012, which we followed that this year with a limited introduction of Jack Daniel's No. 27 Gold, which I'll talk about. And then, just now beginning to put out Jack Daniel's Tennessee Fire. So you can see that there's sort of a nice blend, that's not happening all at once and we've been pretty careful as we move forward on this, as you can expect.

Just touching on all of them then. So Gentleman Jack is – was the first one there, our double mellowed Tennessee Whiskey that we talked about. It's for occasions when people are looking to step up to a more premium whiskey than Jack Daniel's Black Label, had very nice volume growth since the launch. It was really only sold in the United States until about 5 years ago, and we've put an effort out into the United States. And in just in that 5-year time then, so nearly 40% of the volume is now sold outside the United States. Our key markets, of course, the United States, but seeing great growth in the U.K., Australia, France, Germany and Global Travel Retail, in particular. And we believe that there's tremendous upside for this brand that sells for about a 35% premium to Old No. 7. Here's an ad.

[Video Presentation]

John Hayes

That's a TV ad we just put on in the United States here in the last couple of months and we've seen that the brand responds very favorably to TV advertising.

Jack Daniel's Single Barrel, again, very nice growth since it was launched. This one is – 2/3 of the volume of Single Barrel is outside of the United States, does particularly well. In particular, Michel's market there in France, very good market; but Travel Retail, France, Germany and the United Kingdom and again, doing quite well in other markets around the world.

Our ready-to-serve business, we don't talk a lot about, because it's not really a big factor for us here in this country, but it's a big piece of business for us outside of the United States. In particular, in Australia, where it is bigger in terms of volume and value than the parent brand, Old No. 7. And then we're doing very nice business in Germany, Mexico, the U.K., South Africa; and China is another one that's flourishing for us right now that we're very excited about. You can see on the right too, actually, began to innovate in the RTD space. We have a Gentleman Jack and Cola. That's a super premium version that's sold in Australia. And then just last month in the U.K., we launched Jack Daniel's Tennessee Honey and Lemonade in a single-serve format. And then on the left, you'll see our Jack Daniel's Winter Jack, which is a seasonal offering, only sold around the Christmas time period, including here in the United States, that we've gotten some very good consumer acceptance on this product as well. So this is an area we're going to continue to explore and innovate into this whole ready-to-serve space around the world.

And then, of course, Jack Daniel's Tennessee Honey. Now entering our fourth year in the United States, as you can see. And it's still growing strongly. In our earnings call last week, where we said that it's still growing at about 39% growth right now around the world, seeing tremendous success. In particular, I'd call out the United Kingdom, where it is become, if you considered it an imported whiskey, it is a – the #2 imported whiskey in the U.K. right now after Jack Daniel's Black Label. Doing particularly well in France and Belgium, the Czech Republic, Mexico, Brazil, Japan, South Africa and Canada, and continuing to grow at double-digit growth rates here in the United States. So it's

been an eye-opener for us, you've heard people talk about it. It's really doing a great job of attracting new consumers to the Jack Daniel's franchise who may not, as I described earlier, like full-strength whiskey, but really like the taste of this. So in particular, we're seeing this brand over index against females, African-Americans and young adults. So here is the latest ad that we've been running in the United States.

[Video Presentation]

John Hayes

All right. And then, finally, we've launched – introduced 2 new brands in limited distribution in the last year. The first I talked about, some of you may not even be aware of it, is a brand that we call Jack Daniel's No. 27 Gold. Why is it called No. 27? Well, it's 2 times 7. It's 2 times double-mellowed and 2 times double-barreled. So like Gentleman Jack, we put it through the mellowing, before and after barreling. Unlike anything else, we've transferred it to a new Maplewood barrel that we're making ourselves now in our new Georgia Cooperage, and gives it a very nice interesting taste profile that we developed it, particularly for the Asian market after a lot of research on taste profiles and things that were on it. Although, we do think it has great potential around the world. So it's selling for about \$85 to \$95 a bottle. We launched it first in Singapore and Hong Kong airport last year. It's now expanding to all key international airports, entering a few U.S. airports this month. We launched it in just the Shanghai Metro area in May 2014. Unfortunately, as many of you know, with the situation in China right now, probably not the greatest time to be launching a high-priced super premium brand, but we're getting some nice acceptance for us so we'll be patient for it. And then the plan is next year, we'll begin to expand to a few major urban metropolitan cities throughout the world, probably including New York. Within this, when we've got to be a little cautious because of the interesting supply component, especially with the maple barrel wood, it's challenging from a supply standpoint and not something that we could be putting out in the early days with great volume.

But we're getting really strong acceptance for it in the markets and, particularly, Travel Retail, we've launched so far.

And of course, many of you probably have heard about, Jack Daniel's Tennessee Fire, which is our cinnamon-flavored Jack Daniel's product. We launched it last April in 3 states: Oregon, Pennsylvania and Tennessee. Since the launch, Jack Daniel Fire's depletions have indexed. So if you go - for the first, I think, it's probably 8 months when Tennessee Honey was launched 4 years ago, but the first 8 months or so when Jack Daniel's Tennessee Fire was launched, we're seeing that Tennessee Fire is selling at a 35% greater cliff than what Tennessee Honey did when it was launched during that same period of time, which is, of course, really exciting for us. We're getting a tremendous - we've been very careful on this one because we want - we truly want to learn the impact, not only on the equity of Jack Daniel's as a trademark. What's the cannibalization impact on - in particular, Tennessee Honey? Are consumers willing to pay for a premium-price flavored cinnamon whiskey offering, when the category leader is significantly less than we are? And, finally, do they just like the taste of it? And we're getting great things. First of all, people love the taste of it. And I think we have it here for you to taste today when we finish here. They love the taste. We're seeing that because it's a high-quality product from Jack Daniel's, they really appreciate that. It is premium. It's very authentic, again, coming from Jack Daniel's. And we believe that just the masculinity of what Jack Daniel's brings to bear on this product is something that consumers are really going to enjoy. They are enjoying it because with those 3 states, we were encouraged enough to go to 5 more. So we went to 5 more states: Texas, Illinois, Michigan, South Carolina, Georgia - this is the one Campbell. Illinois, I said, I think, I said Illinois. We got - there's 5 of them. So - and that's been about - since October. So it's very early days, other than the trade acceptance, the initial consumer acceptance is fantastic in those 5 states, which has given us confidence that Paul announced last week, that we will be rolling out Jack Daniel's Tennessee Fire into the United States in totality, in the fourth quarter this year. We're also exploring

international. We haven't - we're just more in the sort of background of doing some consumer research and seeing the viability for it overseas, but to see if it can do what Jack Daniel's Tennessee Honey for us. So really excited about this new product from Jack Daniel's Tennessee Fire.

So wrapping it up, we talked about everything, I'm just moving now to the geographic expansion, which I still think is, with all said and done, with - the portfolio innovation's nice, but we are just scratching the surface, and I just want to illustrate that for you. Starting with the brand that you all know, the Johnnie Walker trademark, which, again, admired very much in a - the world's #1 spirit brand. So if you look at their trademark in the developed market worlds back to 1985. So again, those - United States, Western Europe, Australia, New Zealand, Japan and GTR, you can see, they were about 5 million cases for their trademark. And pretty much has been flat within that the area for - that's 28 years, it's been going on. So you compare that to Jack Daniel's, about the - they were a little bigger, but we were about the same size as they were back in 1985. But you can see, whereas, they've had that 1% CAGR, we've really gone and built the brand during that time, not only, of course, continuing in the United States, but very focused on the developed markets around the world. And you can see that we are - if you - United States developed market world, much larger than Johnny Walker is in that world. Where Johnnie Walker has done a phenomenal job - there it is, okay. You can see here. This is where they've really - they're done a phenomenal job. So you see, in the emerging market world is where they really have added tremendous amount of volume. You could see their 9% CAGR over that world. And not that - I mean, we don't have anything that we're not proud of on this thing, but we were very focused on that developing market world during that time before we got into the emerging market. We had nice growth, 20% growth over that period of time, but you can see much larger in its volume base. So you put all that together, Johnnie Walker's - the percent of Johnnie Walker's total volume today is 66% of their volumes in the emerging market world, Jack Daniel's is 18%. We're

not apologizing at all, because the good news of this is we've got a whole lot to go after still here on this one.

So that sort of – where I'll leave you with on that one is that chart to me, when you look at as well, and I closed this a couple of years ago with you all is, even as big as we've gotten, still remaining special, we still only have less than a 2% share of the total distilled spirits with – market in the world. We have about a 3% share of the total whiskey market in the world. We have about a 9% share of the standard-plus whiskey market in the world. So for us, we're proud of our success, but those numbers and these numbers just show, we, frankly, are just scratching the surface. Well, thank you very much.

I will now turn it over – are we running a video? We're running a video. Thank you.

[Video Presentation]

Jason Koval

Ladies and gentlemen, Alex Alvarez, Senior Vice President, Global Production Officer.

Alejandro Alvarez

Good afternoon, everyone. Thanks for being here. As John mentioned, and as you saw in the video, we're proud of what we do, and we make Jack Daniel's. And every day we make it, we make it the best we can. And I'm here to talk about global production, and I'm here to talk about how we are investing in whiskey. We've been investing in whiskey for a very long time, for over 140 years. Now Chris Morris, in the video summed it up really well. Our supply chain, he says, is a long game. So we're here for the long-term. And if you think about our business and one of the great things about our business, it's also how much it takes for us to be in the business, meaning it requires significant inventory, significant capital, it requires a long time for that pearl [ph] to get to the shelf. Now that gives us pricing power, so it gives us an advantage. It also puts some structure in the

market, as long as we are able to manage it well. But it also means that in the whiskey business, you got to be good in order for you to be successful. So it's really tough to be successful.

Could you take the – sorry. So as I said, we've been investing in whiskey for a long time. Paul and Lawson talked about the whiskey business and specifically, the North American whiskey and why it's growing. But there's a piece of that business that gets forgotten and it has to do with planning and maturation. So if you think about our American Whiskey, the fact that we mature it somewhere between 4 to 7 years, and that window, it's in the perfect spot from a production planning standpoint, in order for us to be able to leverage our production and our assets. So if you compare our business versus, for example, the Vodka business, right? So I can have vodka tomorrow. So – and that's prone with the category. So very easy for you to enter that category. And then if you think about it in terms of our Scotch competitors, their boxed in decades, multiple decades before they have product in the market. So for us, there's a very, very important advantage against our – such competitors because we have flexibility; that window, that planning horizon is very important. And also, against our vodka competitors because there are significant barriers to entry into our business. Now – and that's why we're investing. So as we think about investment, we think about it in 2-pronged approach. We think of it in terms of growth and capacity. So what we have to build, the infrastructure, for us to have the right stuff ready for the markets of the future, right? But we also think of it in terms of investing in our facilities in our operations. The efficiency and capability that we build especially, based in our single-site advantage. So if you look at our business model and our operations model, it's very different, for example from big beer, right? They have plants all over the world, and they distribute all over the world also, but they are spread across many areas. For us, Jack Daniel's, as well as other whiskeys, are produced in 1 place, in Lynchburg. We've always been producing in Lynchburg for Jack Daniel's and it always will continue to be produced in Lynchburg. And that gives us a great advantage, gives

us control over our quality; gives us control over our consistency, so that our consumers across the world get what they expect. But in addition to that, it allows us to grow in a very lean operation, very lean and mean operation, where we make it really good every day. And it also gives us great capacity to make decisions, which is very hard to get in the alcohol/beverage business. Now when you take those efficiencies and you add the premium-ness that John and Lawson talked about, that gives us excellent margins.

So we think, at Brown-Forman, we think of our production as a competitive advantage. Our capabilities that we're building, as something that makes us better and leads – and helps us lead in our category. So I already talked about the barriers to entry, right? So it requires significant capital, it requires working capital, it requires time. And that makes it difficult to enter. It also – I also talked about single-site production and the scale efficiencies that come with that. But for Brown-Forman, we have a third factor that we also believe is important, and that's our vertical integration. So we view our supply chain and our total integration as something very important. We are the only whiskey manufacturers that are vertically integrated from new barrel production all the way to our homeplaces. And that, to us, is key. And that helps drive efficient investment through our supply chain as well as, I think, Paul showed it, very, very nice return on invested capital.

So let me talk to you a little bit about our cost structure. So if you think about a bottle of Jack Daniel's and what makes our cost. So it's about grain, it's about barrels, it's about glass. But that's not different than other North American whiskeys and other whiskeys, in general. What's important here is this maturation. So as I said, it requires a long time in order for us to have the whiskey ready for the consumers, years ahead of time. So that means that we have to invest about 25% of our current assets, are barreled whiskey. That's a lot. And if you think about our balance sheet, the biggest item of our balance sheet, excluding the intangibles, is our inventory. So this is, and will continue to be a

significant barrier for new entrants into the market and, for even people that are in the market to be able to successfully run the business. Now what this also means is that we've got to plan well. Now we believe that planning, for us, is a competitive advantage. We do it well. It's a strength. Now why do we say that? Well, we do it – we believe that because it is a – for us, for Brown-Forman, it's a very disciplined approach, where we bet the volumes, where we're looking at the trends, where we do it on a consistent basis. When we have a discussion between growth and production as well as our regional and our brand leaders to figure out what is the current trends and what is the future trends. And we also think that we've been doing it for 140 years, so we kind of know how to do it. So the combination of those factors makes it a strength. Now that planning horizon, as I mentioned, is also a strength in terms of our competition. So our planning window is shorter, so that gives us levers and that gives us flexibility that, at the Scotch side, they don't have, because or – it becomes much more difficult for them to do because their planning horizon is twice as big as ours. But that also talks about a little challenge that we have, which is still that window, right? I got to plan today what you guys are going to drink 7 years from now. So we got to put some levers in place in order for us to ensure that we bring some stability to something that could be – that we can – may get a little wrong in the future. So we have some levers to that. So what we do is we think of inventory and think of cushion. So we plan our inventory and we plan a cushion of whiskey of Jack Daniel's in order for us to be able to deal with unexpected demand. The other thing that we do is we have a single distillate. We have a single liquid, and I'll talk a little more about that in – later on. But that also helps us balance between all of our brands and all of our presentations in order for us to balance demand. And then, the last one is on maturation management. We are able to manage our maturation within the whiskey standards in order for us to ensure that we have enough whiskey to deal with unexpected demand.

Now as you saw in that model, you have grain, you have glass, you have barrels. And all of it, not only because the way that we market our brands, but also because the amount that

we use makes it key for us to leverage our single-site approach. So we have a concentrated material supply, we bring our grass from Ohio, we bring our barrels from Alabama and from Kentucky, and our corn comes from about 150-mile radius from Lynchburg. And that allows us to have pricing advantages because of transportation, but more importantly, scale advantages that again, are very difficult to get in this business. In addition to that single-point production, I talked about quality. Quality is important. We – our consumers expect that quality and they pay a premium for it. So for us to maintain that quality in a single production site is very important. But it also gives us capacity to utilization. So the Jack Daniel's facility is a pretty big place, and we're able to produce those 40 million cases and have excellent utilization of our assets.

