Brown-Forman Corporation, Q4 2023, Earnings Call 2023-06-07

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Brown-Forman Corporation Fourth Quarter and Fiscal 2023 Earnings Call.

— Operator Instructions —

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

Susanne Perram

Thank you, and good morning, everyone. I would like to thank each of you for joining us today for Brown-Forman's Fourth Quarter and Fiscal Year 2023 Earnings Call. Joining me today are Lawson Whiting, President and Chief Executive Officer; and Leanne Cunningham, Executive Vice President and Chief Financial Officer. This morning's conference call contains forward-looking statements based on our current expectations.

Numerous risks and uncertainties may cause actual results to differ materially from those anticipated or projected in these statements. Many of the factors that will determine future results are beyond the company's ability to control or predict. You should not place undue reliance on any forward-looking statements, and except as required by law, the company undertakes no obligation to update any of these statements, whether due to new information, future events or otherwise. This morning, we issued a press release containing our results for the fourth quarter and fiscal year 2023, in addition to posting presentation materials that Lawson and Leanne will walk through momentarily. Both the release and the presentation can be found on our website under the section titled Investors, Events and Presentations.

In the press release, we have listed a number of the risk factors you should consider in conjunction with our forward-looking statements. Other significant risk factors are described in our Form 10-K and Form 10-Q reports filed with the Securities and Exchange Commission. During this call, we will be discussing certain non-GAAP financial measures. These measures are reconciliation to the most directly comparable GAAP financial measures and the reasons management believes they provide useful information to investors regarding the company's financial condition and results of operations are contained in the press release and investor presentation.

With that, I would like to turn the call over to Lawson.

Lawson Whiting

Thank you, Sue, and good morning, everyone. It's my pleasure to speak with you today regarding Brown-Forman's fiscal 2023 results. Fiscal 2023 was another very strong year for Brown-Forman, and importantly, we built on the 17% organic top line and 27% organic bottom line growth we delivered in the previous fiscal year.

If we take a step back and consider the headwinds we faced throughout fiscal 2023, it helps to appreciate the quality of our performance even more. As you'll recall, we faced numerous headwinds throughout this fiscal year, including supply chain challenges, higher input costs due to inflation, the significant impact of negative foreign exchange and the impacts of the Russian invasion of Ukraine.

As we progress throughout the fiscal year, the headwinds began to ease and the world, along with our business, seems to be getting back to normal. While uncertainty and volatility are likely to remain a part of our conversations, we've demonstrated this year and throughout our 153-year history that our brands are healthy, our people are resilient, and our company is able to navigate the challenges that come our way.

Consider, for example, since fiscal 2019 or the last year before the pandemic, we've grown organic net sales at an 8% compound annual growth rate through fiscal '23 demonstrating our strong track record of consistent and sustainable results over the long term. Alternatively, if you were to look back at fiscal '23 alone, you'd see we significantly exceeded our top line growth ambition, which anticipates reported net sales in the mid-single digits.

Now as we dig into the full results of the fiscal year, I'll start with our top line performance and share some highlights from our portfolio of brands. Leanne will then provide additional details for the fiscal year before providing our outlook for fiscal '24.

In fiscal 2023, our reported net sales increased 8% or 10% on an organic basis, driven by broad-based reported net sales growth across all geographic clusters and the travel retail channel including double-digit organic growth in our international markets. Through our revenue growth management initiatives, we continue to execute our long-term pricing strategy for our portfolio of brands which aims to increase prices consistently year after year and to grow net sales through a balance of both volume and value.

In fiscal 2023, our organic net sales growth benefited from 3 points of favorable price/mix. This was driven by higher prices across much of our portfolio, but led by Jack Daniel's Tennessee Whiskey, partially offset by a portfolio shift toward our Ready-to-Drink brands.

Our top line growth was broad-based and reflected the continued strength of our portfolio of brands, strong consumer demand and the return of inventories to more normalized levels. As expected, the estimated net change in distributor inventory did not have an impact on our fiscal year results.

Turning to our portfolio of brands. Jack Daniel's Tennessee Whiskey fueled the company's performance. The brand had another remarkable year and increased organic net sales by 8%. This growth is particularly impressive given that the brand is over 15 million 9-liter cases and delivered a 23% organic net sales increase in the last fiscal year. The growth of Jack Daniel's Tennessee Whiskey in fiscal 2023 was driven by strong consumer demand and higher pricing. It's often easy to lose sight of the size and scale of this brand when speaking in quarterly results, but it is indeed an impressive brand with massive appeal around the globe.

We believe these latest results reinforce its health and position as the largest global premium spirits brand by volume in the world. The rest of the full strength Jack Daniel's family of brands also delivered strong results, growing organic net sales, high single digits during the fiscal year as the consumer premiumization trend drove demand for our super premium products such as Gentleman Jack, which also benefited from improved product availability as supply chain disruption eased.

And of course, we were very excited this year when our Jack Daniel's Bonded Tennessee Whiskey was named the 2022 Whiskey of the Year by Whiskey Advocate Magazine. It's a great complement when Jack Daniel's authenticity, craftsmanship and quality is recognized with such a coveted award.

