Brown-Forman Corporation, Q1 2021, Earnings Call 2020-09-02

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Brown-Forman First Quarter Fiscal 2021 Earnings Call. — ***Operator Instructions*** — Please be advised that today's conference is being recorded. — ***Operator Instructions*** —

I would now like to hand the conference over to your speaker today, Leanne Cunningham, Senior Vice President, Shareholder Relations Officer. Thank you. You may begin.

Leanne Cunningham

Thank you, Dorothy, and good morning, everyone. I would like to thank each of you for joining us for Brown-Forman's First Quarter Fiscal 2021 Earnings Call. Joining me today are Lawson Whiting, President and Chief Executive Officer; and Jane Morreau, Executive Vice President and Chief Financial Officer.

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

This morning, we issued a press release containing our results for the first quarter fiscal 2021, in addition to posting presentation materials that Lawson and Jane will walk you 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 listed a number of risk factors that 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, a reconciliation to the most directly comparable GAAP financial measures and the reason management believes they provide useful information to investors regarding the company's financial conditions and results of operations are contained in the press release and investor presentation.

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

Lawson Whiting

Thank you, Leanne, and good morning, everyone. As I stated in the earnings release that went out earlier this morning, I'm actually very pleased with the company's first quarter performance, and truly want to thank our dedicated, agile and resilient team of employees worldwide who made these results possible.

We entered this fiscal year in one of the most complex and challenging business environments that we have seen in decades. Every market around the world has and continues to experience the health and economic impacts of the COVID-19 pandemic. We've continued to lead by our values, keeping the health and safety of all our employees as our highest priority, but we remain committed to our strategic priorities. But like much of the world, we're adjusting the ways in which we do our work. There have been very dramatic changes to channels, to brands, occasions, which really impacts things like seismics and formats, and we continue to see a lot of volatility around the world.

One of the most obvious ways that COVID-19 has impacted our business is the prolonged closure of the on-premise and the resulting shift in consumption to at-home occasions. As you can imagine, we've rapidly shifted people and investments into the off-premise, but different markets around the world have shown very different results. Even more interesting, we've also seen the pandemic accelerate a number of macro consumer trends. For the most part, trends that were happening before the pandemic have really accelerated over the past few months. So I thought I'd walk through some of these accelerating trends as well as provide examples of how we are capitalizing on these trends to our advantage.

The first really would be premiumization. This was a growing trend pre-COVID and really has been a trend in the spirits business for a long time, but we've seen growth rates of premium and super premium brands accelerate greatly in the U.S. since March. Before I go further, I did want to note that this is an area where we have started to see a divergence between the more developed markets, like much of Europe and the United States, and the emerging markets. We believe this is largely due to the broader social safety nets and other forms of stimulus that the larger developed markets offer. So consumer spending has remained strong in many developed markets, and the spirits industry is benefiting.

We do believe consumers are looking for everyday luxuries, and this is great for super premium spirits. In the U.S., Nielsen trends for spirits have remained very strong since the beginning of the pandemic and have really maintained those higher rates of growth through the summer. The long-term trend of spirits taking share from beer and wine continues. I think as long as people are largely unable to spend on travel and other forms of entertainment, we think that the spirits' strong growth will continue predominantly in the off-premise. Making cocktails at home has certainly become a source of entertainment for many and that makes this pandemic just a little bit easier to take.

We also have confidence that we may not see the level of down-trading that we might have seen in past recessions in the developed economies. The factors are just different this time. As a premium spirits company, we feel that our portfolio of brands is well positioned to win in this type of environment.

The next macro trend I wanted to touch on is media consumption. Consumers have been shifting away from more traditional forms of media for a number of years. And we're not only seeing an increase in overall media consumption, which is intuitive as consumers around the world are spending more time at home, but also an acceleration of media consumption by digital platforms like social and streaming services. As I have mentioned on prior calls, we continue to move more and more of our investments behind our brands into broad-reach media, especially growth areas like online video. And I'm thrilled that we brought our new creative partner Energy BBDO on board at the beginning of 2020, right before the world went into shutdown.

While our brand expense was down significantly in Q1, driven by the uncertain environment, starting in Q2, you will begin seeing more spending as we launch new creative across many of our brands. Some of you have may already seen the new Woodford Reserve ads that began airing earlier this month and a lot of new work from the Jack Daniel's family, which will be coming out soon.