So then we bring all that stuff, bring it to Lynchburg, the corn, the barrels, and we make Jack Daniel's old No. 7 distillate. And here's another significant advantage. So we use it for every single one of our Jack Daniels products. We may age it a little less for our RTDs. We may filter it a second time or mellow it a second time for Gentleman Jack. We select special barrels for our Single Barrel. We use it very efficiently in our flavored whiskey or liqueurs, but at the end, it's the same one single distillate. If you compare that versus our competitors in the scotch industry, you're talking about a blend of anywhere between 15 to 30 or more different juices to make 1 product, so that gives us tremendous flexibility versus our competitors.

So what does that mean? So when you put that efficiency of single scale – or sorry, single-site production, the scale that comes with it, our integration, vertical integration, then, that means that our cost of sales are better. And I'm using here our – the PPI, which is the Producer Price Index, to reflect how, although we've been growing, it's going up, it's going up significantly lower or below that of the industry standards.

So now let me talk a little bit about vertical integration, right? So we think of vertical

integration from the barrel and really, from the stave that – to make the barrel all the way through our homeplaces. American whiskey is our business. Now Jack Daniel's is our leading brand, but we don't only think of Jack Daniel's. We think of Jack Daniel's. We think of Woodford Reserve. We think of Old Forester and really, all of our other products. And when we think of it, we just think of it in terms of 4 factors or 4 stages, right? We look at it in terms of cooperage and how do we vertically integrate for all of our products from a cooper standpoint, how we do distill, how do we warehouse and how do homeplace. And that is very important in order for us to drive efficient investment.

So we got to invest capital. Our – we've had a very efficient way of running our business. We've been investing about 2% to 3% of our sales in capital, but our business is growing. It's growing really fast, like you saw from Lawson and John, and that means we have to invest to support the infrastructure. But that also means we have to invest today for something that I'm going to sell 7 years from now. So in order for me to do that, I got to make sure I'm efficient and I have a criteria that I use for us to be successful at investment. So we want to invest in a manner that has flexibility for the future. What that means is I want to invest today what I – the least amount of capital that I need to invest in order for me to produce what I think I'm going to need in the future, but then I'm going to invest in a manner that I can build more or change that investment so that I could accommodate demand changes in the future.

I also want invest efficiently. But then for Brown-Forman, investing efficiently in production means you want to invest so that your future cost of sales is lower than it is today and so that you take even more advantage and leverage your single production site. So that's what efficient investment means for us.

And then the last one is we want to invest in a manner that enables innovation. So we're always looking forward for the next gold like John talked about. So how do we build our

systems? And how would we build flexibility so that we can innovate in the future? And how do we leverage that innovation across our vertical integration?

Now from our fiscal '13 through '17, there's going to be – or there has been and there will be significant investments because of we have to support that growth, and you'll see some examples of what that means. But for us, it is the right growth or is the right investment to support the right growth. And we will get back to our 2% to 3% investment in the future.

So let me show you a little about why — *indiscernible* —

[Presentation]

Alejandro Alvarez

So hopefully, the video helps you understand a little bit the importance of the barrel. So for us, being vertically integrated, owning our own cooperage and manufacturing our barrels is a significant competitive advantage, and we're the only ones who do it. And so if you think about it, I'm going to sum it up very quickly why do we think it's important. One, it secures our quality of supply. So as the video said, 100% of our color and a lot of our flavor comes from the barrel. So ensuring that we have the right quality in order for us to produce the end product, the right whiskey is very, very important.

But also, ensuring that we have supply security. So if you think about it, we're building new warehouses. We're building new distilleries, but if we don't build the wood infrastructure in order for us to produce barrels, we don't have a place to put Jack Daniel's. So that fact that we own our cooperage and then we can build that infrastructure to support that growth is very, very important.

It's also cost efficiency. Because of our scale, because our technology, we can do it cheaper than other people. It's also wood innovation. So if you think about it, since we're the only

whiskey company that does this, we are wood experts. So we own that expertise. And I don't know if you heard it in some of the presentations from John and from Lawson, there's examples of that. So Woodford Double Oaked. So there's a special barreling that we do for – to get that flavor. The Jack Daniel's Gold with the maple barrel, there's a special thing that we do with the barrel. So innovation becomes an important part of what we do.

In addition, it helps us with our test profile. So people like American whiskey because they like that rich wood vanilla flavor. We know how to get it, and we know how to play with it in order for us to improve our products so that it delights the consumer at the end.

And then it also helps us get into the used barrels market sale, so another source of income for us. So this year, we're selling about 0.5 million barrels out in the market.

Now what that means for us is that we're going to continue to invest in the cooperage. So we invested in a new cooperage in Alabama, \$60 million, the first 1 that has been built in the industry in the past 65 years, used great technology to get us there. And with that, we've been able to increase our capacity by about 40%. So with this, we're going to be able to produce up to 1 million barrels a year.

But that's not the only place we're investing. So Jack Daniel's, we're investing a lot in Jack Daniel's, and we've been investing in Jack Daniel's for a long time. We're investing in new warehouses. We're building 2 to 3 of those a year. And not only are the warehouses more efficient in terms of labor, they're also more efficient in terms of how we manage maturation within them.

We've also expanded our distillery, the current distillery that was there since prohibition until we don't have any more room to expand. And so now we're going to have to build a new distillery, and I'll talk to you a little bit about that one.

But before that, the other thing that we're investing in is risk management. So one of the things that happens is when you have a single site that produces a brand like Jack Daniel's, we need to ensure that it's well protected. So we're also investing in a 10-million-gallon spring water cave tank in order for us to ensure that we can get past the drought if it comes around. And we're also investing in our fire protection. We have a Jack Daniel fire department, literally a fully equipped fire department, which I think says something, in case something were to happen in our warehouses.

But what I have here in front of you is the new distillery. So first distillery built in Jack Daniel's since prohibition. It's a long-term \$100 million investment. It's going to start up in April, and hopefully, you'll be invited at some point to come see the distillery and taste some of Jack right off distill. And – but the important thing is that using that criteria that I mentioned to you earlier, we're doing it in an efficient but very, very appropriate way. It's modular, so we are building what we think we need now. And then we can grow it as the brand continues to grow so that we don't overinvestment. And then also, we have included significant flexibility from innovation so that we can innovate in the future.

Now we are also investing in our other whiskeys, so about \$60 million to \$70 million in our other growing brands. You heard from Lawson about Woodford Reserve and how it's exponentially growing. So not only are we investing in our homeplace so that we get enhanced visitor experience, we're also investing in the infrastructure to support that growth. We're building warehouses, reapplying the Jack Daniel's warehouse model. We are expanding our distillery, and we're doubling the capacity of our bottling operations.

And then the last one is for Old Forester. Again, the brand is growing again. We have full confidence in our founder's brand. And we announced that we're going to build an urban distillery, so we're getting into the urban distillery business Downtown Louisville. And this is not just a showplace. It's going to be a great – a cool place as the visitor – to

go see. But the reality is that this is a functioning distillery where we're going to support the growth of our brand.

So in closing, we are investing in our business. It is the right thing for us to do. Our category through the efficiency that we bring and the barriers of entry is the right place for us to invest. Because the way that we run our production through a single-site approach, we get great scales efficiencies. Because of our vertical integration, we gain great advantage in our supply chain and that Brown-Forman invests for the long term, the long run, and that's what we're doing. And we believe that our efficient investment approach is also going to generate top-tier ROICs like we've been doing in the past.

So with that, we're ready for a break. So you get a 15-minute break now, and I don't know what time it is. So come back at 3. So thank you.

[Break]

Executive

Ladies and gentlemen, please take your seats. The program is about to resume.

[Presentation]

Paul Varga

Nothing like a nice video for the second section here. We're going to do about another hour. And I thought I'd introduce this crew that's joined me up here before I exit the stage, and they're going to just basically take you through what we would – we might call our talent and global capabilities. And each do a little piece of it.

Just from left to right here on the stage is Jill Jones, who heads up our – what we call our North American region and Latin American region for Brown-Forman, been working at Brown-Forman – I always like to tell a little bit of the story. She headed production as

recently as 2 years ago for the company. So you'll see a mixture of experiences across our folks.

Michel Gayraud, who is here to talk a little bit about – he is – in the last year – it was about a year ago, a little less than we launched our French company, but he's been with the company 17 years and leads the French business today.

Amador De Carvalho, who a bunch of us knew before he joined Brown-Forman 4 years ago because he'd been in the industry with 4, 5 different companies previous to joining Brown-Forman. We're pleased to be able to recruit him to lead our Brazilian business, and he'll talk about that.

Mark McCallum, who most of you, if not, all of you will have seen previously in many of Brown-Forman's presentations, today oversees the piece of the world that Jill does not, which is Mark is overseeing Europe, Africa and Asia as long as – as well as our Global Travel Retail, a very rapidly expanding part of our business.

And then Kirsten Hawley, who's been at Brown-Forman. I always like to think about this. Kirsten's going to talk about our people. She is in our Human Resources leadership group. And I'll tell you the thing that's wonderful about Kirsten's experience is she once left Human Resources within Brown-Forman to go work in our brand world, so had an exposure to the building of brands at the company for a few years before coming back to the HR function.

So a mixture of people here, and I think Kirsten is going to start. So I'll turn it over to her before we – as we spend the next hour before we go to Q&A. Thanks, Kirsten?

Kirsten Hawley

Thank you, Paul. So good afternoon. As Paul said, I have been with Brown-Forman for 17 years, and I lead the Human Resources team that is responsible for executing HR strate-

gies in our regions, with our brands and in all of our functions.

Today, I'm going to be talking to you about something that may not typically happen at an investor's conference. You've heard a lot from John and from Lawson and from Alex about our brand assets and about our production assets. I'm going to talk to you today about our human assets, the people that build Brown-Forman's brands all over the world. So who are these folks?

Well, we are 4,200 strong, and we work and live in about 50 different countries. But despite this global presence, we're a pretty small company. If you were to look at a Diageo with 28,000 employees or Coca-Cola with – if you include its bottlers, at 700,000 people. If you look at Marriott, 330,000 people. At 4,200 strong, we're pretty small. But we actually believe that, that is an enormous benefit because with 4,200 people, we can be focused. We can be agile. We can have information flow faster through our system, and for me in HR, I can execute high-touch talent strategies to really get to know the people who work in this particular company.

As Paul said earlier, a lot of us have come from other places before we came to Brown-Forman. And so when you ask people why is it that you joined this company, we usually get 3 pretty consistent reasons. People come to Brown-Forman because they love this industry. It's just great to work in beverage alcohol. They also tell us that they come because of our portfolio of brands. John Hayes talked about how much people love Jack Daniel's. We're the same way at Brown-Forman. Employees like me, like all of us, feel a strong affiliation for the portfolio of brands in our business. The third reason people come is because we have a track record of stability and success, and this is the kind of organization that many people want to join.

So a bit about our age, I'll go ahead and reveal that. We are mid-career professionals at Brown-Forman. The average age in the United States is 47 – is 45, and in our international

markets, it's 37. And we like to believe and I hope all of you will agree when you think about how old you are that with age comes wisdom and in many cases, is a proxy for experience.

We also know that once people join Brown-Forman, we are inclined to stay. And so if you look at our average tenure, it's 3x that of the national average in the United States with 11 years average tenure. And in the other parts of the world, Latin America, Asia, Europe, they don't track tenure the way the U.S. Department of Labor does, so it's hard to do the comparisons. But with 5.5 average tenure, we can draw the same conclusions that when people come to Brown-Forman, they want to be a part of it for the longer haul.

We look at this, age and tenure, and we say this gives us a great deal of experience and depth of knowledge. So when it comes time to build a new cooperage, to launch a new brand or just simply make great whiskey, we have the people who have the know-how to get these kinds of things done.

And we also recognize that with an average age of 45 and 37, we have to attract younger workers, too, and we have talent strategies in place to do that. And we also have to make sure that when we have this depth of experience, we also have learning strategies in place to create breadth so that we don't become too deep, and we maintain a broad perspective.

About half of us work for Alex, who you heard from earlier. That's right, about half of our employees are part of our global production organization, and so these are people who work in our distilleries and in our manufacturing operations. The other half work in functions that you would expect to see in a brand-building company, sales, marketing, finance and yes, even HR.

If you look to who we've hired lately, you'll find that it is mostly hires from our inter-

national markets. That shouldn't be surprising to anybody in the room given our global expansion efforts. Our international markets have grown at an 11% CAGR, and so we have invested in people accordingly.

In our emerging markets, we're hiring more sales expertise but in our developed markets, more sales support expertise. This is to support our RTC models, our brand-building efforts. And if you look at who leads our markets, an interesting trend emerges. You'll find local experts, people like Amador, who happened to be born in Brazil and is running Brazil. You look at Michel, who is French and is running our French business. But if you look at the makeup of our expatriates, you will find that we have a Brazilian running our India business. We have the South – in South Africa, we have a German running that business. We have a Greek running our Russian business and a person who's born in Portugal running our Polish business. And so we are both local experts and global citizens who are building our brands.

We also invest in our people through the kinds of things that you probably experience in your organizations, training, on-boarding, mentoring because we recognize that people at Brown-Forman have to learn faster than our company is growing, and we make investments in them as well. And here are some numbers that we are particularly proud of, especially in HR where a lot of my time gets spent on the these types of topics but in Brown-Forman in general.

The other investment we make in our people comes through our culture. Talent alone is not sufficient to achieve our strategic ambitions. We actually have to have a place where people can contribute their best ideas and execute them. And so every few years, we invest with a company called Aon Hewitt who measures something called engagement. It's pretty basic. When your people show up at work, do they say nice things to each other and to others about working there? Do they have a strong desire to stay, thereby, reducing

your cost of turnover? And do they give what's called discretionary effort, meaning, when no one is looking, do they work harder than they have to? At Brown-Forman, over the past several years that we have done this engagement study, we can report that in our business, our engagement scores put us in the global Best Employer ranks. And I hope that doesn't like the soft side of the business because there are correlations between high levels of engagement, which our company actually delivers. Engagement is an indicator of increased sales, and it also correlates with above average returns for shareholders. So said another way, our investment in culture supports highly engaged employees who are creating sustainable value.

So in summary, here are the 3 things I want you to know about the people who work at Brown-Forman. First, there's the depth of experience. We understand this industry. We understand our company, and we understand the challenges and opportunities in both. The second thing about us is that the people who build our brands are a diverse mix of local experts and global citizens who leverage their experience to build our brands across the world. And lastly, the people at Brown-Forman are engaged. They produce more than is expected, and they give more than what is required. And so this unique talent mix, when you couple it with our geographic strategies, our portfolio strategies, our capital investment strategies, this is what enables our organization to not only achieve our yearly growth goals but also, our stated mission of building forever.

So that's a little bit of the human assets of Brown-Forman, and I'm going to turn it over to Mark McCallum, who's going to talk further about building global capabilities.

Thanks, Mark.