These brands, along with our specialty launches such as Jack Daniel's Single Barrel special release Heritage Barrel and Jack Daniel's 10- and now 12-year-old Tennessee Whiskey enable us to premiumize the Jack Daniel's family of brands, continue to highlight our whiskey credentials and give both long time and new friends of Jack Daniel's the opportunity to explore and discover within the Jack Daniel's family.

While we're always happy to add whiskey accolades to our trophy case, Jack Daniel's is now part of the race for another type of trophy, the FIA Formula One World Drivers Championship Trophy. As you may recall, in September, Jack Daniel's became an official global sponsor of McLaren Racing, a British Formula 1 racing team, counting more than 1 billion fans worldwide, viewership for Formula 1 racing is growing at the fastest rate of any major global sport.

The majority of the sports growth comes from the next generation of fans providing a powerful opportunity to reach legal drinking age consumers and expand Jack Daniel's relevance and pop culture. With races on most continents, this relationship provides a powerful opportunity to engage a truly global fan base.

One of the strongest performers in our portfolio this year was Woodford Reserve. Since its founding more than a quarter century ago, Woodford Reserve has grown volume at a double-digit compound annual growth rate. This trend continued in fiscal 2023 as consumer demand remained very strong and organic net sales grew 27%, making Woodford Reserve our second largest contributor to the company's growth.

The brand continues to grow in the U.S. and is being discovered internationally as we continue to position this brand for future growth. Last month, the Kentucky Derby was held in our hometown of Louisville and Woodford Reserve as the presenting sponsor stood tall on a global stage.

Also in connection to the most exciting 2 minutes in sports, the brand released its 2023 Derby Bottle with artwork that honored the 50th anniversary of Secretariat winning the 1973 Derby. This collectible bottle featured a painting and titled Still The Greatest. And indeed, we believe Woodford Reserve is Still The Greatest as it remains the #1 super-premium American whiskey brand in the world by volume and value based on IWSR in 2022.

Jack Daniel's RTDs were also a significant contributor to overall company growth in fiscal 2023, driven by the consumer trends of convenience, flavor and premiumization.

Jack Daniel's RTDs grew organic net sales double digits, fueled by the launch of the Jack Daniel's and Coca-Cola RTD in the U.S., along with the continued growth of the RTD portfolio in Germany and Australia.

As you might recall, in fiscal 2023, we launched the Jack Daniel's and Coca-Cola RTD in 9 markets: Mexico, the U.S., Japan, the Philippines, the U.K., Poland, Hungary, the Netherlands and Ireland. So for most of you on this call, you should be seeing cans in your local markets, and I hope that you had the opportunity to enjoy this great tasting new product.

We're only a few months into the launch, but similar to the initial feedback we received from Mexico, the early results from the markets are very positive. In the U.S., Jack & Coke is taking share across the category. Our distributors are meeting distribution expectations, and we're seeing stronger-than-expected reorder rates.

Jack & Coke Zero has also outperformed our initial plans. In our European markets, we're exceeding our launch expectations. Specifically in the U.K., the rate of sale for Jack & Coke is already matching Jack & Cola. And just a couple of weeks ago, the Jack Daniel's and Coca-Cola RTD began appearing on the biggest advertising site in Europe at Piccadilly Circus.

The buzz and enthusiasm for the product is certainly high and growing. Globally, we exceeded 1 billion consumer impressions before any paid media ever aired. The potential growth of this product is exciting, but RTDs also serve as a consumer recruitment vehicle. They bring new consumers of legal drinking age into the Jack Daniel's family, which we believe will have a positive impact on the full strength family of brands. We will continue the product launch in additional markets around the globe throughout the 2023 calendar year, and I look forward to continuing to provide updates on the growth of this iconic product.

While RTDs have been experiencing accelerated growth, including our New Mix brand, which reached nearly 10 million 9-liter cases in fiscal 2023 and delivered very strong double-digit organic net sales growth. I also want to acknowledge the continued strength of tequila, which remains one of the fastest-growing spirits categories, particularly at the premium-plus price points. Casa Herradura produces some of the most authentic tequila brands in the category, having been founded in 1870, the same year, our founder, George Garvin Brown, created Old Forester.

In fiscal 2023, Herradura and el Jimador grew organic net sales by 10% and 14%, respectively, even as Herradura faced significant supply chain challenges during the first quarter and both brands lapped a very strong double-digit growth in the prior year. We believe the strong consumer interest in tequila will continue for the foreseeable future, and we are investing significantly behind these brands.

As you would have seen last week, we announced an approximate USD 200 million investment at Casa Herradura. This multiphase project includes expanding our distillery operations, bottling, maturation and processing areas to support the strong consumer demand we see as we look out over the mid- to long term. This expansion is particularly exciting as it advances our existing waste-to-energy efforts with a new water recycling and treatment plant.

Over the past decade, Casa Herradura has been a pioneer in establishing a water recycling and treatment plant and is one of Brown-Forman's zero-waste to landfill sites. We believe this sustainable technology and this investment will ensure we have access to clean water, improve our production efficiencies and increase our competitiveness.

Before I wrap up my commentary on our brands, I wanted to take a moment to acknowledge the changes we made to our portfolio in recent years. We've been very purposeful in actively managing our portfolio for more than a decade by developing, acquiring and divesting various businesses and brands. We believe this portfolio evolution, alongside product innovation gives us the best opportunity for long-term growth and value creation.