While not unique to spirits, the e-commerce channel globally has been growing even faster since the pandemic as consumers look for greater convenience. While e-commerce is still a small part of our overall business today, since March, we've increased our investment, both in dollars and in people to focus on this growing channel. Familiar and trusted brands are poised to win in these types of shopping environments, which gives many of our brands like Jack Daniel's or Woodford Reserve, we believe, a good advantage.

Furthermore, convenience, more broadly, as a macro trend has influenced our business in a couple of ways. With bars closed, consumers want convenient and easy-to-mix cocktails at home. Our Jack Daniel's Tennessee Honey and Apple brands are providing consumers ease in making flavorful yet simple cocktails. And there are a lot of people making Margaritas at home, too, and that has really helped our tequila portfolio continue to grow across the U.S.

And we're really pleased with the early success of our Drinkworks' partnership and our first branded cocktail with them for the Jack Daniel's Lynchburg Lemonade. Consumers are also increasingly interested in ready-to-drink cocktails. So I think I'd like to spend a couple of minutes this morning just on this increasingly popular category. And as Jane will share with you, a key driver of our first quarter results.

Ready-to-drink beverages, our RTDs are having a moment right now, but it's a business we've believed in and invested in for a long time. It was nearly 30 years ago that we launched Jack Daniel's Country Cocktails in the U.S. Since that time, we've been building RTDs in many markets around the world. Globally, Jack Daniel's RTDs are now over 10 million cases, with Australia, the U.S., Germany and Mexico, all over 1 million cases. This really has become a meaningful business for our company.

Jack RTDs were created to expand occasions where Jack could be enjoyed and it focuses really on the key cocktail serves, such as Jack & Cola, Lynchburg Lemonade and Jack & Ginger Ale. These RTDs serve as an important consumer recruitment vehicle due to the category's light and really accessible flavor profile.

Through innovation, we feel we can meet consumer taste and pack preferences as they really do vary by market. Such recent examples would include Jack & Berry in Germany, Double Jack and American Serve in Australia and then Jack Daniel's Country Cocktails' Southern Peach and Southern Citrus in the U.S.

Our other large RTD business is our tequila-based New Mix RTDs in Mexico, which are now over 7 million cases. This business is also doing well in the environment we're in. I believe that we're well positioned with the right offerings at the right time to meet the increasing popularity of these ready-to-drink cocktails.

So with that, I'll turn the call over to Jane, who will walk us through our first quarter financial results.

Jane Morreau

Thank you, Lawson, and good morning, everyone. As Lawson said, we are pleased with the start to our fiscal year, particularly in light of the current environment, with both our underlying net sales and operating income up relative to last year, and our reported operating income and EPS increasing even more.

Not surprising and amplified during this volatile time, there's considerable noise in these results, ranging from product innovation launches, timing-related items in the same period last year, portfolio reshaping, a significant discrete tax benefit and, of course, COVID-19-related effects that include inventory fluctuations, customer buying pattern changes and geographic channel, size and portfolio of mix shift. I plan on highlighting these effects on our results to provide more clarity on our performance in the quarter. But first, as a reminder, our business began to significantly experience the impact of COVID-19 pandemic in our fourth quarter of fiscal 2020, beginning in mid-March and continuing throughout April. As a result, we estimated that the pandemic negatively affected our underlying net sales approximately 15% for the March-April period with a greater negative effect occurring in April, following some benefit we believe we experienced from pantry loading in March in some of our larger developed markets.

Now with that as a backdrop, let's turn our attention to the first quarter, where our results improved significantly relative to our fourth quarter of fiscal 2020. Starting with our top line. Compared to the first quarter of last year, reported net sales were down modestly, reflecting the rebalancing, our giveback of the distributor inventory built in the U.S. in April 2020 during the period of great uncertainty surrounding potential supply chain disruptions. Adjusting for this factor, our underlying net sales grew 3%. When stripping out the noise, I noted earlier, however, we believe our net sales were down low single digits. As we look broadly across our geographic clusters, all were affected in some way during this quarter by the pandemic and its related effects, of course, some more than others.