Mark McCallum

Thank you, Kirsten. I just wanted to add my welcome to you all as well. We're going to spend the next sort of 50, 60 minutes continuing the story of the performance and

potential of the company, but particularly through a lens that might be a little bit different for you, and we'll give you some observations around how we've been doing it. So I'm going to sort of tee it up from a global point of view. I just have 3 slides to just sort of base it on what's been happening, particularly in the last 10 or so years as we've been globalizing. And then some of my teammates here are going to give you a better sense of it, an example of what's happening in 1 of our emerging markets with Brazil, when Amador tells his story. And then Michel will tell you a little bit about what some folk call [ph] and others [ph] a very developed Western European market, but how to us, it looks more like a developing market. And then, of course, then Jill will bring it home with a discussion around that amazingly, incredible U.S. spirits market. So that's the next sort of 55 minutes.

Let me, as I say, tee it up from an altitude of the total company. So the story of globalization of Brown-Forman, we will look here at this last 10 years, this is a reported net sales representation '04 to '14, just showing the distribution of net sales in 2004 with a predominant amount of our business being generated here in the U.S., 64%, and 36% being generated outside the U.S.

When we embarked on this journey, particularly the modern history of Brown-Forman over the last 10 years, it's moved, as you can see. We've had around a 7% growth in our reported net sales over that 10-year period. And now we speak about business differently. The U.S. has continued to grow, even though it has declined from 64% to 41% of our net sales. Over that period of time when Brown-Forman growing at around 7%, the U.S. has been growing at a compound rate around 3%.

The yellow segment of the pie is our developed markets around the world. They've been growing nicely. In that cluster of markets are the usual suspects, Western Europe, Australia, Japan, Canada and others. But it's grown considerably to now represent 35% of

the company's reported net sales in 2014.

And then into that green section, our emerging market business, growing very strongly for us, growing ahead, of course, of the Brown-Forman corporate average, growing around 9% as we've gone over the last 10 years. And represented by, again, the usual emerging market suspects of the BRIC cluster plus Mexico, plus Poland, parts of Eastern Europe, Latin America, and particularly, Southeast Asia.

The smaller piece in there, the 4% section of the pie, Global Travel Retail, actually, it also includes those barrels that Alex was speaking about that we're able to unsell. Principally, though, the Global Travel Retail business is a wonderful channel for premium plus brands, such as ours, and fast growing, double-digit growth over the last 10 years in Global Travel Retail, an important part of our business as we look to the future.

So this is just a what happened in terms of globalization of our business and the way that we've been able to differentiate ourselves versus our competition.

On the bottom of this slide is another way to think about it. You're looking here to a 20-year movement and the numbers represented are the number of countries in '94, '04 and '14 where we sold more than 50,000 cases of product. In most cases here, principally Jack Daniel's, although a couple of recent additions to that. And then the number of markets around the world where we sell more than 100,000 cases. And this progression from 6 markets back 20 years ago to 41 markets today where we sell more than 50,000 cases, and then 24 markets today where we sell more than 100,000 cases is another way to think about the way we've been globalizing. Now some of us, and I'm sure many of you, some of us come from the fast-moving consumer goods business. And I suspect many of you follow many of the companies within that sector. I don't think many of us in fast-moving consumer goods would be saying that a 50,000 case business represents something of note. This is a really amazing and a different business, this Brown-Forman and premium

spirits business in general.

And what I'd like to say to you is that we have found, from a capabilities point of view, that when we reached a proximate sort of size such as 50,000 cases or more of a brand like Jack Daniel's, commanding a shelf price north of \$27, as John showed a little earlier on average, we get the attention of the retail customers in that market, generally speaking. And if you have 100,000 cases or more, we certainly get the attention of the retail customers within the market. John and Lawson talked a lot about how well we connect with our consumers around the world that this Jack Daniel's brand, in particular, has a certain magic to it, a little piece of America, we non-Americans like to sort of think, a little piece of America that most of the world actually loves.

And so connecting with the consumers is something that the brand does on our behalf and we do on the brand's behalf, we do it really well. But connecting with the retail customers, it's a different story as I'm sure you know. It's business. So anyway, a long way around perhaps describing Brown-Forman and the premium spirits industry as a sector, is quite unique and we'd like you to observe and understand perhaps the uniqueness that the business is not necessarily seeking scale the same way fast-moving consumer goods businesses require scale and diversification of manufacturing assets in order to keep cost of goods at a point where that scale can be leveraged efficiently for profit.

So 41 markets already around the world, arguably there's 197 countries in the world. If you Wikipedia it, it will give you plus or minus 2. 41 on its way to – well, whatever, with a brand like Jack Daniel's, anything up to Wikipedia's 197 countries is a possibility for a company and a brand such as Jack Daniel's. So there's a way to think about 10 years of purpose for globalization.

How do we do it and what were some of the reasons – or some of the ways in which we enable that? This is our route to consumer, RTC, route to consumer. It shows you

'04 to '14 an evolution and the influence, we, as Brown-Forman employees, have on the building of our business out and about the world. And so back in '04, about 50-50, we see 51 arms-length. The term arms-length is that we had other folk building our business for us. We would contract and have agency relationships with either the competitors or stand-alone distributors in a number of markets around the world and they were able in many of these markets to bring our business to a certain degree of performance.

Over the last 10 years, examples – we've moved this arms-length involvement in the building of our business as much more to a business where we have what we would call control or much more significant influence over the way we build our brands, and it's been incredibly successful for us.

We're now today, 80% of our business, we would say we have some form of control. As I say it, I would like you not to take away a conclusion that it's a natural progression that Brown-Forman will invest in its own infrastructure in every market as we go forward. There are many examples and I'll give you a couple of them now, where it doesn't necessarily mean that we completely fix infrastructure cost on our P&L, although we've done that purposefully in markets such as, over the last 5 years, Germany, France, Brazil, Turkey, Canada, elements of Asia where we have fixed infrastructure cost and Brown-Forman employees. But we've also got very successful, not arms-length partnerships, but hybrid partnerships with companies, even in our competitive sets, such as Bacardi in the U.K., where the 2 companies together, we've enjoyed 10 years of very successful business performance in that market because of our hybrid partnership we have constructed uniquely for the U.K. and for all intents and purposes, it's running very well and should do so as we look forward.

If you move across Europe, particularly Central, Eastern Europe and look at some of the partnerships we've set up with Coca-Cola Hellenic, one of Coca-Cola company's, or the

largest European bottler for Coca-Cola company, our partnerships are hybrid arms-length partnerships. We bring it in a lot closer, we have a little more influence than we would have normally and we've been working with Coca-Cola now in 8 markets through Central, Eastern Europe, including Russia and the Ukraine, which we can talk about later.

So this purposeful evolution of arms-length, less influence to more controlled, more influence is one of the ways in which we've been able to deliver those results that we looked at a little earlier in terms of our growth and persistent performance.

And then lastly, I would just want to talk a little bit about opportunity. And what I'd like to do is tee this up and you'll see a similar sort of illustration when the team describe France and Brazil. The global IWSR will tell us that the global whiskey market is 360-some million cases of whiskey, IWSR total whiskey. International whiskey is the – outside the U.S. is, of course, the predominant proportion of that volume.

Within whiskey outside the U.S., so 312 million cases of the globe's consumed whiskey is consumed still outside the U.S., it's been growing very strongly, 7% growth, 10-year CAGR, outside the U.S. American whiskey is a sliver of that. However, we've been growing strongly.

Jack Daniel's, within that sliver, has also been growing faster than the American whiskey category itself. So the way we think about it, from an opportunity point of view, looking forward, John said we've barely scratched the surface, I think, he used that term a couple of times. Certainly, the opportunity, as we observed the way in which Jack Daniel's can gain the interest of both retail customers and consumers, we are demonstrating in multiple markets, the ability to continue to increase our share of whiskey.

I'll just finish it off here by saying that Jack Daniel's has about 56% of share of American whiskey outside the U.S., 56% outside the U.S., 40-some percent if you include the U.S.

share of American whiskey.

Sometimes, we may sound or you may observe or conclude that Jack Daniel's Brown-Forman are riding some sort of like order – the wind behind our back that we're riding the momentum of the growth of American whiskey. What we would say to you is that it's not like that at all, we're actually leading and driving the growth of American whiskey around the world. At a 50-some-percent share of international American whiskey market, this has been a very purposeful, very concentrated and focused effort to lead the development of American whiskey around this globe. And as we look at that and consider the fact that our share of that whiskey is around 2% only today, I think the rest is, in terms of opportunity, speaks for itself.

So there is the global oversight. And now you're going to hear a – I'm going to introduce Amador here, who will tell you about some of this how. How he did it with his team in the emerging market of Brazil.

Amador Carvalho

Thank you. Thank you, Mark. Good afternoon, everyone. It's a pleasure to be here to talk about our journey in Brazil, and I will start by basically setting up the context. And I think that is very important.

Our brands have been in Brazil for a number of years, even difficult to detect when we first got there with different schemes, different distributors up to 2010. At that point in time, we came to a conscious decision that it was about the time to do something in Brazil and we decided to make it back in Brazil. And I use the word back because there are a number of reasons why that was a difficult proposition. Brazil, we didn't have scale in Brazil to begin with. Brazil is – it's a very high-cost market to operate in. We had formidable and still have formidable competitors in the market that have been there for a long, long time, barriers of entry, et cetera.

But on the other hand, Brazil offered and still offers tremendous opportunities. The country had been very stable, politically, socially, economically for a number of years, the institutions consolidated, so there was no risk whatsoever there. The economy was doing very well and many of you might remember, page of the economy [ph] so the crisis in Rio taken off, unfortunately, a number – a few years back, they had to – the crisis came down. But anyway, those days of the crisis was flying all over the place.

On top of that, inflation was reduced, the emergency of a very large middle class, Brazil has managed to bring in to the middle class about 40 million people in the last 10 years and plus 10 million on the top of that, on the top end of – higher end of the middle class A and Bs, for us, even more important. The demographics, most of you will know, Brazil has a very large population, 200 million people, and the fifth largest population in the world. So it makes sense to be there.

But even more important, perhaps, and here we go, is that slide that Mark referred to, a very large spirits market, in general, with consumers trading up from local spirits to more aspirational brands in various categories. And a very large whiskey market, both with local brands and in particular, with Scotch Whisky in Brazil, is not only the sixth – #6 in the world, I guess, in whiskey in total. But for Scotch Whisky is probably #4. So the growth rates for the category are interesting, 6%. And our growth has been in the last 10 years, a CAGR of 23% as many mentioned before and again, Mark just mentioned, in his previous slide, in spite of all of that, in spite of growing 23% in the last 10 years, we still have just 2% of that total. So the opportunity is just – was just there and still there for us.

What we've done. We've established a company. We've barely had people there, perhaps a country manager plus an assistant on those days, now we have 60 people on board. Most of those guys commercial, sales and marketing how they're building brands, we've tripled the volume from 2010 to 2013, that's the last number you have there. But let me

tell you the numbers look even better for the current fiscal, probably just Jack Tennessee Whiskey probably a little over 170,000 cases and the whole family of brands will definitely cross the barrier of 200,000 cases. So that's outstanding result, establishing a brand that is really doing very well in the market.

I have a page here to tell you about things that Jack represents. But I think, again, John said so much about it that I won't say much more. It does everything. It does resonate to the Brazilian consumer, the young crowd, so well. It's a down-to-earth, relaxed brand that is mixable. It just really goes around the area of the wide spirit consumer so well, as well. And again, the brand DNA, and if you're talking about integrity, authenticity, independence, it resonates with this millennium consumer so well. It's unbelievable. It's like Americana in a box – in a bottle, sorry. So it's incredible, incredible. And we are capping [ph] on that. Mark asked me to tell you about how we're building that up. I think this is a matter of simple things, is doing the obvious many times over. But as a simple model with lots of focus. I mean, if you don't have focus, first — ***indiscernible*** — find out, what is really important to do, what's really moving the new.

The second, establish – once established that's really the focus. In a country like Brazil, large extensions, very expensive, very stiff competition, you got to really stick your resources, both financial and human in certain brand-building aspects of the brand, plus some geographies. And that's what we've done.

We have a brand building model that is definitely working. It starts with an amazing digital platform that has been very creative. And as a matter of fact, Brazil has the staff on Facebook page for Jack Daniel's away from the U.S. with 1.3 million people and is the #5 in terms of in the country in Brazil, of all consumer goods, so it's unbelievable in just 2 or 3 years, it's doing very well on that, and generating not just being in the Facebook or whatever. And we know how that moves so fast and turns around, but it's generating

experiences and connection with consumers very relevant, that link that to own trade activities, they are very exciting, very unique experience that only Jack Daniel's can perhaps really deliver. No other brand can do that, much less Scotch Whisky, I guess. So we're doing that quite frequently.

The whole mixability thing with a few drinks, not reinventing the wheel, doing the same thing over and over, Jack and Coke Jack and citrus and believe it or not, in Brazil, Jack and passion fruit, it's called Maracu Jack. And it does work very well. It probably doesn't sound very good but it does taste very well and it's one of – another vehicle for consumption and attraction of young consumers and females into the brand, so unbelievable work and we are very happy about the results. Again, you can see that not just on volume, but in terms of share of market as well. We've managed to get to 13% of the premium whiskey and there's more to come.

The potential and here talking about what we see as the opportunities for us as, again, many said before, John, and even Mark, the opportunities just scratched the surface. We started at the very beginning in 2010 and you can see that in the left-hand side, we had strongholds basically in São Paulo and Rio as everyone else in Brazil. That's where we've been for many years. So we decided just to tap on that and really protect the hardcore consumer we had at the time and learn there and build from there. The second step, perhaps, toward already 2011 was move into Recife. Recife is a city that you see up more north, is a city of about 4 million, 5 million people. It's the largest Scotch Whisky consumption per capita in Brazil and some say in the world today. So it's a large stronghold, it's the largest market for Johnnie Walker Red in Brazil, and Brazil is the largest market for Johnnie Walker Red period, so you can see that. So we're doing some work there and it became a gold city for us.

Then we expanded between '13, '14 to Belo Horizonte, right in the middle of the country.

But you can see a number of potential cities where we can expand the same model, adjusting to regional realities because Brazil is large as the U.S. and as the U.S. is a melting pot and as the U.S. has very different regional aspects to brand building that we have to take into consideration. But from the south upwards, Porto Alegre, Curitiba, Cuiabá, Brasília, all cities with 2 million or 3 million people. It's a funny thing, Brazil has more 1 million people cities than the U.S., about 40 cities. So there's much more concentration of urban – large urban centers, which, in a way, facilitates our brand building.

Jack consumption is 65% on trade, which, again, with the urban centers has helped. And I don't – finalize by talking a bit about why I am very – I am and the whole team in Brazil, and I think the team here believes it as well, is we are all very confident on the future growth for Jack in Brazil.