In fiscal 2023, we completed the latest efforts in our portfolio reshaping efforts with the acquisitions of Gin Mare, the #1 ultra-premium gin; and Diplomático, the #1 super and ultra-premium rum according to the latest IWSR data.

Given the timings, the brands only impacted reported net sales in fiscal 2023 by approximately 0.5 point. However, as we continue to integrate these brands and teams into our organization, we expect them to be meaningful contributors to our growth over the long term. We're delighted Gin Mare and Diplomático are now part of our Brown-Forman family.

Brown-Forman now owns one of the top 5 brands globally in 4 strong growth categories: super-premium American whiskey, super-premium tequila, ultra-premium gin and ultra-premium rum.

As I close, I want to thank our Brown-Forman colleagues around the world that navigated the numerous challenges throughout fiscal 2023 and worked hard to deliver the strong broad-based results that we're sharing with you today. When we started fiscal 2023, we had confidence that the strength of our portfolio of brands and our strategic investments would support continued growth despite the dynamic operating environment.

This confidence was well placed, the strong consumer demand for our brands served as an important tailwind in the face of stronger-than-expected inflation and supply chain challenges. We continue to invest significantly behind our brands and our people and we're able to deliver very strong results that were at or above our long-term ambitions. I'm very pleased with the performance of the business and the continued strength of our portfolio and of our people.

Leanne, now I'll turn things over to you to provide more detail on our fiscal 2023 performance and our expectations as we look forward to fiscal 2024.

Leanne Cunningham

Thank you, Lawson, and good morning, everyone. As Lawson reviewed the top line growth and performance of our brands for the fiscal year, I will provide additional details on our geographic performance, other business results and our outlook for fiscal 2024.

First, from a geographic perspective. Our top line growth in fiscal 2023 was broad-based was reported an organic net sales growth in each geographic cluster and the Travel Retail channel compared to the same prior year period. Collectively, emerging international markets delivered strong double-digit organic net sales growth, increasing 24% for the fiscal year.

This strong performance was driven by Jack Daniel's Tennessee Whiskey notably in the United Arab Emirates, Türkiye and Brazil as supply chain disruption eased, which improved product availability and pricing increased.

RTDs also meaningfully contributed to the growth with New Mix and Jack Daniel's RTDs growing strong double digits in Mexico, where the RTD category is growing, and we are gaining share while increasing price.

In addition, Herradura and el Jimador delivered double-digit organic net sales growth in Mexico, largely driven by strong pricing. This growth is especially notable as it includes the absence of business in the Russian market as we suspended our commercial operations there in March 2022. Prior to this suspension, this market represented approximately 2% of our total reported net sales. Our developed international markets collectively grew organic net sales double digits in fiscal 2023.

Jack Daniel's Tennessee Whiskey was the largest contributor to this growth, led by Germany, where the brand is growing double digits and gaining share within the whiskey category and Japan, which is continuing to benefit from strong consumer demand in both the on- and off-trade.

Japan is one of the world's largest spirits markets with a significant footprint and a leading position in premium-plus whiskey. Earlier this week, we announced our plan to transition to own distribution in this market effective April 1, 2024, representing the 15th market where we will own and operate the distribution of our portfolio.

We would like to thank Asahi and their entire team for their partnership over the past 10 years and for successfully growing our portfolio in Japan. We believe this change will drive long-term growth through the continued development of our Jack Daniel's family of brands and the broader super-premium brand portfolio. This is an important milestone for Brown-Forman and follow successful launches of other own distribution organizations in Asia, such as Korea, Taiwan and Thailand.

While on the topic of route-to-consumer, I would like to highlight our recent transition to own distribution in Belgium at the beginning of calendar 2022. This market more than doubled its organic net sales in fiscal 2023, led by a significant acceleration in growth from the Jack Daniel's family of brands as well as Woodford Reserve.

This is just one of the many examples of why we continue to believe that own distribution transition creates opportunities to fuel share growth, strengthen our portfolio, capture more of the value chain and unlock future potential for our full portfolio of brands.

Focusing back on our developed international results. Jack Daniel's RTDs represented the second largest contributor to growth also growing organic net sales double digits driven by Germany and Australia, where we are gaining share. We are excited about the growth of brands such as el Jimador, Woodford Reserve, Gentleman Jack and the GlenDronach, where each delivered double-digit organic net sales growth. These results continue to reflect our strategic priority of increasing focus on our premium and super-premium portfolio through our emerging brand teams in Europe. Diplomático and Gin Mare have recently joined this super-premium portfolio of brands, and we believe will soon be meaningful contributors to this emerging brands business.

In Europe, we continue to closely monitor the impact of inflation on consumer behavior. While the data is beginning to show some evidence of down trading, such as growth in private label, our brands have gained share in Germany and the U.K. Spirits remain an affordable luxury for consumers even as we have continued to increase price through our revenue growth management strategies. The U.S. business delivered 3% organic net sales growth, reflecting a normalization of our business in the market. As we have shared with you throughout this fiscal year, supply chain disruptions impacted the seasonality of our fiscal 2023 shipments due to the abnormal seasonality of the fiscal 2022 shipments.