Our Travel Retail business continued to be the most significantly affected as international airline travel remains at very low levels, airport stores are largely closed, airlines are offering limited in-flight services and the cruise industry is still shut down. These factors contributed to our underlying net sales declining over 60% for the quarter for our Travel Retail business. Our emerging markets collectively declined underlying net sales low single digits for the quarter.

Benefits from timing-related customer buying patterns in Q1 of both last year and this year, notably in Poland and Brazil and exceptional growth from our New Mix RTD business in Mexico, driven by the temporary interruption experienced in the country's beer supply chain in May-June, masked the significant and broad-based declines registered across nearly all our emerging markets.

Our developed international markets returned to underlying net sales growth in the quarter, up double digits, propelled by the accelerated demand for RTDs, most notably in Australia and Germany, which are both benefiting from the consumer desire for convenience.

The launch of Jack Daniel's and Berry in Germany and Jack Daniel's Tennessee Apple in a number of key markets, including U.K., Germany and France, also contributed to the quarter-over-quarter increase. Further, we estimate that favorable comparison to Q1 last year and customer buying patterns this year contributed to nearly half of the growth in underlying net sales. Adjusting for these factors, we believe our developed international business grew low single digits.

And finally, our U.S. business, which represents half of our sales has remained resilient throughout this pandemic. Our portfolio appears to be well positioned, as Lawson mentioned, in this important market to meet some of the changing consumer needs and behaviors, driven by the significant increase in at-home consumption and the desire for everyday luxury. In fact, the acceleration in our underlying net sales growth in the quarter in this market was driven by those brands in our portfolio that are meeting those needs. For example, the desire for convenience. Our Jack Daniel's RTDs experienced strong consumer demand, both from our existing Jack Daniel's Country Cocktails brand as well as the excitement of our recent limited introduction of new spirit space Jack Daniel's RTDs.

The ease of mixability. The continued launch of Jack Daniel's Tennessee Apple, higher volumes of Jack Daniel's Tennessee Honey and our tequilas el Jimador and Herradura provided a benefit to the quarter. As a reminder, we will begin to lap the launch of Jack Daniel's Tennessee Apple in this market in our second quarter.

Everyday luxury. Woodford Reserve and Old Forester continued to sustain double-digit growth trends that we've enjoyed for a number of years.

Now I'd like to expand a bit further on Lawson's comments as they relate to the U.S. market by leveraging both Nielsen and NABCA takeaway information. Since the pandemic began, the off-premise takeaway trends for beverage alcohol significantly accelerated. We also note the acceleration in volumes in the off-premise has consistently, throughout this period, more than offset the declines in the on-premise, meaning overall TDS consumption volumetrically has increased compared to pre-COVID. Consistent with TDS, we have also experienced increase in volumes. However, portfolio and channel mix shifts have adversely affected our margins, which I will discuss in a bit.

As you know, each of our major markets around the world are in varying stages of re-opening and, in some cases, are experiencing a halt in reopenings, new restrictions or even a second round of closures. Consumer purchase patterns continue to evolve as bars, restaurants and other on-premise channels try to remain open while complying with various regulations. And in some markets, we are seeing a return of consumers to the on-premise as restrictions on consumer movement are easing.

I thought it was important to take a minute and talk about our flagship brand, Jack Daniel's Tennessee Whiskey, and how it's performing in this environment. Overall, for the quarter, Tennessee Whiskey volumes were down with essentially flat volumes in the developed markets and declines in the emerging and Travel Retail channel. The shift from on-premise to off-premise consumption in the developed markets drove the brand's underlying net sales down further. However, overall, the brand remains quite healthy and is gaining share in the majority of its top 10 markets. In the brand's largest market, the U.S., volumetric trends are essentially consistent with pre-COVID trends.

Now turning to our gross margin. For the quarter, our gross margin declined 320 basis points, which also resulted in our underlying gross profit dropping 1%. Higher input costs related to agave, lower volumes for Jack Daniel's Tennessee Whiskey, resulting in a reduction in fixed cost absorption and unfavorable mix drove our margin down. The mix impact reflects a shift in where consumers are buying our brands from the on-premise to the off-premise and e-premise and a significant acceleration in the rate of sales growth from our RTD portfolio. Combined, these shifts reduced our gross margin by approximately 100 basis points.