I mean, we – the same expression, again, I'll repeat, scratched the surface, just that, lots to be done still, potential for growth within the Scotch Whisky category is amazing. We could bring it here, if we have more time, the whole wide spirit arena and the Vodka where we have been tapping quite a lot of our consumers and building the brand on top of that as well. So there's more volume to come from that. The usage of whiskey in Brazil is just 1/5 of what it is in Spain and the U.K., which is another thing. So there is more whiskey to be consumed per capita as well.

We think that we have something on our hands, as John said before, that is very unique, it has all the credentials and we have the right brand building model, to expand, to accelerate and just to make a very strong market for Jack Daniel's in Brazil.

I will finish, basically, by saying, that on top of that, I think, and thus, sharing the pie and I definitely believe on that, that it's about people. And we made it back, we had a number of years losing money in Brazil and all is asking, when will Brazil going to make money? We've broke even and now we're making money. But anyway, we were out to

build brand to begin with, and we invested on people and took us a while to get the right team in place. But I think and I'll say very proudly, that we have a dream team in place, that has a great mix of experience, talent, tremendous energy and passion, everyone that goes to Brazil and visit the operation can see that. And an ability to execute and to implement the plans, that is formidable.

So with that, I think we have everything to, not just build more for our portfolio, in general, but in particular, Jack and the more premium expressions and I have lots to say – it will have lots to say about Woodford Reserve, Gold 27 and et cetera. They are all doing very well in Brazil. But to do something that is outstanding and to really make history for Brown-Forman in Brazil.

So with that, I'll leave you. And Mark, back to you. Thank you very much.

Mark McCallum

Thanks, Amador. So we'll move to Michel just in a minute. So Brazil, as an example, of how we did that, as Amador said, he called it a bet, we invested before the return, of course. And it seems to be working after many years of trying to find at arms-length a way to develop the business in Brazil unsuccessfully.

Now we move to France where we had a pretty decent business in France, working at arms-length with Bacardi as our partner. And yet the decision there was that we – Michel and his team believed that focus may bring even more results and more influence would actually accelerate our growth.

And here's the story of France.

Michel Gayraud

Thank you, Mark. [French] I've been with Brown-Forman for 17 years, leading our growth from 2 people in 97 to 100 today. France is the world's third whiskey market and the first

Scotch market. Curiously, the French people drink more Scotch than the British, but the British drink more Cognac than the French.

It's a massive market with all category represented, but Scotch is by far the #1. American whiskey is growing quickly, lead by our worker [ph] and engineers [ph] that's still untapered. We drive 75% of the category by value, with our 600,000 cases represent only 4% share today.

Given the investment we have been making, including this year Woodford market change, we are focused on driving growth through leading the development of the American whiskey category in France.

Let's look at the market composition today. It's a massive market, concentrate on 2 categories, the French third market is about 37,000 cases of - made of 50 million cases of whiskey and almost 10 million cases of pastis. Over the last 10 years, whiskey grows by 2%, but pastis declined by 4%. Since whiskey market is dominated by Scotch with 30 million cases. And why most of the other categories exist and we have also some French whiskeys. American whiskey has delivered the fastest growth over the last 10 years with a 5% CAGR and close to 1 million cases.

Jack Daniel's represents nearly 4 quarter of the North American whiskey market and has grown sales by 13% over the last decade. It's the best performance in the market.

One characteristic by France is the retailer concentration, with 8 accounts representing 90% of the business and the spirit - excuse me, and the spirit is very - the spirit is very - the English is difficult. And the spirits is very much squeezed to the off-premise. Historically, the French retailer have created the hipper [ph] market concept and a hipper [ph] market concept is you buy everything in 1 store. Instead of visiting a mall, you have 1 thing so you can buy clothing, food and everything.

Brown-Forman needed to have the flexibility to allow us to build up an organization that best position us to work with the retailer partner. This include leveraging our growing size to stay front of mind of retailers and then build up a profitable partnership with them.

Jack Daniel's has been the backbone of our growth over the last 10 years with consistent growth over the last 8 years, we've doubled the growth over the last 5 years and we've got now 16,000 cases that represent only 4% of the market share. This constant growth is based on leveraging and bringing to consumer the unique brand legacy, duplicated by an emotional image that links very well to the consumer aspiration. This is summarized by how advertising message, Jack is not a Scotch, it's not a bourbon, it's Jack. So you see that we are still in the universe of the whiskey, but nevertheless, it's Jack. So we are unique, we are different.

Finally, Jack Daniel's is festive [ph] in France as the original, premium, crafted American whiskey. It's also important down the line that the Jack Daniel's result and the co-brand image has been executed in France in a market where restriction exists. I'm sure you don't know that. But since 1991, the French and the name of the minister that created this law is Mr. Evec [ph], which means – which is curious because Evec [ph] in English means wine. So it's Mr. Wine that build up a regulation law, and this regulation law, in fact, say that you can talk about origin, tradition – you can, you can talk about origin, tradition the way of doing the product, about the legacy. The only thing you cannot do is transmit emotion. So for us, you cannot transmit emotion. So I am not able – I am able to say Jack Daniel's is made from Tennessee. But I'm not able to show the nice person a mother [ph] or man or whatever you want, drink, showing a glass of Jack Daniel's.

The consumer focus and the consistency of our marketing plan explain the attraction of new consumer, getting share from the other category. It is growth, it's also the result of an excellent commercial relationship with a trade [ph] based on creating value for them.

Based on the Jack Daniel's success story and given our goal of leading the category growth in France, we decided to expand. But we believe the best way to drive the future growth was from owning our own distribution.

In January 2012 – 2014, sorry, so it's this year, in fact, we hired almost 80 people coming from different origins or background. 1/3 from the spirit industry, 1/3 from FMCG and 1/3 from the other industry. Our strategy anchored by being the right people who joined Brown-Forman and infused the Brown-Forman culture through the organization. This has been done through a combination of people and training from Louisville. I don't know if I pronounced, it's Louisville, as well as something we call global orientation and this is a program that everybody loves in France is a global orientation because Brown-Forman bring people from France, and we send the people in the U.S. and then they go to visit the distillery, meet the leadership team, go to the Bugas [ph] operation where we produce our barrels. And they like also to go to see Woodford Reserve distillery because what you don't know is the Woodford Reserve distillery is in the county of Versailles, which is a visit — ***indiscernible*** —

Yes, excuse me, I just got a little excited — ***indiscernible*** —, including our desire to run [ph] an American whiskey outside of the U. S. through precision brands such as Woodford Reserve to address the premiumization opportunity. So we have the right portfolio for the market. And now we have the right to market, to being able to gain – to get further gain. So despite – can you come back please? So despite an 11% CAGR over the past decade, Brown-Forman front still has only 3% of this great industry landscape. Over the medium term, we're targeting more than 1 million cases, this is important. But even that numbers, we'll only have Brown-Forman a 5% share. Based on the development of our American whiskey portfolio, the expansion of the category and our investment in passionate people, who are focused on our brand, we believe that France will continue to be a large growth contributor in the future. [French]

Mark McCallum

Thanks, Michel. And of course, Jill and I have been sort of walking the world, overseeing and facilitating a lot of this change that is being described here. Just for a moment, we're just going to ask Jill to focus her attention on not all the world that she is stewarding, but this amazing market in the U.S., which I know you all have a high level of interest in. So Jill will tell you the U.S. story.

Jill Jones

Thank you. So you've heard that the United States is a smaller portion of our overall earnings, and that's definitely true, but the United States is still the most valuable spirits market in the world. It has retail sales above \$36 billion. That's an off premise, and it's added 5 million cases in each of the last 2 years. And it's really important market in a very competitive environment for delivering top tier results. You can see on the left, we've gained market share in each of the last 3 fiscal years. And in F14, we outperformed these large suppliers you see on the screen.

We've done that because our portfolio skews to American whiskey and in American whiskey, we are the leader. You're going to see that our brands resonate with consumers. Jack Daniel's is the #1 brand, and as we keep going closer and closer to 5 million cases in the U.S., we're still growing impressively at 4.5%. We're the #1 brand. John mentioned that we introduced Gentleman Jack in the late '80s. It's was the first extension we had done in 100 years. And you would look now, it is now the #1 brand in the \$25 to \$30 price segment, and it's growing nicely at 10%.

This one, I enjoy a lot. In the 1990s, when whiskey was declining, vodka was king. Everybody was talking vodka. People were entering vodka. Brown-Forman made a different decision. We said we're going to go to Woodford County, Kentucky the first [ph] sales, and we're going to build a distillery, with pot stills, unheard of. We did that in the late

'90s, and it is now the #1 brand in the \$30 to \$40 price segment, growing 26%. And when Mitch McConnell, Senator Mitch McConnell and President Obama were talking about the bourbon summit, and it's why Saturday Night Live chose Woodford Reserve because it is iconically a Kentucky bourbon and it took a chance when everybody else was playing in vodka. Then we introduced in the late '90s, another extension of Jack Daniel's, the Jack Daniel's Single Barrel, with higher proof, very robust. It's the #1 product in the over \$40 price segment. In 2011, we introduced Jack Daniel's Tennessee Honey. This is a way to attract new consumers to the franchise and to give existing consumers a different way to drink Jack Daniel's, with a little bit of honey and a whole lot of Jack. And you can see in the \$20 to \$25 flavor whiskey category, again, we're #1.

But I just have to talk about Old Forester. Old Forester was the first bottle bourbon that came with a written product guarantee. It's the only bourbon that was around before, during and after prohibition. And it was around during because we got a medicinal license. And let me tell you, in the years of prohibition, there were a lot of sick people. We introduced a lot of people to Old Forester, and it's really what established us as the American whiskey leader.

So how do you stay the leader of American whiskey? Well, you don't take it for granted. There are now a lot of people getting into American whiskey. You hear a lot of noise, and we have to make sure we're talking every bit as loud. So what we did this year is we mobilized our workforce, best-in-class workforce, asked our partners to help us. We invested incremental time and focus and money behind the brand. We put it in media. We've put it in off premise and on premise. We ramped up our digital efforts, and we focused on the multi-cultural markets, and it all paid dividends. As typically happens with Jack Daniel's, the more you give Jack, the more it gives back.

We're also engaging consumers because it's so important to tell our story. Everybody

wants to come into this segment, and they're creating brands, they're creating stories, but we have an authentic brand with an authentic story. There was actually a real Jack Daniel that nurtured this brand. We have people - real people and a real town, Lynchburg does exist, that make the whiskey every day. We take ricks of sugar maple, and we make our own charcoal. And then drop by drop, every drop of whiskey goes through 10 feet of this charcoal mellow, which uniquely makes it a Tennessee whiskey. And then we put it into a barrel that we craft for us, and we create Jack Daniel's. Then of course, we introduce people to our master distillers that you're going to get to meet today, and they learn the art of whiskey making, and then we invite people to our home places. We invite them in, they get to walk around, see how it's made. They get to see people, meet people, smell our product, taste our product. And when they leave, they're ambassadors of our brands.

Now on screen, you're going to see a lot of new brands. As consumers are - there's more craft distillers. Consumers are getting used to different products and wanting to experience new things. So we as well have started to introduce new expressions. So we have some that are more robust. There's an Old Forester 1870. We call this our Whiskey Row series. There's a Woodford Reserve Double Oaked, doing a great job. Jack Daniel's Sonatra and Jack Daniel's Rye. And then in the flavored category, we have Winter Jack, a lower-proof ready-to-drink. Absolutely delicious, a bit punch-like, great for the holidays. And we have Honey. And we recently announced, we're introducing Jack Fire. And then we have some seasonal offerings that our master distillers put together. So we have an Old Forester Birthday Bourbon that's created each year. And we have a Woodford Reserve Master's Collection. This year was the Woodford Reserve bourbon was finished in a Pinot Noir wine barrel, absolutely terrific.

Now this is probably my favorite slide. So what have all these efforts done? They've helped us accelerate Jack Daniel's to generate these kind of results. We're very proud of being the leader in American whiskey, and we're very proud of how we're doing in this

country of origins. Thank you.

Kirsten Hawley

So it's always exciting to hear about the brand building efforts that are going on in 3 of the world's top whiskey markets. But we're not ready to leave the stage just yet. We have a few more stories that we want to tell that speak to the themes that you should have heard in today's presentations. The themes of capability building, the themes of focus and the themes of consumer relevance. So before we leave, we got a few more stories to tell in each of these areas. And so I want to ask, Amador, to return the stage to you for a minute and give us some more information about a focused approach. Why has this mattered so much in Brazil and what have you done to take a focused approach to build Jack Daniel's?

Amador Carvalho

Thank you, Kirsten. Is this working? Well, I said a bit of about focus during my presentation, but it gets back again to the fact that in the case of Brown-Forman, starting from pretty much nowhere without [ph] real [ph] scale and no structure. If you don't have focus, you can't get anything done. Large market, large competitors, as we said, very high cost of doing business. You really have to set up your priorities straight and just stick to them, and make sure that we have the right capabilities, and then it gets back to people and the ability to execute them very well, consistently, over time to make sure you get results, again, through – against the brand, against the program, against the market until you learn more and then develop that. So if you don't have that, you scatter the resources, you are limited and you pretty much go nowhere and then frustration comes around, you know the story. So I think focus is absolutely key. In my case, it was absolute key, and continues to be absolutely the key. I mean, as I said before, setting up or trying to decide, with the team, what are really the key priorities — **indiscernible** — and then setting the programs around that and focusing on those and consistently, year upon year,

don't reinvent the wheel, just keeps going. If this is working, just don't reinvent it. Just do it. So that will be my answer in a nutshell.

Kirsten Hawley

How about you, Michel, in France? How is it similar and how is it different?

Michel Gayraud

Focus was the keyword or still a keyword in France as you've heard it. Previously, we set up our own organization in France this year. And when you weigh the 3% of the spirit landscape compared to the big one, and when you go to see the retailers, and I would say that the retailers are very much concentrated in France. We have 8 major retailers covering 90% of the business. They saw that we will open our portfolio to all the products including vodka; including Chambord, the French liquors; including the tequila. And in fact, strategically, we focus on the American whiskey, Jack Daniel's, but also with — ***indiscernible*** — I'm a bit surprised because this focus thing make us having the, I would say, the positive points or the positive argument and also, it's the thing that make us very strong in France is the American whiskey. So focus was a key success of launching. And now I can tell you that after a year, we have a very consistent growth in France. It was because we were focused on the American whiskey category.

Kirsten Hawley

All right. Thank you, Michel. You also spoke about consumers, whether they are multi-cultural consumers, they rise of the — ***indiscernible*** — and population in Brazil. Jill, what else can you tell us about what's happening in the U.S. to resonate with consumers in terms of our brand building efforts?

Jill Jones

I'm ever amazed at whiskey's resurgence. So I think back to prohibition ended in '33. And when I was a little girl, I remember my parents drink whiskey, and that was really all that

existed. Vodka was hardly anything. And suddenly, it started declining. And about 2011, I guess, when we introduced Honey and Fireball started becoming notable and bigger, and craft distilling started really coming about and people wanted flavors, you see consumers wanting that. So we're responding to that. But the new generation, it's their first time to really come to whiskey that wants a different experience, they want to taste something different but they also want a true different experience. They want to go out and discover something, and they want authenticity. And they get a lot of their stuff from digital and social. They want to interact. And so we've had to really ramp up our capabilities around digital. Of course, the face is changing in the U.S., a very different consumer, multi-cultural consumer, so we've had to get better at marketing to multi-cultural, and like Jack Daniel's Tennessee Honey resonates great with African-Americans, Hispanics. So we see a lot of different things in consumers. We're trying to stay relevant. We've hired some new assistant brand managers that are younger millennial consumers to help us really tap in and understand and meet their expectations.