In the first half of fiscal 2022, distributor inventories did not increase ahead of the holiday season as is typical, and we experienced stronger shipments in the second half of fiscal 2022 as supply challenges began to ease. As expected, in the first half of fiscal 2023, we increased our shipments as supply chain disruption continue to ease and distributor inventories were returning to more normalized levels, which benefited the U.S. net sales growth.

In the second half, net sales were negatively impacted as we lapped the increase in shipments in the prior year period related to the rebuilding of our inventory position, particularly for Jack Daniel's Tennessee Whiskey. For the full fiscal year, we estimate the net change in distributor inventories reduced the net sales growth rate by 2 points, which was in line with our expectations. Woodford Reserve remained the largest contributor to organic net sales growth, driven by strong consumer demand and an estimated net increase in distributor inventories as glass supply and capacity constraints continue to ease.

Innovation contributed significantly to the U.S. growth with the launch of Jack Daniel's and Coca-Cola RTD, which was the second largest growth driver.

Organic net sales also benefited from higher prices across the portfolio, led by the Jack Daniel's family of brands as well as premiumization with the successful launch of the Jack Daniel's Bonded series. This growth was partially offset by lower volumes of Jack Daniel's Tennessee Whiskey and Korbel California Champagne, largely due to our focus on rebuilding inventory levels across the supply chain in the second half of fiscal 2022, which created a strong prior year comparison, resulting in an estimated net decrease in distributor inventories.

From a takeaway perspective, the disconnect between Nielsen takeaway and our actual results continue to narrow as we lap many of the factors that created the gap, such as the impact of our brand and market prioritization work in fiscal 2022 related to supply chain challenges.

As the industry began to normalize, total distilled spirits delivered value growth in the low- to mid-single digits as we lap the impact of supply chain constraints that previously suppressed our performance, our takeaway performance is normalizing.

Although with our recent innovation, Brown-Forman is outpacing total distilled spirits growth. We work diligently to rebuild finished goods inventory levels across the 3-tiered system and believe that distributor inventory levels are now back to normal. We are continuing to rebuild some brands and sizes, but shipments and depletions are largely in balance across our full strength portfolio.

And finally, the Travel Retail channel continued its very strong rebound in fiscal 2023, as international airline travel and the cruise industry recovered from the impacts of the pandemic-related travel restrictions. Organic net sales grew 43%, led by higher volumes across much of our portfolio and our business has returned to pre-COVID levels.

Moving to gross profit and gross margin. For the full fiscal year, reported gross profit increased 4%, with organic growth of 9%, which was slightly below our organic top line growth. Reported gross margin contracted by 180 basis points, slightly better than our latest expectations. Favorable price/mix driven by our pricing strategy and the removal of the European Union and United Kingdom tariffs on American Whiskey were more than offset by higher inflation on input costs and supply chain disruption costs largely related to global logistics constraints, along with the negative effect of foreign exchange.

Turning to operating expenses. Total reported operating expenses increased 15%, with organic increasing 11%, in line with our expectations. As we have shared, we have been committed to reinvesting a portion of the tariff relief back behind our brands once removed. In fulfilling this commitment in support of sustainable long-term growth, this resulted in our brand investment for the fiscal year at a rate above our top line growth with our reported in organic advertising expense increasing 15% and 18%, respectively. The increase was focused primarily on Jack Daniel’s Tennessee Whiskey, the launch of Jack Daniel’s Bonded, Herradura and Woodford Reserve.

We also continue to invest behind our people as SG&A expense increased 8% on a reported and 9% on an organic basis, driven primarily by higher compensation-related expenses and higher discretionary spend as the return to a normalized environment enabled in-person events and activities to resume.

Costs related to the acquisitions of the Gin Mare and Diplomático brands impacted the reported results. Reported operating income decreased 6% for the full year, reflecting lower gross margin, higher noncash impairment charges largely related to the Finlandia brand name and higher operating expenses, including certain post-closing costs and expenses in connection with the acquisition of the Gin Mare and Diplomático brands.

Organic operating income, which excludes the impact of foreign exchange, impairment charges and acquisition and divestitures grew 8%. As noted in our earnings release, in the fiscal year, diluted earnings per share decreased 7% to $1.63 due to the decrease in reported operating income for the reasons I have just previously stated and a pension settlement charge, partially offset by the benefit of a lower effective tax rate.

Before moving on to our fiscal 2024 outlook, I'll provide a few updates related to our capital deployment. As a reminder, our capital allocation philosophy is to first, fully invest behind our business; second, to pay increasing regular dividends; third, we opportunistically look for acquisitions that we believe create long-term value for the next generation of growth; and finally, we look to opportunities to return cash to stockholders.

In fiscal 2023, we generated strong cash flow from operations, which enabled us to meet our current operating needs, fund capital expenditures and returned $378 million to our stockholders through regular dividends. We believe our investment grade credit ratings, A1 by Moody's and A- by Standard & Poor's provide us with financial flexibility when accessing the global debt capital markets and allow us to reserve adequate debt capacity for investment opportunities and unforeseen events.