Not surprising, given the rapid restrictions placed by the COVID-19 crisis and the timing of our quarter, our advertising investments were down significantly in the first 3 months of the fiscal year. This not only reflects a reduction of on-premise activations and the cancellation of consumer events such as summer festivals and sponsorships, but also a pause in the month of July on certain social media platforms, specifically Facebook and Instagram. In addition and importantly, the reduction reflects the phasing of spending. For example, our investment in the Kentucky Derby has been shifted from Q1 to Q2 as the event was rescheduled. We expect our advertising investment to accelerate over the balance of the fiscal year. In the meantime, we have quickly adjusted our focus and resources based on the evolving landscape.

Our underlying SG&A investment was down in the quarter as well, reflecting a significant reduction in discretionary spending, such as travel and entertainment and special meetings as well as hiring freezes.

As the COVID-19 pandemic and its effect on the global economy continues to evolve, we continue to closely monitor key indicators in each market, such as the stage of restriction, consumer trends and behavioral insights and macroeconomic conditions. We believe this has and will continue to aid us in our frequent evaluations of the pace of recovery and where and when to invest.

There are 2 items that positively impacted our first quarter reported results only. First, the sale of the Early Times, Canadian Mist and Collingwood brands and the Canadian Mist production facility resulted in an EPS estimated gain on sale of $0.19. Second, we recognized an $0.08 per share benefit related to a discrete tax item. These 2 items, combined with the increase in operating income from our business, resulted in diluted earnings per share increasing 73% to $0.67.

And finally, to our fiscal 2021 outlook. We continue to face substantial uncertainty, and that has not diminished since our year-end early June call. As a result of this uncertainty and volatility that we expect to persist over the months to come and the low visibility we have on recovery, we are not able to provide quantitative guidance for fiscal 2021 at this time.

With that being said and more qualitatively speaking, as we think about our broad geographic clusters, we expect Travel Retail business to not recover and to remain down significantly for the year. Considering the benefits that aided our emerging markets underlying top line performance in the quarter and the continued expected shift in spending to value brands and assist in needs, we expect the declines in our emerging markets collectively to increase compared to Q1 performance over the balance of the fiscal year.

For our developed markets, we expect the volatility and uncertainty to remain high for the foreseeable future and hope to have a better understanding of such impact of volatility when we report our Q2 performance later this calendar year.

Our nonbranded business dominated by sales of used barrels is expected to continue to be a drag on our top line performance this year as it was in the quarter, reflecting the expectation of lower volumes and pricing. We believe the timing and strength of the on-premise channel recovery will depend on a variety of factors, but will look different and not at full capacity by the fiscal year-end.

Our gross margin will likely remain under pressure for the year, driven by the expectation of higher input costs and mix shifts. Where our gross margin ultimately lands will depend not only on the volumes of our business, but the mix of our business geographically, by portfolio, channel and size.

Regarding our operating investments, both advertising and SG&A, we believe we are well positioned to invest effectively as the recovery occurs. We expect overall operating expenses, notably our advertising investments, to accelerate as a significant year-over-year rate of declines in Q1 will not be sustained throughout the year. We, of course, will remain agile, diligent, focused and disciplined on our investments as the environment continues to evolve.

As it relates to our effective tax rate for the full year, we expect our tax rate from operations to be about 21% and our all-in tax rate to be in the range of 17% to 19%.

In summary, while there is a lot of noise in our first quarter performance, we believe our results are solid amidst this very challenging environment. Our balance sheet remains strong and our continuing capacity to generate solid operating cash flow is sound. As always, we will continue to manage our uses of cash thoughtfully. We believe these actions and strength will allow us to navigate this crisis as circumstances evolve, and we will emerge from this unprecedented time an even stronger company with healthier brands.

And with that, this concludes our prepared remarks. Dorothy, you may open the line up to questions.

Question and Answer

Operator

— ***Operator Instructions*** — First question comes from the line of Peter Grom with JPMorgan.

Peter Grom

Can you guys hear me?

Jane Morreau

Yes.

Peter Grom

So I was hoping you could help us understand the phasing of the quarter. You showed that one slide with, say, March and April performance in each market and then just kind of the drastic improvement in Q1. And I know you talked about some of the timing-related items that helped. But could you speak to or help us quantify the sequential improvement in trends that you saw in June and July, both from a channel standpoint, but also in key regions? And then just to the extent that you're willing to share, how did those – how did the trends progress in August?