Kirsten Hawley

Michel, how about with you? What's making a difference with consumers in France?

Michel Gayraud

In fact, what resonates to the French consumer regarding Jack Daniel's is that the opposition between Scotch and between the American whiskey and Jack Scotch, and you have that - we are strong consumer of Scotch in France, and this is old fashioned with rules, with tradition. The way of consumption is very strict. Well, with Jack Daniel's, the American whiskey, but mainly Jack Daniel's, is resonated much more in a cool way. It's much more material, but it's much more urban. It's much more easy to drink. And I like very much when how our master distiller, for instance, when he came last year in France, he said, "People always ask to a master distiller how do we drink Jack Daniel's?" And they say, "Straight or non-ice?" And the master distiller said, Jeff Arnett said, "Drink the way

you like it," and this is typically the kind of difference and the way it's resonated in France. And then I will say that it's a bit like our American and French relationship, like an old couple. I mean, that's sometimes, we like us; sometimes, we do not like us. But nevertheless, with Jack Daniel's, we will be always together.

Kirsten Hawley

I think that probably brings an excellent end to our discussion. Thank you very much, Michel. This is – we are done now here on stage. And I'd like to welcome Jane Morreau, our Chief Financial Officer.

Jane Morreau

Thanks, Kirsten, and thanks, everybody, for joining us here today. I've got one more thanks, and thanks – that thanks is thanks for hanging in there. I'm the last presenter, I promise, before Paul comes up for some closing remarks and we open it up to some Q&A, and perhaps, more importantly, before we invite you to join us for a cocktail reception, and you can enjoy and get a taste of some of our amazing products, including Jack Daniel's Tennessee Fire. But first, before we get – before we do all that, I wanted to share some financial metrics with you, to pull together and summarize what all my colleagues shared with you today. And so with that, let me start with the chart that many of you probably have seen before. What it's doing is illustrating some of our key financial metrics that we look at in our P&L, our net sales, our operating income and our EPS growth.

So I'll start off with our net sales. And when I look at this, this chart that you see up here, and you're seeing a very steady, consistent growth in our net sales over 35 years, 25 years, 15 years and 10 years. And that's been driven by our consistent investment in both our people and our brands, our intense focus and the great brand building efforts that we do. Further, if I showed gross profit, you would see further leverage. In other words,

you would see the bar on gross profit for each of these time periods above my net sales growth. And that's driven by our pricing power that's supported by our premium brands as well as some positive mix benefits that we've enjoyed from expanding Jack Daniel's around the world and just really becoming more global.

So that leverage that we enjoyed in gross profit and some additional modest leverage from SG&A, you'll see that operating income growth over all the periods of times that I'm showing is growing faster. And one more bar, more leverage. So all the things I've said about what drove our operating income growth is driving our EPS growth, as well, coupled with 2 things: Share repurchases; as well as, over time, our tax rate has come down gradually. And so I think and wanted to pause here for – on this chart for just a minute because I wanted to point out a couple of time periods, 35 years and 25 years included the Dark Ages that Lawson was referring to in American whiskey in the U.S. And these are quite great growths, I think, over those periods of times. Despite the fact that the category was against this. So I think it's a testament of our ability to grow our brands in a period of time regardless of the category momentum.

With that being said, now we've got the category momentum in the U.S., the wind's at our back. We see that our brands are doing very well. Our premium American brands are doing very well around the world. And we think we're in a great position to seize opportunities for future growth.

So now what I want to do is step back for just a moment and look over the past decade. And what I'm defining as the past decade here starts in 2004 through 2014, and I would say there was a substantial change over that period of time. It was the decade of transformation, that may be another way of saying it. Well, we went back to our roots, what this company was built on, and we're a pure spirits company. And so when I looked at – when we look at the beginning of the decade in 2004, we would have been defined as a multi-

industry company, where 36% of our revenues would have come from popular-priced wine brands, as well as consumer durables. At that time, we owned the Hartmann luggage and Lenox and – Lenox China, excuse me. And so over the last 10 years, what we have done is, through active portfolio management, we actually disposed those low-margins, low growth, highly cyclical businesses, and we also had some selected acquisitions over that period of time where we diversified our spirits portfolio a bit to where, if you look at the 2014 year end, our sales from our business was 96% from spirits.

I'd like to refer to the last 10 years as a continuation of our globalization efforts that really started in earnest in 1994 by our former Chairman and CEO, Owsley Brown II. He had the foresight to see the global opportunity for American whiskey, to introduce American whiskey to consumers around the world. But still, in 2004, we were very much a U.S. centric company still with over – about 2/3 of our revenue is coming from the U.S. at that time. You fast forward to the year end that we just completed, we're getting close. The 2/3 of our revenue is now coming from outside the U.S. And that growth has been built on the backbone of Jack Daniel's, the expansion of Jack Daniel's, and some relative consumer investments that we made to further build Jack Daniel's around the world. And what a decade makes for us. If we look at the beginning of the decade, the American whiskey category was still declining. And then over the last 4, 4.5 years, there's been a rapid increase in the U.S. in American whiskey, and that's what resulted in what we believe is the wind is at our back and opportunities lying ahead for us. So all this put together, we believe, has really positioned us quite well as we look ahead for further growth. You see all the different things that we're saying over here.

The one I'm going to focus on beyond the wonderful margins that now have come and the capital efficiencies is really the cash generation business model and what's driving that superior cash generation business model. Paul actually shared a couple of slides with you about our business model, and I'm going to go a couple of little different directions

to him and really building on what he did. So I want to start with what makes an excellent business model, and I think it starts even further up the P&L.

I did have great gross margins. And you see in this chart here, we have actually great margins, almost 70%. It's improved over the last decade. You see the margins up here. And that, we believe, has been afforded by 3, primarily, primary factors. First, our pricing power, that Alex referred to throughout his presentation, the barriers of entry that exist to get into the whiskey, intense amount of investment both from working capital as well as capital spending to get into the whiskey business, provides pricing power to our brands. Cost efficiencies, that Alex also referred to, have come to our margins over this period of time in single-source production and in the vertical integration results. And both John and Lawson talked about our skew of our portfolio to American whiskey, and primarily Jack Daniel's. And with that comes terrific margins. In fact, our margins are industry-leading, really 9 points better than our competitive set.

So this chart looks at our 10-year average net income margin compared to the S&P 500, the consumer staples, as well as our peers. And despite us being burdened with a higher tax rate because we're a U.S.-based company and the consistent investments that we've made behind our people and our brands including 1 we talked about here today, our France RTC, that's happened over this past year, we have the best net income margins you can see compared to all of our industry, as well as above significantly higher than the S&P 500. We really believe that the quality of our earnings is very high. I like to use this little ratio here. Ratio of free cash flow to net income at 90%. If you were to compare that to the S&P 500, this is over a 10-year period, compare it to the S&P 500 conversion ratio of 67% and we're further ahead of the consumer staples at 38%.

So I like this margin, this net income margin as a good proxy for that efficiency in which we turn ourselves into profit. And it's also one of the factors that are driving these top

tier returns on invested capital. Again, Alex talked about all the things that we have to do, planning ahead, seeing the growth several years down the road to lay whiskey down that's inherent in our business, making the investments that we have been, are continuing to make so that we can make the products at our production facilities. And despite all that, we still generated a 22% return on invested capital this past year. So in addition to our return on invested capital, this has come, in part, to our focus on our superior efficiency. The way we target our opportunities is we target them very – by looking at and balancing our risk, and Paul talked about this a bit earlier, too. And so as you heard from our geographies today, we don't put all of our eggs in 1 basket. We've really diversified our business geographically, and we think that's one of the reasons why we have had – performed so well over the long periods of time.

So we take a long-term approach to our balance sheet, and we have low levels of debt that have – are required to generate our EBITDA. So when I pull this all together and look at the model that we have, the industry-leading gross profit margin, the exceptional net income, the top tier return on invested capital and the loan debt that's required to generate our EBITDA multiple, it turns into quite a cash generating machine.

And so that's a good segue into this next chart, and we'll look at our 10-year cash. And today, it depends on the stock market nevertheless, but we're somewhere around a \$20 billion company and market cap. I'm sorry, not with this first chart here, because 10 years ago, we would have been \$5.7 billion company and market cap. Over the 10-year period, we just essentially generated this much cash from our business after funding our P&L items to grow it, which is pretty amazing.

So what did we do with that cash over the past decade? About 1/3 of it was invested back in our business in the form of capital spending, both in working capital terms and CapEx, as well as acquisitions; and 1/3 of it was returned to our shareholders in the form

of ordinary dividends; and our remaining 1/3 went to our shareholders in the form of special dividends and share repurchases. So the combined return to our shareholders was about 66%, so about 2/3 of it went back to our shareholders. And so when I look at our philosophy, our prioritization of our capital and how we allocate it, we, first and foremost, prioritize it to fund our business, to fund the organic growth of our business. And so again, we have to invest ahead of the game in working capital and primarily, barrel whiskey. And that's the biggest piece that we are investing in. And the second thing that we have to invest in is our capital spending, which you heard from Alex this morning. Historically, we've spent around 2% to 3% of our revenues back in CapEx. We are, over the last couple of years, spent a couple of hundred million dollars collectively between 2013 and '14, projected to spend somewhere around \$120 million to \$140 million this year. We expect that level of investment to remain high over the next couple of fiscal years before we return back to more on the 2% to 3% of revenues thereafter. But again, we're making these investments for the growth that we see and the potential we see in the business.

Secondary, we look at is our dividends. We want our dividends – we want to grow dividends, and we want to grow dividends as our earnings grow and maintain a payout ratio somewhere in the 35% to 40% range. So if you look over the last 69 years, we've paid dividends. We've increased our dividends over the last 31 years, making us a member of the dividend aristocrats.

After the dividends, then we look at acquisitions, and we look at those opportunistically. The company has been built on a combination of acquisitions, innovation and organic growth. I will come back to acquisitions in a moment. Okay. After assuming that we don't find suitable acquisitions, then we want to look at how do we return our excess cash to our shareholders? And we've generally looked at either a combination of share repurchases or special dividends.

So if I'm going to show this chart, over the last 5 years, what you would see missing from this chart is acquisitions. We haven't made any acquisitions over the last 5 years. Now, probably it might be worth taking a few minutes just to talk about our philosophy and our approach to acquisitions. So with that, and Lawson had shown earlier, our focus on being the leader in American whiskey, but he also mentioned that we would be interested in attractive categories in whiskey, and we publicly have noted Scotch and Irish. That's easier said than done. You've got to find those brands that meet the criteria that we're looking for. We're very disciplined. We have a high bar that we've set to really what we're looking for in terms of, what we've used a term as, is attractive. So what's the attractive business, if you will? We're looking for a good business. Something that has characteristics of nice margins, good returns on invested capital, has growth, sustainable, not just over the last couple of years or so, something that has a nice growth with it, can be meaningful in size to us. Quite frankly, we're looking for something that has characteristics such as Brown-Forman. In fact, if we find – if we don't find brands that are suitable for – that meet our criteria, if you will, we're better off investing in ourselves with that great model I just shared and Paul shared with you earlier today, through share repurchases or innovating, much like we did with Woodford Reserve back in 1994.

So the one other thing I want to mention about this chart is that if I then looked at over the last 5 years and took out the acquisitions, I mentioned, earlier that we've returned about 2/3 to our shareholders over the last 10 years. Well, that ratio would have gone up to about 75% over the last 5 years. So I'll spend just a minute just looking at how we've returned cash and capital to our shareholders over the last 3 decades.

So this chart illustrates that we have consistently returned – consistently increased our dividends over a long period of time. In fact, over the last 20 years, we've increased our dividends at a compound annual growth rate of about 8%, which is consistent with the growth rate that we just announced a couple of weeks ago, in line, 8.6% was our increase

for next year's dividend. We've bought it back over the last decade a substantial number of shares of our stock, and thereby reducing our total share count by about 1/3 from where it was some 30 years ago. And more recently, we've done some special, EBIT [ph] driven dividend, some special dividends totaling \$1.2 billion since 2008. So in aggregate, the return of our capital to our shareholders has been one of the reasons and one of the factors that has driven our total shareholder return.

And so I talked about all the refocusing of the company over the last decade that we've done to set us up and better position us for growth as we look ahead. But we've also simultaneously delivered industry leading total shareholder return. You can see all the benchmarks behind me. We actually outpaced the competitive set and the S&P 500, and the S&P 500 by a factor of 2 plus. So all this has been propelled by our high industry-leading, top-tier operating income growth over that period of time as well as our return of capital to our shareholders. So we, like many family-owned companies publicly traded, want to deliver top – the greatest shareholder, shareholder return we can but we also want to do it with the balance of risk, and so I think we'll share this next slide with you. And what it does is it looks at the S&P 500 or the 500 companies in the S&P 500, and then it slices by total shareholder return, as well as beta, beta B and a proxy for volatility. And so this first slice of how many companies delivered above the 200 – above the S&P 500 total shareholder return? There were 276 of them. Well, when you put another factor on their beta, that number goes down to 133 companies, of which Brown-Forman is one of them. But when you put Brown-Forman's metrics on there and you say, how many companies actually delivered a higher total shareholder return than Brown-Forman with the load of – lower beta, and there's only 5 companies that did so. And this is over a 10-year period of time. And so you can see that we are in the 99th percentile of companies, delivering top tier total shareholder return with the least amount of risk employed.

Okay. So I've got one more chart and then we've – I got 2 more things, but I've got one

more chart on market share. This has been the similar format that you saw earlier from some of the folks that just came up on the countries. Now I'm going to focus on value. We want numbers, right? And we're talking about dollars here. So I think this chart is a really good example of the great success of our strategy over the past decade. So let's start off with IWSR on a value basis. And the total global spirits on a value basis was over \$300 billion for 2013. Of which, whiskeys represented 20% of the total, growing at a very healthy clip over the 10-year period, from 2003 to 2013, of 7%. Jack Daniel's in 2003 represented 6% of the total whiskey pie, and it represented 39% of American whiskey. You fast-forward it to today, you've heard a lot of the investments we've made over the past decade, the development of our brand, geographic diversification, the investments in our people, what you'll see is, in 2013, it gained a whopping 1% market share. We went from 6% to 7.4%. And why I say that is you saw the great numbers, the industry-leading total shareholder returns, the great growth rates that we experienced and yet, we only have increased market share 1%, which makes us very optimistic as we look ahead at the opportunities that lie out there. If you look at that market share and say, "Where is it coming from?" You can see we only have 6% outside the U.S on a value basis, 14% in the U.S. thereabouts. Again, illustrating the opportunities that lie ahead for us. And perhaps, even more impressive is while we've grown the category, our market share of American whiskey category from 39% to 46% over the past 10 years, and outside the U.S, we would have grown it even more from 50% to 62%. And so I think this illustrates – we believe this illustrates that we are clearly the leader in the American whiskey category, and we've got a lot of untapped potential to get to, so we see a lot of growth ahead for us.