Related to the investment opportunities, on March 21, 2023, we issued $650 million 10-year senior unsecured notes due April 15, 2033. We utilized the net proceeds from the offering to refinance our existing $600 million of outstanding debt under a senior unsecured 364-day term loan credit agreement that helped fund our acquisition of Gin Mare and Diplomático.

We believe our long-held capital allocation philosophy, coupled with our strategic priorities will continue to drive superior returns for the long term.

And now to our fiscal 2024 outlook. We are optimistic as we look ahead. We have now cycled through the largest impacts of the pandemic and after the global macroeconomic and geopolitical volatility experienced in fiscal 2023, we believe trends are beginning to normalize around the world. After 2 years of strong growth, which were well above our long-term trends, we continue to believe that the strength and increasing premiumization of our portfolio of brands, the resilience of our people and the strategic investments we have made will deliver continued growth on this elevated base.

While consumer demand for our brands begins to reflect a normalization back to our more historic trends, we expect to continue to benefit from our long-term pricing and revenue growth management strategies partially offset by a portfolio mix shift to RTDs, largely related to the launch of Jack Daniel's and Coca-Cola RTD.

In what has been a highly dynamic operating environment, we remain cautious due to the current macroeconomic volatility and the potential impact of inflation on consumer spending, but believe that the collective strength of our U.S. and international markets, along with the Travel Retail channel, should reflect our longer-term growth algorithm and therefore, we expect organic net sales growth for fiscal 2024 in the 5% to 7% range.

It is important to note that in fiscal 2024, on a year-over-year basis, we will still be comparing against the strong shipments related to our rebuilding of distributor inventories that began in the second half of fiscal 2022 and extended into the first half of fiscal 2023. I will also mention the stronger shipments associated with the launch of Jack Daniel's and Coca-Cola RTD in the back half of fiscal 2023 will have to be lapped in the second half of fiscal 2024. Both are reflected in our guidance.

We believe inflation will continue to negatively impact our input cost which will be partially offset by lower year-over-year costs associated with the supply chain disruption we incurred in fiscal 2023.

Our outlook reflects a normalization of incremental advertising spend after lapping a year of significant incremental investment in fiscal 2023.

As a reminder, our long-term philosophy for advertising spend is to be aligned with our top line growth. SG&A growth is likely to remain higher than historical averages as we continue to expect higher compensation-related expenses and transition Japan to own distribution in fiscal 2024. Based on these expectations, we anticipate organic operating income growth in the 6% to 8% range for the full fiscal year. We also expect our fiscal 2024 effective tax rate to be in the range of approximately 21% to 23%.

And lastly, for capital expenditures, as I mentioned, we remain committed to investing fully behind our business and based on the expectation for continuing strong consumer demand for our brands, additional expansions are required to support this growth, particularly for the Jack Daniel's family of brands and our Herradura tequila brands, as Lawson shared earlier in his comments.

Therefore, in fiscal 2024 we estimate our capital expenditures will be in the range of $250 million to $270 million for the full year.

In summary, we are proud of our second consecutive fiscal year of strong broad-based growth from both a brand and geographic perspective. In fiscal 2023, we delivered double-digit organic top line and high single-digit organic bottom line growth despite the significant disruptions and challenges we encountered throughout the year. As trends and inventories are normalizing, we are optimistic about the fiscal year ahead. We believe the strength of our premium and iconic brand portfolio, along with the talent and diversity of our team members, will enable another year of consistent growth in Brown-Forman's history of delivering sustainable and consistent long-term performance.

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

Question and Answer

Operator

— Operator Instructions —

Our first question comes from the line of Vivien Azer from TD Cowen.

Vivien Azer

So thank you so much for all the perspective on your inventory levels. I'm sure you've been hearing it, we certainly have a lot of concern from investors around overall alcohol inventories in the U.S., in particular, looking at the census data. So Lawson or Leanne, I was wondering if you had any comments that you could offer on broader – the broader inventory situation for spirits or U.S. alcohol across the board? Any perspective on that would be helpful.

Leanne Cunningham

Thanks, Vivien. I'll take that one. And as we have shared with you over the last 7 quarters, we've been in a little bit of a different position than some of our peers in the industry. We have similarly had really strong consumer demand. We've added some great innovations to our portfolio. But we've been faced with the global supply chain challenges, first, related to glass, then followed by the logistic constraints that we've had. So we've been working for us diligently to rebuild that inventory. And as we shared with you last quarter, we believe that our distributor and retailer inventories would return to more normalized levels at the end of this fiscal year.

And so for us, in the U.S., we're happy to report that our distributor inventory levels are now back to normal. We do continue to have some rebuilding of some brands and some smaller sizes, but our shipments and depletions now are largely black and balanced across our full strength portfolio.

And similarly, in Europe, our stock levels are also largely back to normal after we have the supply chain challenges in fiscal '22. So for us, we were just in a bit of a different position. We've been kind of updating you on that every quarter as we moved along. And for us, we are kind of just now getting back to what we consider normal inventories across the system.

Vivien Azer
Understood. But just to follow up on that. Do you have any comment on the broader inventory situation across distilled spirits? Is there excess inventory? Because that seems to be a concern I'm hearing pretty consistently.

Leanne Cunningham
I think what we would say is we're probably all reading and hearing the same things that you are, but we don't have a comment on the general position.