Jane Morreau

Yes. I mean let me start off. I know you asked a lot here. And I think you make sure I understand. You're focusing specifically on the top line. Is that correct?

Peter Grom

That's right.

Jane Morreau

Okay. So if you recall at our year-end call, we had already some visibility in our month of May results, and we told you at that time that they had improved from our lows in April. We think that was the trough of what we have seen. And – but they were still down. So the month of June and July were both positive months, when we look at growth months, obviously, to drive the quarter up.

When we look at what's driving this, Travel Retail has not improved, it remains down. Our emerging markets, set aside the 3 countries I noted within our script today, which is Poland, Brazil and Mexico, were all down pretty significantly. There's been no change there really from what we had seen at year-end.

Where we saw the biggest changes were in an acceleration in the U.S., which, by the way, has remained resilient throughout this pandemic. So we saw some acceleration there, and Lawson was referring to some of the reasons why that was, which is really the consumer behaviors and the desire for convenience with the at-home consumption and our RTD business is so well placed for that as is our flavored whiskey and tequilas. So we benefited from that.

And then finally, the developed markets improved significantly from year-end. And that's where we got a fair amount of noise in the numbers. We had some easy – or favorable comparisons to last year. We also saw some restocking, if you will, in some markets that we've restocked at the hypermarkets where they were – people were shopping at the local corner before, I would say, as an example. So we got a benefit from that. We had the launch of Apple in there, both from the U.S. It wasn't there in the first quarter of last year. I am going to refer it less a bit in the second quarter of this year. But also the launch in 6 markets at the end of last year – in 6 more markets internationally at the beginning of this year. And so we wanted to give visibility into that and say, really, if you strip all that out, our improvement in the developed markets has improved, but not at the rate that you're seeing. We're estimating more in the low single digit type of growth.

If you look at channels and things of that nature, the on-premise has started to recover in some markets, but still down significantly about 60% in the U.S. Overseas, we just started seeing some of that more easing in the months of June and July, and I'm seeing some promising trends there that have a ways to go, particularly in those tourist markets, such as Spain and Turkey and Czechia.

E-premise remains on fire, as Lawson mentioned. And so that growth rate has continued to be pretty solid throughout. We haven't seen a lot of change in that.

But all in, what we were trying to give exposure to was that we think all of our trends in the business have improved, but not at the rates that we recorded in the first quarter. We think we're down growing. If you pull a lot of the onetime factors out more in the low – down low single digits.

Operator

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

Vivien Azer

I was hoping to ask about Woodford Reserve. Certainly, double-digit growth is excellent, given the strong track record that we've seen for the brand. But the growth that you guys are reporting certainly is below what we're seeing in Nielsen and NABCA. And so my understanding was that the international exposure for that brand, inclusive of Travel Retail, was still relatively small. But just wondering how big of a headwind that might have been to look for its underlying trend?

Lawson Whiting

Sure. I mean Travel Retail is a meaningful business for the Woodford Reserve brand. So that would have put a little bit of pressure on it. But the bigger issue is the on-premise really in the U.S. for Woodford. I mean it's – that's put pressure on it. That's why you'd see better Nielsen trends than you're going to see in our reported results.

Another part of it, I think is just interesting Derby, remember, moved from May to this coming weekend. And so we were confident against a quarter that had all the Kentucky Derby-related volume to it. And so we hope to see a little bit of a pickup as this coming weekend hits, although lord knows, we don't know what kind of Derby it's going to be, but that put pressure on it, too.

Vivien Azer

Got it. That's really helpful. And I'll just have one quick follow-up, please. It looks like your canned cocktail offering in the U.S. for your website is listed in about 16 states. Just curious to understand like what your level of distribution is within that limited footprint. And how we should think about a further national rollout in the U.S. for the canned cocktail?

Lawson Whiting

Yes. To be honest, I don't know the distribution numbers off of my head, but it's still small. I mean it's an effort. It's really an innovation effort that we're trying to just get off the ground right now and figure out which flavors are going to work best. We do know the Jack & Cola and Lynchburg Lemonade are the 2 flavors that seem to be doing the best, but it's still. In terms of the scale of our RTD business, the spirit-based RTDs in the U.S. are still pretty small.

Jane Morreau

Yes. Like 1% or something like that.