And so in summary, I want to leave you with why we believe Brown-Forman is a great, long-term investment. So I'm going to start off with reason one. We really do believe that we've got one of the best premium portfolio of brands in the world, focused on the fast-growing American whiskey category. And with that, we don't have a local, low-priced brand in our portfolio. Second, we own Jack Daniel's. It's an iconic brand. It's one of the

truer global brands of all brands, all kinds of categories in the world. It's very special. It's very powerful. It lives, as John described, in rarefied air both on – in terms of scale, price point, efficiencies. And we believe, as you saw from that chart and what we showed earlier that we have tremendous opportunities to grow both from the U.S. and outside the U.S. And with our singular focus on this brand that Paul and Kirsten referred to, we believe that the development and we can and continue to develop this brand, and it's a true competitive advantage for us. Third, this really has to do with the production that Alex was talking about earlier. We've been in this business since the beginning of time, 144 years. We know the whiskey-making business. We know the quality. We know what counts, we know how to plan for it. We know what to do, the various levers. We know it takes investments. What we know from this, we understand the full supply chain. We've got single-point production efficiencies as well as vertical integration that we think are competitive advantages to us. And then, I spent a few minutes ago just talking about we are the leader in the global growth of American whiskey. We have been over the past decade. We have built it outside the U.S., and we will continue to do that through our focused investments in people and brands. And we know in the U.S., we're well positioned. We got the premiumization trend, we've got innovation, and of course, organic growth behind us, but outside the U.S. is untapped with such a small market share that exists. Fifth, we've had an incredibly long track record, we believe, of being strong stewards of capital. Investing behind our business, making acquisition opportunistically and returning cash to our shareholders, all shareholders. And sixth, we have a very committed, passionate, engaged family, Brown family, behind the company ,which we believe is an extremely competitive advantage. And a family, much like all of you in this room, today, wants nothing more than to see earnings growth sustained over long periods of time, growth in dividends, as well as capital appreciation. And we believe Brown-Forman is very well positioned to do just that and to take care – and to drive and endure for generations. And so I've got one more thing that we're going to share with you before Paul

comes up here with closing remarks. And it's a short video. With that...

[Presentation]

Question and Answer

Paul Varga

Okay, we're making a transition to the Q&A now. Thanks for hanging in there to what I hope you all consider to be a much deeper look at Brown-Forman Corporation today through the leadership that we've had with you in the room today. And so now, I think, is an excellent opportunity, as you've heard from us, for us to hear from you as it relates to any questions that today's presentations brought up. And I'm going to ask my colleagues who've been with us today to – I'll try to emcee a bit and direct questions, but you all feel free to direct them yourselves. But I'll play the role of sort of emcee up here to help us through the Q&A. So why don't I have everybody come on up. Great. Okay. I think we've got roving mics, just so everybody can hear them. Will try, if we can, we'll try to repeat the question. So Bill, yes?

Attendee

Can you hear me now? I've got 2 questions. One is maybe on the operational side. Are there – with all the CapEx, with all the expansion going, I guess, how far does this get you? And are there any areas where you could run into capacity constraints in the next 2, 3 years from the super-premium side to certain parts of the business? And what will this do? Will this – will we see the next kind of build 20 years from now, 30 years from now? I mean, how far does it get you out? And then one on the cash question, if, and this is a big if, there is a tax reform in the U.S. and there's maybe a repatriation holiday. Is that a possibility – can you maybe talk about what kind of cash you have trapped overseas? And would that be a possibility for a special dividend if that was the case? I know that's a big if.

Paul Varga

Yes, I'll maybe let Alex address the first question that you asked about how far we're on to these recent capital investments we're making? I mean, what's the sort of horizon did we have when we entered into them?

Alejandro Alvarez

So when we're looking at capital investment, we're looking at a 10- to 20-year horizon. So today, we're looking at, okay, so what do we need to do in order for us to ensure that we have supply until 2025 and what flexibility we have to build in for us to ensure that we can continue to support growth until 2035. So all of that to say is that based on our outstanding planning process, we believe that we are in a good position to supply premium and super-premium products.

Paul Varga

And then one thing, just to add, throughout – even in that base – I'm sorry, historical CapEx, we were always doing a form of what we would today define as expansion. And the premier way we did that was through warehousing. We were always adding warehousing. And so some of those – what's in this more exceptional level of the last couple of years is actually expanding distilling and then expanding cooperage. And so those, we think will be, in some ways, more significant during a short amount of time, will set us up for sure, and Alex referenced the modular nature of what we're doing, particularly at Jack Daniel's distillery, there could be additional CapEx down the road as we continue to expand as needed. But the most significant amount of it is going on right now. And then Jane, did you want to handle the question on trapped cash and the big if?

Jane Morreau

Yes, trapped cash. So when we look at the cash we have overseas, we've grown bigger overseas. So clearly, having cash overseas is more important and needed than we have

historically have had. I think your question really was directed toward, would we bring cash back for special dividend? And I think we generated enough cash in the U.S. but that would be why we would bring it back. We would approach our capital allocation much like I described here today. We would go through the process in terms of what makes sense. Where do we need to fund the business, dividends, ordinary dividend, and its growth, acquisitions and then the other portions of it. But we wouldn't do it just to bring it back for a special dividend.

Attendee

Can you just talk about if you think the industry consolidation helps or hurts your business? And then maybe the relative merits of scale versus focus in the industry globally?

Paul Varga

Sure. I mean, it's all – it depends on who's being consolidated and who the consolidator is in every instance, I think. Over longer periods of time, handing at the second question, we feel that particularly in this industry that – and you saw from some of the relatively meager share numbers, that, well, of course, scale, like the major decision and going forward in terms of integration and toward owned RTC is coverage fixed overhead, and so you need to have a business that's scalable enough to support the investments you make in an RTC. But as it relates to getting shut out at retail by larger portfolios in that kind of scale, I think that we would opt for the more focused model that has served us so well. And I'll just ask maybe Michel and Amador, Michel for sure who has the very concentrated retail environment, to comment on the difficulties that you might experience by being smaller than some of the larger players and the tradeoff between sort of scale and focus in that case.

Michel Gayraud

Absolutely – first? Yes. Absolutely. So the fact that – in fact, we were not even facing the

trade because we were working with the distributor partner in France. So we have first built up the – what we call the key accounts, and then we faced the trade. And obviously in France, as I said earlier, the concentration of the trade may impact the relationship. And the negotiation with the trade are extremely tough, I will say, but nevertheless, due to the fact that we had the co-brand, it works very well.

Paul Varga

Yes. And maybe Jill, I'll just say as the example from the world's largest distilled spirit market. If you looked at the relevant performance of larger versus more mid-size versus smaller companies in the U.S. distilled spirits market, I think you'd find, over the last – for sure, the last 5 years, and I think it would hold up even over 10, because of the performance from the last 5, the smaller, less-scaled companies, those that would profess to not being in the scale game, have had far greater success in this market than the larger players. So I mean it would – that holds up to almost any data.

Jill Jones

Yes. You saw it on the data that was on the screen. And I would say that we aspire to be big but nimble, like we're little. So I mean I think we like where we are. We like focus and ability to try to move things more quickly and not get stuck in bureaucracy. Of course, there's always tradeoffs, but focus has served us very well. And if you look at the folks on the screen, you can see that we are outperforming them.

Attendee

Great. And then just on the Fire launch, did you ever consider using Old Forester instead of Jack Daniel's for the launch just given the price point of the incumbent there and then also like maybe the risks to the brand equity in case it doesn't go as planned?

Paul Varga

Oh, yes. Well, I mean we look at the opportunity for all the trademarks, but I'd – we

certainly wouldn't put Old Forester in a Jack Daniel's bottle or anything like that but as the main asset going forward for our company, which is why – that's why we went and tested it. And I'll just – I mean, as an example of what you're talking about, we've had in the U.S. marketplace and, I think, in maybe 1 or 2 international markets of – an Early Times cinnamon expression that has been out there and done okay. But you all just need to understand that the power of the Jack Daniel's trademark. I mean it significantly scales up the opportunity for our company when we consider it that way, and – but we don't enter in it lightly. I mean I think a lot of companies might have entered that business a couple of years ago. And we've been a little bit more measured than many because of what I think you're referencing here, which is just to be careful and cautious enough to make sure we know what we're doing and what the impact might be to longer-term brand equity. Yes, Ian [ph]?

Attendee

I think...

Paul Varga

Oh, you got one over here. And we'll come back.

Attendee

I guess, a question – 2 questions just related to growth potential in emerging markets and, I guess, if we kind of look forward over the next 5 years or 10 years, if you could talk a little bit about, first, how that might affect leverage in the company. We've had really good operating leverage, gross margin leverage. Is there something that we would give up in terms of expanding into emerging markets? And then second, if you'd step back and you look at how you're allocating your spending and investment across the entire portfolio, so outside of American whiskey, would you – will you be taking resources away – or allocating more resources towards that development and maybe away from some of

the other businesses or brands in the portfolio?

Paul Varga

Jane, maybe you want to – but maybe Lawson. Or I mean I'll just say in this too, while they pass the microphone, that yes, I think that, on that – on this question of resource allocation, I mean we would say we've been in investment spending mode, for example, in our tequilas since we bought them. So I mean we feel that – so within the portfolio, I feel like those things have offered the most attractive returns. Regardless of whether the category has momentum or not, we're going to try to do what we think is a proper job of brand building. On the emerging markets, I don't – I mean we'd have to go look at it by individual markets versus as a whole, but in general, I mean I would anticipate that we would continue to get the same sorts of leverage as you went down the P&L in those emerging markets that we've seen over the last 10 years. And I mean I personally – I mean I was – every time I see the presentations that are made by my colleagues here, I mean I – in each of the BRIC markets, I mean I would – I know, over the – I don't know if I'll still be around Brown-Forman, but over the course of, say, a generation, I would be really disappointed if those weren't – in that one chart we showed minimum level of volumes, if all those markets didn't have the potential to go past 1 million cases over the passage of time. Always, the question is how fast and what level of investment's required. But they certainly have the population and appeal of whiskey in those markets, and if Jack Daniel's continues to do what it does as the leader, I can't imagine that we wouldn't be making whiskey and anticipating and investing that they would be much more largely scaled. I mean Amador's example is, I thought it was a great one today, of virtually 20,000-case market now, to forecasting going over for the family 200,000 cases. So in that kind of example, you just start to extrapolate that over the next sort of 10 years. And then taking it into markets of equal population size with growing middle classes that have whiskey as a core category, I mean I think we would remain very optimistic about that. So...

Lawson Whiting

Yes. I mean we've spent – in the last even year, we've spent a lot of time looking farther and farther out on Jack Daniel's and where is the volume going to come from over 5- and 10- and 20-year time periods. And very much true that emerging markets are going to be increasingly important. Already – they've already doubled and tripled in size for us in the last 10 years. So true, we are going to be investing more on that, but how you do it has a huge impact on the margins. And for the most part, our margins don't really vary that much around the world. Brazil is sort of the exception to the rule. And when you get into some of these very much larger markets like the Chinas and Indias and Africa and things like that, whether or not we would go in and go higher – and I'll make it up, in China, go hire 1,000 people and go develop the market that way, it's probably not the way that we're going to do with. So different markets have different methods for it, but generally, I don't think we're going to – we would not go into it thinking that we're going to take a lower margin to be able to make it happen.

Paul Varga

Second, please, yes.

Attendee

Yes, 2 questions. I mean, Paul, you made the point early on but quite rightly that you're being quite careful of ruling out flavors, but you have pushed the button now on another one. And I just wonder whether you've got a better road map now of thinking forward about how many flavors and how fast, and whether you can talk a bit about that. And the second question was more around acquisitions, just to, I mean, be absolutely clear what you're seeing because you have talked about the Scotch and Irish before. You have also mentioned previously the kind just light vodka. Is there a narrowing-down of the focus here?

Paul Varga

Yes, I mean I think the thing is – I mean, if you saw, we're seeing some of the themes today from just being at the premium end. And the premium end of – I'll just answer the second question. The premium end of the global whiskey opportunity, I mean it's so attractive, I mean the things that we would find to be attractive and maybe advisable for us aren't this other A-word, available. And so you can go through the mental math of how do we get there, how – what it would – what is it that would attract somebody to wanting to sell us their attractive brand in the either the malted whiskey business or Scotch or Irish. And they've been having a pretty nice run too, if you look back over. So I think it's – that's why you pair that up with realistic thinking about innovation. And I think we gain inspiration a bit from the story we showed on Woodford Reserve, that you can control your own destiny. More so, if you can find the right spot for investing and you have a long view of it, it has to be meaningful. I mean, as you see, the size of our company, that can't be these little bets. So nonetheless, we're going to look at both alternatives and see what the wisest way to enter the most attractive markets without taking our focus off our primary theme of today, which is American whiskey and the continued development of the Jack trademark. On flavors, I mean what I'd say is for – as it relates to Jack Daniel's, I would say 2 is where we are. We know that honey and cinnamon, at least in these early days of flavored whiskey, because people were not in a called format, already asking for American whiskey or a Jack Daniel's with honey or cinnamon, they were asking for it largely on ice, with water, with citrus and primarily with Coca-Cola. These open up new markets and new consuming occasions for the brand. And I think it's actually been very important to the low levels and almost absence, in many instances, of cannibalization because they became new ways, not convenient ways, to consume existing drinks that were already offered by Jack Daniel's or by the category. So I think that was really important to it. Who knows where this thing might go? I do like – I don't mean to imply either that, every single possible way that a consumer might choose to drink our whiskeys, we would eventually

go into some flavored version of it. I think that's where the vodka companies, in some way, got ahead of themselves. So for us, I mean we still want Jack Daniel's to be diluted and mixed at times in cocktails and in mixed drinks in the way that they historically had, and that is a far larger business than even our flavored whiskey businesses today. So I mean I just, I would say, expect us to be conservative and thoughtful about it, but also you should expect us to be articulate about it, so thank you for asking the question. Okay, just make the microphone's – does somebody got – does somebody have a mic? Oh, you have it. There you go. Sorry, I lost it.

Attendee

It's quite evident that you have a terrific business model and this management team has a great track record of execution. So Paul, as you're thinking about the long-term strategy and growth, what are some of your key barriers? What are some of the key risks you think about?