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

Eric Serotta
Great. Hoping you could give some color on your visibility in terms of gross – visibility and outlook in terms of gross margins for fiscal '24. I know you've called out the continued input cost inflation offset by the absence of some of the extraordinary supply chain charges. But maybe you could give us a little bit of color in terms of your visibility and some of the components there, like agave and wood and other inputs?

Leanne Cunningham

Sure. First, I'll start with kind of what we said right there at the end of our prepared remarks. Just as it relates to our operating income guidance includes brand expenses in line with top line growth. SG&A that's going to be still a bit above our historical norms just related to higher compensation and the addition of our Japan RTC.

So then with that, leaving our gross margin, our gross margin assumes that we're going to continue to benefit from our long-term pricing and revenue growth management strategies. I'll go into a little bit more detail on that in a moment. Then as it relates to our cost, and we said last quarter, from a supply chain disruption perspective, we will incur significantly less of an impact in F '24 as global logistic challenges have eased and we're going to be returning to our normal shipping lanes in F '24.

From an inflation perspective, it will continue to negatively impact our input costs, though on a year-over-year kind of rate increase, it will be lower, though still just a bit above our historical trends. To your specific question on some of our key input costs. For agave, we really is similar of what we've shared the last several quarters that the external prices continue to be beyond and below their peak, stable at the MXN 28 to MXN 30 per kilo.

For us, it's a little bit of a headwind in F '24 as we have a bit of a mix shift between our internal and external purchases just because our consumer demand is so strong for agave.

As it relates to wood, the cost of the commodity continues to be high due to the strong demand. But the changes that we have made in our wood supply chain are beginning to yield benefits that we will see as we go forward into the longer term. From a grain perspective, as you know, global grain price increased significantly after the Russia invaded Ukraine and kind of got things out of balance. We have been seeing this ease in recent quarters, yet our plan for '24. It still remains above kind of what we would see as normal trends.

Just a few more items from a glass perspective that's produced in the U.S. We, again, believe we will see less of an increase in '24 than we did in '23. That's related to the lower natural gas prices. And then as it relates to wages, the cost of labor is still fairly high, driven by the wage inflations that we've seen.

A few other items. As we get into F '24, we have now lapped the benefit of the – from the EU removal of tariffs on American whiskey, but we will have a slight impact – positive impact for the U.K. tariffs that were removed June 1, 2022.

Then 2 other things I would like to share with you as it relates to our gross margin related to the reshaping of our portfolio is, I know there's focus and there has been focus around the impact of RTDs on our business, and we've been in the RTD business and have had a sizable RTD business for 30-plus years.

So as we do add Jack Daniel's and Coca-Cola to our portfolio, it's also important to remember at the same time, we are adding 2 super and ultra-premium brands to our portfolio with Gin Mare and Diplomático and they have very attractive financial metrics, including gross margins that are above our current company average.

So I know there was a lot in that answer, but we've got kind of a lot moving this year. But net-net, I hope all of that helps you to understand the components of our gross margin for '24.

Eric Serotta

Yes. It's really helpful. Maybe just taking a step back, your gross margins going back to kind of pre-COVID fiscal '19 were in the mid-60s; going a few years before that, they were in the high 60s. I guess maybe could you talk about visibility in terms of a path to getting back to pre-COVID levels? Are you looking at this in terms of percentage margin? Are you looking at growing the GP dollars? Any sort of long-term perspective versus your history would be helpful.

Leanne Cunningham

Yes. I mean everything that I've just talked about as far as we – the company is focused on growing our value share, and that is reflected in our long-term pricing strategy. We've significantly increased, I think, our capabilities as it relates to revenue growth management. So that is beginning to contribute positively to our gross margin as well as we're in an aged product business.

And when you look at our portfolio, the historically high levels of agave cost as it relates to our portfolio and wood as it relates to our portfolio kind of has had an outsized impact. We all continue to watch the change in the external agave price. And again, we've shared with this every quarter as we see the additional number of plantings that are coming in the out years. We believe that supply and demand will come back closer into line than what they have been.

And then I've just commented on wood that impacts our barrel cost, which is all about some of the changes that we've made in our supply chain, though it's an aged product, so we will see those benefits as the years ahead of us unfolds.

Operator

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

Bonnie Herzog

I just had a quick question on your top line guidance. How much of your top line, I guess, organic growth do you expect will be driven from price/mix versus volume growth this year? And then maybe what the breakdown of rate versus mix might look like? And then I'd be curious to hear from you, are there any concerns or signs of promotional intensity building, really essentially any changes to your pricing strategy in light of the strains on the consumer globally?

Lawson Whiting

Yes, I'll try that one, Bonnie. So the pricing strategy, which we started a couple of years ago, which we've been pretty transparent about, was in the low single digits, sort of in that 2% to 3% range kind of globally everywhere, so U.S. and international have been trying to get it across all our brands. And we've been pretty successful at that over the last couple of years, and we're going to continue that.

So our strategy has been a little bit different than either some other consumer products, sectors or even within our own industry that have been more aggressive. And there are pluses and minuses to doing that, but we feel comfortable that the best long-term plan is to keep that sort of in that same low single-digit range, but trying to do it every single year without shocking consumers or chasing them away in any way.