Lawson Whiting

It's the Country Cocktails brand that is absolutely on fire right now. That is one of the ones that has really just taken off in this environment as we mentioned the Southern Peach, in particular. I mean it's a business that's across 2 million cases at this point. So it's much bigger than the spirit-based business.

Vivien Azer

Understood. Yes. No, absolutely. It just seems like the spirit-based RTDs are gaining a lot of attention from consumers. So glad to see you guys are playing there, too.

Operator

Your next question comes from the line of Kevin Grundy with Jefferies.

Kevin Grundy

Congrats on the strong quarter. I wanted to come back to the on-premise and the cadence there and how that's improving, just given the importance here, more broadly to the recovery in the alcohol space. So Jane, you gave a lot of color, I appreciate that on the call, and you mentioned some of the recovery to Peter's question earlier. So specifically, with respect to on-premise, as we've seen some case counts tick up in Western Europe now at this point, can you just talk a little bit about what you're seeing specifically in on-premise for July and August? Has that sort of hit a little bit of a pause or did you see continued improvement here exiting the quarter?

Jane Morreau

Yes. I think to your question, in the U.S., we have seen it more leveled out. And again, year-over-year when I look back at June – May, June, even early July and gain some theme, if you will, with the recent halts in openings and new restrictions that have been put in place, really, the momentum really has leveled out in the U.S.

Overseas, I think it's picked up a bit, and we get information a bit later on that, but it has picked up a bit. It depends on the market, of course. And all this is dictated by – are determined by a market where it might be performing and where it's not. But I think really importantly, it's something we've been talking about and looking at, and I'm sure you've seen this as well as that just the overall consumption – this is a U.S. comment, by the way, just the overall consumption of total distilled spirits pre-COVID, this is on a volumetric basis, you look on a value basis as well, too, of course. But on a volumetric basis, it's higher even with 60% decline in the on-premise, which is pretty amazing. And it's remained steady.

And for us, we are seeing similar trends in terms of our volumes in the U.S., offsetting the on-premise closures and shutdowns and even the declines. Hope that gives you a little bit of color.

Kevin Grundy

Yes. No, I – go ahead, Lawson. Go ahead.

Lawson Whiting

Yes, I have a point on, too, which is a good spot to make sure that everyone sort of understands this point. Volumetric, if you just take the U.S. as the example market, having the on-premise close down, which is basically a one leader-sized product and a lot of the volume moving into 175s, volumetrically looks pretty good, but the margins are weaker on the 175. And so that is one of the factors that's putting pressure on our gross margins. And I just want to make sure everybody sort of understood that, that will reverse at some point when the on-premise comes back again, and we'll take the results that we're getting for now, but there are pretty big different margins between the 2 sizes.

Kevin Grundy

Yes. I appreciate that. Just one follow-up, if I may. So Jane, just with respect to advertising, which was obviously down pretty sharply year-over-year, do you expect it to be up for the entirety of the year? And maybe give us a little bit of help, if you would not mind, just on the cadence for the balance of the year and sort of the quarterly sequencing? I think that would be helpful. And then I'll pass it on.

Jane Morreau

Yes. Sure. I'll try to do that, Kevin. It's such a volatile environment now, and as you can imagine, we're watching closely and being thoughtful in terms of when and where we invest and behind what brands and channels and the like. So what we did in the first quarter, as you noted, and not surprisingly as in terms of how our quarter fell, which was so close to the beginning of COVID, we really did step back and pause and reflect and evaluate what consumers listening, what's appropriate type of spending for our brands and so forth.

And so as you did know that it was down significantly, we do not – as Lawson and I've mentioned, we do not expect it to be down for the year, like it was in the first quarter. Where we land in the year, we're going to be very agile about this. You will see it quite a bit in the acceleration in our second quarter. I think Lawson mentioned this because this is also when we're going to be launching some new creative. The shift of the Derby, if you will, from the first quarter to the second quarter will be – you'll notice there will be a pickup in spending there.

And just the number of activities that we've got going on that we believe we'll be funding behind. In terms of trying to get down to any quarterly phasing, that's about as far as I can go now is we pick – we expect a pickup in the second quarter and the third quarter for sure. Remember, last year's fourth quarter was down because of the on-premise closures, the cancellation of events, and we'll be cycling against that in the fourth quarter.