Paul Varga

Well, the ones that I think – I mean I'll let anybody up here talk about that age-old question of what – if you're doing a SWOT, what are the threats that you would foresee? The 2 that would show up for me that are more contemporary, one would be – and this is beyond the global macroeconomic stuff that all of us would deal with, that are unique are excise taxes. I mean I just would say models that we see in particularly in kind of the larger countries, Australia comes to mind, these things can be really detrimental to companies and brands that have premium-priced positions in the marketplace or in the categories. So that's something I worry about. I wouldn't say I'm losing sleep over the legalization of marijuana, but I'm paying attention to it. I'll just say it that way. And others may have their own form of – Mark, I mean you do a lot of SWOT-ing around the world, so what are some of the things that have come up as worries or concerns that would be unique to either the company or the industry?

Mark McCallum

Well, I think I would say that a very disruptive threat, I'll leave that alone, are those outside what we would be able to control as a corporation, but up in the sort of the weaknesses quadrant of our SWOT, we've had things, Paul mentioned a couple. We'd be concerned if pricing wasn't available to us for the long term, this balance of volume and price that you hear a lot of us talk about, and excise tax has an influence on that. Also, as – we're only really 5 years into fixing infrastructure cost in key markets. And so this learning, we're cautious about the efficiency of fixed cost investment in markets and what you do when the growth curve slows. So in the sort of not very disruptive, outside our control area, we're just paying attention to the fact that this is not a scale business, but yet we need to invest in infrastructure at a pace and with a potential flexibility that enables us to be reactive. John mentioned the South Africa story: what happens if we were invested in a market like South Africa and we were facing a slowdown and what would we do without our investment posture then. So...

Paul Varga

Lawson?

Lawson Whiting

I mean I think we would – this is a business that has gone through cycles before. And particularly those of you that follow the Scotch business, I mean there's – they've had booms and busts many times over a 100-year period. So we're very sensitive to it. We look at it. We're actually pretty comfortable that supply-and-demand is in a pretty good place, but we know there's a lot of people building a lot of distilleries right now. And so what happens with that and what happens to pricing would be a real risk to our business. Now as I said, I think it's years before we really would see any – there's so much supply coming on that it's still got years before it's actually going to hit the market. And so it's not really a short-term risk, but I think it's fair to say that we need to be conscious of

keeping supply and demand in balance.

Paul Varga

Our risk register is organized around 2 primary buckets of the company. One is those things that would potentially threaten Jack Daniel's or our American whiskey supply, and those things that would threaten the demand. And so you can imagine that we would have risk-mitigation efforts, everything from – on the supply side, fire protection and things like that, that we've invested in over the years. And then demand, I just think it comes down to doing the jobs that we're paid to do, which is to run this business and these brands exceptionally well. And so what we've tried to show to you today are a lot of the ways we try to do that. Competition is always one of the potential derailers that occur for any company and any industry, but I don't know that we can – and we would worry about smaller, I mean, literally some of these upstarts, particularly in the U.S., today but also larger companies so our perspective will be broad there on competition. But I think competition keeps all of us on our toes. I mean it really does. And so we have to think anew and not misdiagnose or create ideas that we shouldn't create or make investments that we shouldn't make while making the right choices on that. So I mean I think that's what we're tasked to do as managers and leaders, and so you should expect us to do that.

Attendee

Two questions. First, kind of big picture kind of theoretically. If a property in vodka like Tito's came on the market, is that something that you would seriously consider? Or would you just not even consider it very much given the category it's in, in the sense that vodka would dilute the overall quality of the business? And second question, can you give us a little bit more color on your business in China and India, roughly how many cases you sell, how happy you are with your route to market and whether you're looking for other, perhaps other avenues to increase your penetration and your potential in those markets?

Paul Varga

Yes. Maybe, Jill, do you want to hit on the opportunities, say, in the large, at this stage, very U.S.-oriented, vodka like Tito's? And Jane, you might supplement that as it relates to acquisition. And then Mark, you might hit on trying to think of – Lawson here – or several just could hit on the China and India thing. So...

Jill Jones

So I don't know that we would carte blanche, just disregard a whole category. The interesting thing about Tito's for me is Tito's actually is resonating with consumers. The handcrafted message is bucking the trends of the rest of vodka. And so a brand that resonates with consumers that we think can do well in our hands, we would look at it, but it would have to meet our typical criteria. And I think we're a bit more discerning because there's all kinds of case studies of where companies have gone out and made acquisitions and it's actually taken them backwards. So that would be the type of brand, one that resonates with consumers that has a proposition that's premium priced, that can grow well, that I would be interested in the management team looking at and considering.

Jane Morreau

Yes. And so just building on what she said: We would look at our criteria. It's not so much about the category. It's about the business and the brand. And so we would apply, get in there, look at it. Is it a good business? What kind of margins does it have, what kind of growth potential, what kind of returns? We would apply those filter to it. And then can we create shareholder value in the end? Is it advisable to us? And so I'll say I didn't want to lead people that we're not looking at stuff. We do, but it's all about having a good business. And...

Paul Varga

We inspect a lot of things.

Jane Morreau

Yes.

Paul Varga

I mean I will say this. One of the difficulties today versus, say, 5 or 10 years ago for a company like Brown-Forman looking at, in this case, an emerging brand and a very – a brand that's doing very well in this country is whether or not – we never would have thought of ourselves as being a big player and a spirits company. And it's – part of the appeal of actually Tito's or any of these other sort of locally developed and growing brands is that they're not owned by companies like Brown-Forman. And so we're seeing this in a number of other industries, and so you have to wonder if you want to be realistic about it. When you go to being a perceived big corporate entity in American spirits or whatever and going in and bank something small, does – do you actually diminish the value of it in the eyes of some consumers? And we're actually seeing some of that, in particular with beer because they were ahead of spirits on this front. So...

Jane Morreau

China and India? Okay.

Paul Varga

India and China. India...

Mark McCallum

John, why don't you start? Well, let me say this, that from a China or an India point of view, we definitely see them, as you would expect us to see them, as significant long-term opportunities for us. Today, the opportunity for our business in those markets is certainly not at the level of the opportunity that it might be in another – a number of other emerging markets that we're investing in. But specifically for China, both those countries exist on that green chart of markets with more than 100,000 cases in them,

but would we direct a significant resource to accelerating that in any way? I would say no. We are growing in China. That's sort of unique at the moment, but...

Paul Varga

And in India, right? Very much.

Mark McCallum

And in India. And so we have – certainly, we have a number of Brown-Forman employees on the ground, local employees as well as other folk, moving the business forward, but I think you know enough about China from everything else you've read about the category, that it's a really slow-build market. It's off- – on-premise, sorry. It's an on-premise market for premium global spirits, and it's, bar by bar, nightclub by nightclub, very inefficient in terms of investment, as opposed to other greater opportunities that we've got elsewhere in the emerging world that we've been up and showed some examples of today. But their time will come for whiskey and Brown-Forman. India and China will be significant businesses for us in generations to come, without any question.

Paul Varga

Yes. I mean, I will just add. I think China is its own business strategy. I think, what I find for virtually all the companies in our industry and certainly is for us, you see how we like to disproportionately derive rewards from lower outputs of risk. We have not yet found in China, not yet, that model that works, and it doesn't mean that we're going to be totally risk averse. Any time you walk into these emerging markets today, you're going to – they're going to carry a little bit more risk. But I also feel like that we're going to continue to be really thoughtful. Just to, I mean, throw caution to the wind: The big difference for us that I see maybe over the next 20 years is that the local markets that will likely trade up, so that if you think about their pallets, is great in India because it's a local brown spirits market. It's a very sizable local brown spirits market, whereas in China,

I mean it's undeniable, the opportunity and the size, not only do they have to trade to Western spirits but they also have to make a shift from their local spirit, which is a clear, white spirit, over to whiskey. We think both will happen. And frankly, you see these share numbers. In China, you do not need that much to be – have a just wonderful business. So we feel like we can play in both, but it won't be to the exclusion of this thing, wasn't even – it never showed up on a slide today, called rest of world. When you are doing business in 170 countries, like Jack Daniel's is, I mean those smaller countries that are – I love the slide that had all the 41 50,000-case markets. Those add up to something and also spread the risk around. So we like that model, but we still have work to do to crack both of those countries at the level that we would like to crack them. Yes, Vivien [ph]? Oh, you got them? That, just next, Bill [ph]. He's here.

Attendee

On your acquisition strategy, you mentioned availability in the Scotch and the Irish industries. They are incredibly concentrated, so the sort of brands that could be potentially out there are going to be relatively small. Would you ever consider taking your production expertise in building a distillery in Scotland and/or Ireland and building your own? Because there are lots of startups.

Paul Varga

Well, sure. You see, a lot of people have actually – and a lot of that is going on particularly, and we've seen a number of announced just in the last year in Ireland. And as we highlighted, the Woodford model, in fact, that's what we did in bourbon 20 years ago. So yes, that is absolutely an avenue. If you don't have availability through acquisition, that is an obvious arena for investment for the company. And it fits pretty nicely, quite honestly, with Brown-Forman, who's going to have a longer horizon. And at the multiples in this industry, you wonder sometimes. You won't know, for the better part of a generation, whether – a 20x multiple or 20 years to build the Woodford Reserve, which is better and

which carried more risk with it. So I will tell you that, any of those that we do, they have to - I think, for our shareholders, all of you and the family, they need to have the prospect of being reasonably meaningful with the passage of time. We want something that's not just a toy. I mean something that would really be a meaningful business operation. And I think this company's brand-building and manufacturing capabilities really fit better with those categories than they might some others.

Attendee

And a follow-up. On the chart you put up about the dark ages of whiskey in the United States, what do you learn from that in the rise of vodka? When you look at other world markets where whiskey is pretty well established and there's a number of established vodka markets, are there some key learnings from that, some warning signs you need to keep eye - your eyes out for?

Paul Varga

Do you want to hit on that? In some of these, I've got - those of you who've been spending time in markets that were heavily - like Poland or a market like Mexico, anybody want to talk about those categories? They're actually shifting over from those large local markets to whiskey. So some of the fastest-growing subsegments of their distilled spirits markets are the premium-priced points - premium price points in whiskey. I mean, as it relates to American whiskey, I mean Jack Daniel's has largely developed it, and it's still at such an early age. Could that occur as people move away from whiskey? I mean you saw these share levels. I mean the penetration is something like 2%, so it's hardly such a dominant share that I think that it had - would have enough consumerism to qualify, say, a fad that people might move away from. Anybody else, like John or anybody, who...

Lawson Whiting

Yes, the question is our - can we switch the vodka markets over into some big vodka...

Paul Varga

No. Are we worried about the whiskey market shifting over to vodka or cognac or gin or some of these other...

Lawson Whiting

No.

Paul Varga

We didn't go into a category review today. It's really interesting. I think the largest global category, the most globally present, is whiskey, followed pretty far behind, is vodka. And that's if you exclude the more – and I'm saying categories of these in multitude of countries. Baijiu is very large, but it's largely just in China. So Jill, did you have something – you looked like you were going to say?

Jill Jones

Yes. I think, back to even when whiskey wasn't growing or called, Jack was. So a brand like Jack was able to transcend. And one of our slogans is we're not whiskey. We're not – we're Jack...

Jane Morreau

We're not Scotch...

Jill Jones

We're not Scotch. We're Jack. And I mean it kind of cut through, and so I think it's the strength of the brand that really matters.

Paul Varga

But good, a fair question. Put it on our risk register, so yes.

Attendee

Two questions, please. The first, on Woodford Reserve. Given the robust growth that you continue to put up in the United States, how much capacity do you really have to expand that brand geographically outside of the U.S.? Because I think it's still like 85% in the U.S.

Paul Varga

We run pretty hard. We were planning on this. And so I think we're showing 30%-plus growth rates or something like that right now, and so those are in our plans. So...

Lawson Whiting

It's about 80% U.S., 20% international right now. But we – I mean it's one of the benefits of having a long-term view. Back when a lot of other companies were really cutting, we were really juicing-up our distilleries 4 and 5 and 6 years ago, and so – at Woodford at least. So we've added a lot of capacity in the last – and are in the middle of it right now actually. And so yes, there's – we've still got a pretty good runway ahead of us and a pretty – we have planned for the kind of growth rates that we're seeing right now.

Jill Jones

Yes.

Paul Varga

Let me say this one thing. I mean it's just really important. I mean, to play at the premium end and to be sourcing, like if we just think of your whiskey market is – I think, not just American whiskey but Scotch, at the very high price levels, we have shorter-aging horizons than our key competition, so something that's really important about the way that American whiskey is made. You might talk, on the break, to Alex and Chris, and some of it is the new barrel and that we use with our whiskey managers [ph]. The other one is our climate. But we – and we never use age as the defining metric for quality in American whiskey. And I think we are benefiting from that hugely today because we can adjust on cycles of aging that are more like 4 to 7 and 8, whereas the people that are playing at

our price point in Scotch oftentimes build their brand on the basis of 12 years of age and higher, so they have less agility. You're starting to notice a lot of age statements coming off of super-premium brands as a result. So they're moving a little bit more toward the American style of maturation and marketing.

Attendee

And my second question has to do with Southern Comfort. I mean, clearly, you guys have a very robust portfolio of American whiskeys and you're tapping new brands to help capitalize on that growth, but where does Southern Comfort kind of fit into your longer-term strategy in terms of driving American whiskey growth?

Paul Varga

Well, Lawson, do you want to hit that?

Jill Jones

Yes.

Lawson Whiting

Yes. I mean, look, it's been tough. It is a very tough brand, and we have put a lot of effort. We've changed up our mix many, many times in trying to find the right combination. It's actually in a – it's in a better place today than it was. And with these, it's just it's in under competitive siege in sort of being the original flavored whiskey, and so many other brands are coming in to take its place. Having said all that, it still has a very strong franchise. It's still a very strong brand name. And one of the ideas is to take it more international and make it part of your flavored whiskey strategy. Is there a way to play that? We've – it's tough. It's a very tough one to figure out how to do right now. And we've got the Jack Daniel's flavors that we know and we have very high confidence in. Southern Comfort is sort of taking a bit of a back burner, but know that we are – our profits are sort of flattening out right now. They're not in this any kind of big, steep decline. And so we feel

a little bit better today than we did, say, 2, 3 years ago.

Paul Varga

We don't have a lot of that – we observed a "1 million case plus" brown – flavored brown spirit or flavored whiskey brands that exist. That brand continues to be one of them. And I would – I think, in my comments earlier, I talked about you can have a great business, which Southern Comfort by the way is an excellent business. It just – it did – misses that second component, which is it hasn't been growing. And so if you're declining 3% per year, which it has been with all this flavored whiskey competition, much of which is coming from us, so – and it's part of the way we're thinking about from a category of 97% each year are voting to stay with it. So we're losing 3% of it. It's still a good business. We wish we could get it growing, but I'll tell you the company produces far greater results and returns from the growth of a drink of Tennessee Honey than it does Southern Comfort today. And that was, in fact, the beginnings of Tennessee Honey emerged as a defensive reflex to watching Southern Comfort being exposed to what was happening. So I'll give the microphone to you in just a minute.

Attendee

So 2 questions. One is just around your pricing strategy. So this year, I think you decided to take a little bit more modest pricing. It looks like sales momentum has improved as a result. So when you think about the next couple of years, does it give you just more comfort around taking more pricing? And then the second question is in – one of the white space opportunity that you've alluded to was the high-end flavor side. So is there actually a need or a market or demand for that segment? Is this more of a long-term opportunity? Or could we really see innovation in the high-end flavor side?