And so that balance of volume and pricing is what we're looking to achieve. Now as far as like more recent times, have we seen like discounting go up or anything like that, we really have not. I mean I think the pricing environment in U.S. spirits but also in Europe is it about as good of a place as it's been in a while.

We find the industry is starting to take regular price increases again after, as we've said, for almost a decade of not doing it, but that seems to be back again. And so hopefully, it stays that way, and we'll continue to keep our heads down and go for that 2% to 3% a year.

Operator

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

Nik Modi

Yes. There's some chatter still in the industry regarding glass supply and so I just wanted to kind of get your update there. And if there is an issue, what is actually still the problem or driving the issue?

And then the second question is just back on the tequila question. So we've been seeing some of the data. It looks like promotional activity is picking up. Anything notable there that you guys are monitoring?

Leanne Cunningham

I'll start with glass supply. So as we have navigated glass supply challenges, which was the first constraint that we hit post pandemic and trying to get our glass supply back to where we needed it to be. I think we've spoke to on this several quarters and the fact that beginning this would have been in F '22, we were working closely with our partners to ensure we have the capacity and that they were also getting the quality and quantity of glass that we needed produced. We've also talked about how during that time, we diversified our across more suppliers that now has come online for us.

So for us, we have lived through those challenges and navigated through them successfully to the point that we really aren't seeing any glass supply challenges for us as we've gone through the back half of F '23 and that's our plan as well for F '24.

Lawson Whiting

And then on the tequila question, I mean you asked have we seen any more discounting or anything like that? No. I'm actually kind of surprised to hear that a little bit, although I do know some of the big brands have slowed down a little bit, but some of that, I'm just convinced is more about comping against a couple of years, there were some of these brands were growing 100% growth rate.

And so they just – they kind of hit that wall a little bit. And as Leanne said, Herradura is a little bit different. I mean we are expecting better growth looking ahead as the glass constraints let up. That was the last brand, really the last brand in our portfolio that struggled. And we came out of the box in fiscal '23 last summer with very high expectations and then we couldn't deliver. And that was frustrating.

But now we've sort of got that all fixed and want to see substantially better growth rates looking ahead. So – and as far as discounting go in the category, I mean, given the costs still remain very elevated, although I want to say we're sort of peaking out. I've said that before and been wrong. So it's – but it does look – I think the outlook is a little bit better that we have to hit the top and should expect a better cost position going forward, but I have no intention of increasing discounting at this stage, at least not on our brands.

Operator

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

Kevin Grundy

My question was on the Jack & Coke rollout, which sounds like it's going quite well. Just a few questions, if I could. Maybe just provide an update, how many more markets remain for the rollout? What are some – I can appreciate it's early innings here, but what are some of the early learnings about the consumer and where you're sourcing occasions for the product? And then just lastly, anything that you can share around trial and repeat purchase rates would be appreciated?

Lawson Whiting

Yes. We don't have a lot of that data yet. So we'll talk about a lot of where we are today because basically the rest of the world is still open. So we're in 9 markets: Mexico, the U.S., Japan, Philippines, the U.K., Poland, Hungary and the Netherlands and Ireland. So not sure what percentage of the world that would be, but it's not particularly high.

So we got a ways to go, and it will continue throughout this fiscal year and even into the following year after that, too. So – I mean, the short answer on how is it doing and how are we doing? I mean it's – we feel pretty good about it. The turn rates have been kind of on plan to maybe slightly better than planned so far, and that would be the U.S. and in the other markets that I just talked about. So excited about that.

And look, the Coca-Cola Company and Brown-Forman are working very well together on this rollout. They've got some pretty cool programming out there in the world. We talked a little bit about Piccadilly Circus and some other sort of iconic landmark types of things. And so we're coming out big. And this is a good thing for the Jack Daniel's brand, even if it is modest – incremental profits in the early years, there's a lot of visibility we're getting from that.

It's a lot of advertising dollars that are going behind this launch that are not reflected on Brown-Forman's P&L, but it's still happening in the world. And so that is something I don't want people to forget about that it's a tremendous amount of consumer interactions that we're getting with this brand. So it's all off to a good start. It will probably be another quarter or so before we really have a lot of that sort of turn data that I think we're all looking to see.

Kevin Grundy

Just a quick – I'm sorry, Leanne, were you going to say something?

Leanne Cunningham

No. But you go ahead with your follow-up.

Kevin Grundy

Quick follow-up for you. Perhaps you went as far as you'd like to go on commenting on margin implications here. I appreciate your comment on Gin Mare and Diplomático, but what can you say about the phasing of this and how investors should think about this rollout, what the margin delta is relative to the base portfolio? How would you think about this as you try to scale this product in a number of markets. So anything that you can provide further there, I think would be useful and then I'll pass it on.

Leanne Cunningham

Okay. Great. What we would say is, generally speaking, gross margins on our RTDs is below our company average. But as we think about Jack Daniel's and Coca-Cola as it relates to our operating margin, it's a little bit different in the fact that as Lawson just mentioned, so we have consistent strategy, and we can maximize scale. The Jack Daniel's and Coca-Cola RTD launches are supported by both Brown-Forman and the Coca-Cola Company. So based on our current expectation, this joint funding should result in higher operating margins for Jack Daniel's and Coca-Cola related to the rest of our RTDs.