But as always, we want to be thoughtful, prudent, agile and just accordingly where the consumer is. And that all I can give you right now. It's very uncertain.

Operator

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

Stephen Robert Powers

Could you talk a little bit more about the ready-to-drink launch that you began this past quarter in the U.S. and where we are in that relative to it being a fully national rollout? And more generally, on the ready-to-drink portfolio as it evolves and this is sort of a – with a global lens, can you just dimension for us a bit as to how you think that's going to impact your P&L from a margin perspective?

Lawson Whiting

Okay. Well, look, I'll start with the U.S. RTD thing, and I'm not repeating what I said to a question a couple of minutes ago, but Country Cocktails remains the majority of our RTD business in the U.S. and it is on fire. It is up significantly over this past quarter.

The spirit-based partner and that's a malt-based product, the spirit-based RTD, which is I think what you're asking about is still – it's less than 50,000 cases. It's in 14 states. And it's – I mean we're seeing it now, and it is – everything is essentially on fire in the RTD space these days a little bit, and our timing, I think, was pretty good.

But it is – as to why, I think, is maybe a good part of the question as all of a sudden, these things have gone from sort of lukewarm growth rates to really spiking up. And a lot of it's just fitting lifestyles that are out there right now. It's obviously, people are at home and they want it to be simple. And so people really do turn to these both simple RTDs, simple drinks. Obviously, you just open up a can or even very mixable products that we have, which is why we think Honey, as an example, is doing so very, very well right now. And our Apple launch is actually doing quite well right now. So we have – we're getting a lot of interest in it. But as I say, it's only in, what we say, 14 states. So these are early days while we figure out what the consumer is willing to pay for in pricing and what flavors they like the best.

Jane Morreau

And the spirit-based RTDs in the U.S. are phenomenally growing as are the malt based. Now I'll just pick up on part 2 of your question. And just building on Lawson's comments about the RTDs and playing an important role in this environment for the home consumption and convenience occasion and the cocktails and so forth.

But what you're asking, I believe, is about the degradation on margins. And I will say, in the first quarter, we talked about the degradation of both channel and portfolio having about a 1 percentage point or a 100 basis point impact. And a big piece of that isn't related to the portfolio or the RTDs, but more specifically, it was really the New Mix RTD, which we best found and as we said in our script, was one time, we think, in nature because of the temporary disruption of the beer industry in Mexico. With that being said, we have read it about this for some time. But in the environment like this, we think the volume and the sales generation vehicle for our brands are more important. Are you increasing your demand for your products? Absolutely, we are. You can see that. And importantly, if you look at the economics of an RTD, something we do frequently, and we convert it to what we call a drink equivalent basis on a whiskey basis, the economics are phenomenally even better than our full strength. And so that's just a couple of ways that we think about it. And in this environment, we think the small amount of degradation in the margins, not material is like 100% makes sense, and we want to be there for the consumer.

Stephen Robert Powers

Okay. That's all very, very helpful. I guess if I could just one more. Looking down the P&L, over the past few years in response to things like first tariffs and now COVID, you've done a great job of managing down SG&A expense. I think you've taken – I think it's like 500 basis points out of that line over this past quarter versus, say, 2017. If you think about that and you think about the go forward, how much of that do you view as structural efficiency that is capable of enduring versus just progressive belt-tightening that at some point is going likely to come back as things sort of renormalize?

Jane Morreau

Yes, I don't know. The whole world is changing. I can't answer that fully. But definitely, what you saw in the quarter was largely driven by just the absence of travel and entertainment, quite frankly. Yes, we had some hiring freezes going on as well, but it's largely our discretionary spending. And I think we've all learned that you can work differently in this environment and where it goes and what might come back is yet to be seen. And so I think this is something that we're all going to learn a whole lot about as we look ahead. I don't really have a 100% answer to that at this point. But we definitely know that we can work differently and have been working effectively differently.

Lawson Whiting

Yes. I'll add a little more color to it. Just thinking back, if we go back 4 or 5 years ago, and I think we were pretty public with this that we made a conscious effort to restrain SG&A growth and get more advertising dollars or more brand expense dollars out there. And we've been pretty successful at doing that. Now we weren't predicting a pandemic and halting and travel and all that kind of stuff, and certainly, comp is way down, too. So there will be – I mean, SG&A will grow from here. It's just – I think, as Jane said, there are a lot of things we're learning as a company that you can do differently. And so we'll – it's hard to forecast out that many years, but we'll look it back to where it was, probably not, at least not in the T&E bucket.