Paul Varga

I'll share the stage, I mean, I think, with Lawson, as he can refer to the – sort of the

flavor and price. And on the pricing, those of you who are closer to it, I mean Michel or Jill, anybody – Jill, you, for sure. I think your question may relate a little bit to the U.S. momentum that we've seen, so Jill, you might talk a bit about that.

Jill Jones

So we do a lot of extensive modeling that kind of helps us understand where we are positioned. The first thing I would say is, with Jack, we want to stay premium. And we don't want to get to the point that we aren't taking price and may lose relevance, so we're always looking to maximize value. But of course, it's in a competitive context, and honestly, we had just outpaced our competition for a couple years in a row and it was starting to show. So we looked around and made some predictions on what competition would do, knowing we are always going to go toward the direction of being premium, and we increased our price. We'll always look to that balance. So if you think about the recession, I mean that Great Recession happened, we did pull back price. So we're going to do what we need to in the environment to maximize value, to continue to grow.

Michel Gayraud

General pricing?

Paul Varga

Yes, anything on pricing.

Michel Gayraud

In general pricing, in France, we were able to – were able. We increase price every year, but of course, we negotiate some trade with the – set condition with the trade. So that mean that we're investing to be tougher price increase into the commercial terms. Nevertheless, it's the fact that, one more time and going back to the same subject, the core brands, so that mean that we don't have to invest or reinvest on top of the price increase too much in France. And in fact, right now, we have the lowest level of promotion com-

pared to the other competitors. So that mean that we're able to increase price. We'll reinvest a little bit, but for the time being, we are still in good condition.

Lawson Whiting

I mean – I think, if I got your question right, your question around sort of higher-priced flavor extensions, where it might play in that, I mean, to be honest, I'm a little hesitant to say too much because some of these are things that are sort of in the works right now. We're planning. But I'll give you an example of one right now that I think may be something we could do with, and it's the Jack Daniel's Gold, No. 27. It's something that sort of sits in the middle between it is a double-mellowed, double-barreled product that has a slight tiny bit of flavor in it that we're charging sort of \$100 a bottle for, something like that. So in that space, there is – it likely wouldn't be cinnamon honey types of things. I mean it might be something different, but there are other ways that we can play that game.

John Hayes

And that's – and I'd even add on that, is flavor is a very broad category here. So you can talk about the grain flavor. So Woodford Reserve, of course, is playing in all kinds of that. We've announced we're making a Jack Daniel's rye whiskey that we will be bringing out in more volume in the next year or so, which is a different flavor of Jack Daniel's. And it will be at a higher price point than what Tennessee Honey is. So that would be an example that I would use. And just not that I work on Woodford, but just the Woodford Reserve Sonoma-Cutrer Pinot Noir Finish, which if you get a chance to taste is brilliant, has this little bit of sort of very subtle Pinot Noir wine note to it that we sell for, I don't know, \$75, \$80 a bottle or something like that, so – \$100 a bottle. So that's...

Paul Varga

So to sort of clarify: You're – we're unlikely to lead the \$50 a bottle, I'll call it, apple

whiskey market. I mean, when we're talking here, we're talking more accents in the push. You would see the super-premium. And oftentimes, you've seen already expressions in this from many Scotch companies who have cask finishes and things like that. So okay, yes?

Attendee

A follow-up to the question on Southern Comfort. I almost forgot you had this great portfolio of other brands. I guess maybe you're getting closer to changing the name of the company maybe to Jack Daniel's, but seriously, I just – I was wondering. I was thinking, putting my hat, trying to put my hat on as another brand manager within the company, trying to figure out what I'd have to do to – and I see a lot of the print advertising, the cool stuff you're doing with Herradura and even Southern Comfort. And I'm just wondering, what do people within the organization do to try to compete for capital and attention with Jack at this point? And just to follow up on that, in some of these countries, like France even, where you have low single-digit penetration rates in Jack, are people being incentivized to use Jack as a way to grow the rest of the portfolio and to – why isn't Southern Comfort, for example, a big international brand at this point?

Paul Varga

Very good questions. Thank you. I think maybe what – on the Southern Comfort one, there's maybe 2 angles here. A little bit of an employee that, Kirsten, you might touch on about just in how we manage internally that – because it comes up like what do people want to work on. How do you motivate them? How do you incentivize them? And so I mean it's a very natural question when you own Jack Daniel's. So it's one thing, but also any of us could talk about what I'll call the other brands in our portfolio in some ways that we haven't talked about today just to give you a little insight because, today, just so you'll know, it's not that we don't love those brands. We – really, we get so many questions, particularly the last 24 months, about the American whiskey opportunity just because it's

so hot, so we focused today. We love all our brands, and we'll find opportunities to talk about them at a little more length in another time, but...

Amador Carvalho

Can I?

Paul Varga

Yes, go ahead.

Amador Carvalho

Does this work? Okay. In the case of Brazil, we are definitely using Jack. We spoke about Jack by a lot today because this was an American whiskey forum, so we didn't touch base on different things, but we're really a company that has a portfolio. We definitely invest in el Jimador quite a bit. We have a great opportunity for tequilas there. And we are growing substantially. We have a proposition for Woodford Reserve. The rest of the portfolio has been really attended. And Jack is, of course, the one driving this whole thing and supporting and opening doors et cetera. So in the case of Brazil, yes, I think we're working as much as possible. We have a portfolio that is, of course, geared to the market there, so...

Paul Varga

Michel, you're doing some of the same thing too, right, on that same front with your portfolio, how you – just the last year, you've started to utilize the Jack Daniel's brand strength to introduce Woodford Reserve, et cetera?

Michel Gayraud

Absolutely. So obviously, we're when your life is [ph], so that mean that in Brown-Forman – so that mean that we were already much focused on Jack Daniel's, but I should say that, this year, we launched the Woodford Reserve in France and the double expressions, and

they're extremely successful. And of course, we have the line, the family of brand of Jack Daniel's. So Single Barrel, for instance, has been launched in France since 1999, so in the first year, and it's a second market, after the U.S., for Single Barrel. And we have also Gentleman Jack. But on Woodford Reserve, it's amazing and interesting how this new American taste is taking over also in France. It's not only Jack. It's also this kind of new expression.

Paul Varga

Thank you. And Kirsten, on the internal side?

Kirsten Hawley

In terms of how employees feel about working on other brands, if Jack Daniel's was the only brand employees cared about at the company, anytime we had an opening on any other brand, we either would get no applicants from the outside, and nobody on the inside would apply for those jobs either. And I can tell you that, that is not true. That when we have openings on a number of brands, people want to come work either in the industry or for Brown-Forman. In fact, a person who used to be working on the Jack Daniel's brand in the U.S. is now leading our Herradura and el Jimador brands for the globe, and she doesn't feel like she got punished in moving from Jack to the tequilas brands. So we all understand at Brown-Forman the power and importance of Jack but have an incredible amount of pride for everything that is in our portfolio. We don't treat people who work on other brands or those other brands themselves with any less passion than we do our Jack Daniel's trademark.

Paul Varga

But it's a very – I mean it's an insightful question. I'll just say that because we wrestle with it all the time. And we joke with each other that, since the mid-'50s, we'll say that the Jack Daniel's trademark, in some ways, staged a very friendly takeover of the Brown-Forman

corporation from the inside because it just captures the hearts and minds of our global employee population so easily, just like – just as it does the consuming part per se. So you – but it also sets a wonderfully high bar for investments, for incremental activities. That's why you see us very highly focused because we need things to be reasonably successful to be meaningful to Brown-Forman Corporation because of the high bar that's set by Jack Daniel's.

Attendee

But kind of like how do you measure – the return on the investments in Jack is possibly higher than anything else, so at what point do you say no? At what point do you say yes? It does kind of...

Paul Varga

Well, I mean you're – we're trying to build incremental value. I mean the thing that would have come into focus for us the last several years is that it needs to be of a larger size because, when you're fortunate enough to own Jack Daniel's, it is just a very large and profitable business so you want other things. And I would give you the example of Woodford Reserve today. When we break out the increments of our annualized growth, you'll start to see brands like Woodford Reserve jump up and be pretty meaningful, and we want other brands. We have what we call these processes where we're building what we call billion-dollar businesses. And so we've asked ourselves – and that's pretty exciting for an internal group of people, to go work on to build a billion-dollar valuation. And so on brands ranging from Woodford Reserve to Herradura, we've done it. We've actually started to think more about that possibility even on brands like Old Forester, maybe starting it a little lower than that, but just how it just stimulates the imagination to think bigger as it relates to the impact of the work and the ideas. So yes, sure.

Attendee

For the record, I love all your brands too.

Paul Varga

Good.

Attendee

I'll love them a lot in about 10 minutes.

Paul Varga

Yes, in the same way?

Kirsten Hawley

How about now?

Attendee

Yes. So just a quick question. Obviously with Suntory buying Beam, I'm just curious, from your perspective, how that's changed the competitive environment, or if it has at all, what you've noticed in the marketplace with a farm player owning Beam.

Paul Varga

Anybody? I mean, well, it would be relevant where Suntory – where Beam would be relevant in your market. And a couple of the markets here, they're pretty small. John, you may have seen some of it. Lawson, Mark you would have seen some of it...

Amador Carvalho

Oh, if I may just jump in and then pass it over to you. Because in Brazil, Beam could be relevant. They have a stronghold there, with Ditres [ph] moving 800,000 cases, so they could have. But there's no movement, so far. As far as American whiskey goes, I mean we drive the whole thing. We have more than 90%. We are the category by definition. We want to keep it that way and keep them aside. So we have seen no movement whatsoever.

They have more people on the ground. Yes, they are establishing something there, but I don't see anything major happening in the near future. Okay...

John Hayes

The only one I'd say is that we know Suntory pretty well. They were our partner in Japan for many, many years, is they really weren't a big player outside of Japan. So where we would see it mostly is in Japan, where they're a big player in the Jim Beam business there. They have put a lot of time and energy and discounting behind that Jim Beam brand to grow share in Japan. So that will be the one area, their home market, where they really...

Paul Varga

Volumetrically, they...

John Hayes

Volumetrically gone after it with some, I'd say, questionable things within that. And then even things like just announced a couple weeks ago of bottling Jim Beam in India then, which because they have a little bit of a presence there. So those would be 2 countries I'd point out, but from the rest of it, Suntory as an entity outside of that really hasn't been – they really just weren't a big factor.

Paul Varga

But John, it's true, the Jack Daniel's business, since the transition of Beam into Suntory and the announcement, we actually had a distribution change that occurred in advance of it. So we switched partners there. And – but our business, from that point in time today, is larger, so even though they've added to their business significantly through the model they're using, it has not come at our expense. So maybe we have time maybe just for one more question because, everybody, I'm getting thirsty, so I think...

Jill Jones

Yes.

Attendee

So as you look at the change with the RTC, clearly, it's given you great benefits. Do you see that sustainable? It's the first question. And the second is, where do you see opportunities to get better control of that in other geographies throughout the world?

Paul Varga

I'll leave it to my regional colleagues here. I mean I might add a couple, but I can – think that you guys would probably have better insight into that. Michel, you just recently did one. Is there any other places around Europe or other things? I mean we've done it in Germany and in France over the last couple years.

Michel Gayraud

Asked – the gentleman asked if we are sustainable?

Paul Varga

Sustainable, yes.

Michel Gayraud

Sustainable. Yes, yes, yes. We are sustainable, yes. Fortunistically, yes.

Paul Varga

Well, he needed to ask, yes, yes.

Michel Gayraud

Yes. So it's – I will say it's a long journey. It was a long journey. And all these gentlemen and ladies on the stage, of course, were totally supportive and also gives arguments. So now we are set and we're saying we are in good shape after 1 year. So we just finished one cycle because growth was returning nice last year. It's amazing how – so it's very long.

It's very complex. It's demanding a lot of energy. It's demanding a lot of everything, but nevertheless, we already get, after a couple of months, the benefit of our big – our own distribution. And the leverage is there. The leverage is clearly there. And we were, in France, with a previous partner that was a good partner, you see. So it's not changing for somebody bad to someone – to a – and as a organization, we were already with a partner that was good. But the leverage is there. We feel it already. It's not a scoop [ph] because it's Nielsen. We can give Nielsen numbers? We can say Nielsen numbers. I mean...

Paul Varga

Yes, sure.

Michel Gayraud

Yes, yes. For instance, I got the last Nielsen yesterday, and we are plus 14% this year. So that mean that leverage is there, for sure. And of course, it's opening more opportunity. And it's why we work now on the 2-years, 3-years plan to be sure that we will get the benefits of this new organization.

Paul Varga

Yes, Mark, go ahead.

Mark McCallum

I would also – I think the last – the modern era, the last 10 years, from a global point of view, we've really pushed that forward into the point where I think we said that about 80% of our net sales is now under what we would call reasonable influence or control. I think we'll – we're in a now capabilities growth period in a number of these markets. You heard evidence of we've brought talent from some from the industry, some from competitors in the industry, but many of the new folk we've added to the Brown-Forman world outside the U.S. don't come from either our company or the industry. And so we're on this wonderful life. We're observing it is just so much fun watching us get better and

better. So we've got Germany and Turkey 4 years in, Brazil 4 or 5 years in, France 1 year in. And you can see the difference of 4 years of doing what we do versus 1 year of doing what we do. And plus, '14 is great, and it'll get even better as the experiences develop.

Paul Varga

When – even though – Mark is correct. I mean I think it was now 78-22 is the split. So 22 doesn't leave that much. It depends upon – I can't imagine, though, that in the next 10 years, in some of these major markets, that we – just because the markets themselves change – I'd even use the United States, where privatization has occurred. So Brown-Forman wasn't at the forefront of that, but we have to adjust our models for how we sell and market in those states when those occur. So themes that we might not – when we think of RTC, we always think global RTC for Brown-Forman, but I can't imagine that there won't be changing dynamics in some of these emerging markets around the world that have us think differently. Sometimes, they will have different partnerships. They won't always be about owning. I mean I think it's a really important message. It's just maybe that it's just the best way for us to exert the right influence, particularly at the right cost and level of risk we like. But I do think, I mean, there are – I mean each state is a significant business for Brown-Forman in the United States. I mean it adds up to 40% of Brown-Forman. And so you have to think through: If there's a lot of initiatives where these states change the way they do business, we'll have to adjust ourselves. So those could be things that influence our route to market in the most established markets for Brown-Forman.

I think that concludes it. I hope – look, you'll have an opportunity. All this group and plus some others are going to be at the reception, so I'd take the opportunity to visit and ask questions that we didn't get to.

I really appreciate you all sticking with us for the full afternoon. I mean I don't have a

lot of closing. This group did, I thought, a super job of explaining the Brown-Forman opportunity and putting it on show for you here today. If you wouldn't mind, would you just give them all a big round of applause?

So thank you, and let's all go have a cocktail.

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