And remember, in most of our big markets, this is a transition from existing Jack Daniel's and Cola business to Jack Daniel's and Coca-Cola. And again, something we continue to believe as well. We always have in the 30 years we've been doing RTDs as they are a wonderful connectivity and marketing tool with the consumer and that it will have a positive impact on our full-strength brand. And just 1 example of that is Germany, which is one of our largest RTD markets and our RTDs there are strong contributors to our growth and our share gains.

And also in that market, Jack Daniel's is the #1 American whiskey and is also growing and outperforming the total category. So we believe that as we continue to premiumize our business with the Jack Daniel's and Coca-Cola RTD, it will continue to reflect positively on our entire family of brands.

Operator

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

Filippo Falorni

Question on your guidance – on fiscal ’24 guidance, particularly on top line. At the macro level, you mentioned you remain a little bit cautious on the global macro. What kind of expectations are you embedded in guidance? Are you assuming a continuation of the current trends, worsening of consumer globally and specifically also in the U.S. market?

Leanne Cunningham

Yes. So what I’ll add to that is, again, just to reiterate what we said in our prepared remarks, from a top line perspective, we just completed 2 consecutive years of double-digit top line growth with F ’22 at 17% and F ’23 at 10%.

So now as we move into F ’24, we’ve lapped most of the significant impacts of the pandemic. We’re moving more towards a normalized environment. But in that normalized environment, we continue to expect increased consumer demand and for our premium portfolio, just more back in line with our historical trends setting on top of that elevated base. Again, Lawson talked about, I’ve talked about our continued reliance on the long-term pricing strategy and our revenue growth management. And we will, as we get into F ’24, it will be – there’ll still be a little bumpy as we relate to comparing against the strong shipments of rebuilding our inventories that we had that carried over into fiscal ’23.

And then with the recent lapping of the Jack Daniel’s and Coca-Cola launches. So again, it’s – and one thing we also have to factor into our guidance that we lived with, with all of fiscal ’23 that will be absent in ’24 is the impact of not having our Russia business. So that’s in there as well. So – but again, as you said, we keep a close eye on all of the consumer behavior, macroeconomic trends. But in our plan, we still have very strong consumer demand.

Lawson Whiting

Yes. Let me add on the U.S. part of your question. I mean, as I look at Nielsen figures right now, just using that as an example, it's back in the 4% to 5% range for TDS, which is kind of where it was for about a decade before the pandemic actually happened and feels about where I think the market is going to settle out. We're a little bit ahead of that. That's a good marker for us to shoot for every year to be a little ahead of TDS and said the U.S. market is pretty good. It had an overall only a 3% growth in '23. Remember, the first half was 11%, which had some of that inventory rebuilt into it.

The slowing down to 3 did recognize bringing some of those inventories back down, which has got us kind of where we are today, which is, what we described earlier, is in line. So – but the other thing I would caution everyone, be careful extrapolating us to some statement about consumer health around the world. Our story is more about shipment comparisons to last year than it really is about a change in consumer demand.

So – but I think overall, look, it's back to normal. We've said normalized about 10 times already today. But normal is pretty good. In the U.S. market, if you can get – continually get mid-single-digit sales growth, and we expect higher growth outside of the United States, that algorithm works pretty well for Brown-Forman.

Filippo Falorni

Got it. That's helpful. And just a quick follow-up. You mentioned in your prepared remarks some evidence of down-trading in Europe. Any other market where you're seeing this phenomenon? Or is it just isolated to Europe?

Lawson Whiting

Yes. I mean – well, the U.S. is the one people seem to go at the most. And Obviously, when you – if you went back to the Nielsen thing again, if you look at the less than $10, that's the spirit-based RTDs that are flying, but that bends the numbers if you try to look at the overall thing.

So you've got to look at the different price points. And – I mean the important thing is that the super-premium and the ultra-premium price points continue to grow at a faster rate than, say, standard or just premium. So that has been true for a long time. The gap has closed a little bit, but still premiumization is alive and well in the U.S. business. And yes, so we feel like the portfolio is in a pretty good place. It is a little bit tougher in Europe. TDS numbers are not quite as strong as they are in the U.S. France, I know, is a challenging market.

But we're growing share in Germany, the U.K. and Poland, 3 of the most important international markets that we have around the world. So we feel pretty good that the takeaway of our brands, particularly in developed international is solid.

Operator

At this time, we have run out of time for questions. I would now like to turn the conference back over to Sue Perram for closing remarks.

Susanne Perram

Thank you, and thank you, Lawson and Leanne, and thank you to everyone for joining us today for Brown-Forman's Fourth Quarter and Fiscal Year 2023 Earnings Call. If you have any additional questions, please feel free to contact us. Before wrapping up today's call, though, I would like to hand the call back over to Lawson for a few additional comments.

Lawson Whiting

Yes, just briefly, and I know everyone knows by now, heard of the passing of Diageo's CEO, Ivan Menezes. His influence can be felt really around our industry and in every market where beverage alcohol is sold. He was an admired leader and well respected across the industry. So on behalf of all of us at Brown-Forman, we send our deepest condolences to his family and the entire Diageo community. That concludes our call.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.