I think there's probably a permanent change in the way that people do business, and we'll have to see how the life unfolds a little bit. But SG&A, I think we feel pretty good about the way we've managed through the balance between those 2 different operating expense buckets.

Operator

Your next question comes from the line of Eric Serotta from Evercore.

Eric Serotta

Lawson, I wanted to get your thoughts on the performance of Tennessee Whiskey in the U.S. Jane mentioned that the growth rate in the quarter was similar to pre-COVID levels. I've heard you say in the past that, that level of growth was sort of below your long-term aspirations or what you hope or what you expect for the brand. Could you talk a little bit about plans to accelerate that growth, how dependent upon the reopening of on-premise those plans are? Certainly, your overall portfolio growth in the U.S. was phenomenal, especially in light of what Tennessee Whiskey did in the quarter, but just want to get some color as to how you're thinking about Tennessee Whiskey going forward.

Lawson Whiting

Sure. Well, I mean, a couple of things. One, to point out that Jack Daniel's family globally – you're asking about the U.S., but globally, it was still plus 3%. So in the middle of a pandemic, generating 3% sales growth on the entire family, I think we're pretty happy with that.

Now focusing just on Tennessee Whiskey itself, and I will talk about the whole world for a second, then I'll go more to your U.S. question, but keep in mind, Jack Daniel's Tennessee Whiskey, so Black Label is one of the largest on-premise brands in the world. I mean it is in nearly every bar around the world. And so that business – that's why that number is down somewhere around – what is it? 7% down for the quarter on a global basis, a lot of that is on-premise.

In the U.S. itself, 30%-ish of its volume is in the on-premise and that went down drastically. So making it up with pretty dynamic off-premise growth, I mean, that feels pretty good. I think the Nielsen numbers on Jack are somewhere in the high teens now, something like that. So you're getting on a brand that's north of 5 million cases to get that much off-premise growth is pretty – I mean, these are big numbers. So now how – or what are we going to do differently a little bit about it?

Because you're right, it's – we aren't happy with the growth rates that we've been seeing on Jack on Black Label over the last couple of years. A lot of it does have to do with – we're going to rely a fair amount on these new campaigns that are coming out. We've been working with this new advertising agency since when they were hired in January. And so obviously, they went in shutdown mode, but bringing out an entire new campaign with a whole bunch of money behind it is in our plans for the next 6 months. And so we're doing a lot more other things than that.

Obviously, the brand-building model is on hold – not on hold, but, I mean, the way you do it is going to be very different in this environment than in a normal place. And you've got to find ways to get to consumers that are outside of the bars. But I think we'll be pretty effective in communicating that and getting that to them. And as I say, I think the U.S. Jack Daniel's business is in pretty good shape. But also highlight Gentleman Jack as an example, which is largely a U.S. brand. It's up 17% for the quarter. That's the best growth rate we've seen on Gentlemen Jack in a long, long time. And then Tennessee Honey, too, we talked about that a little bit earlier, but that brand is also on fire. So the family stuff, I think, we feel pretty good about.

Jane Morreau

Yes. And actually just to build on what Lawson said, the volumes in the U.S. were flat. That's pretty good. I mean it's basically an unchanged pre-COVID, yes. But we have even if – even though Tennessee Whiskey, it's higher skewed toward the on-premise than the rest of the American whiskey, I think that's 30% versus 17%, 18%. We were able to offset that loss of that business, which I think is pretty strong for the brand in this environment.

And then, more importantly, just to build on Lawson's comment about the full family of brands, he just referenced Honey. We're in our ninth year of that brand and is growing high single digits, which is a fascinating and amazing as we're approaching 2 million cases. And the brand is actually bigger outside the U.S. It's over 1.1 million cases than it is in the U.S., and they're both growing high single digits, which leads us to the comment about – in the performance about the brand and how we think about the innovation that we just did with last year, which was Jack Daniel's Tennessee Apple. Because what we're seeing in a number of markets overseas where we've introduced it is we're performing at or above rate at the same point in time as Honey, which holds well for that brand in markets outside the U.S.

Eric Serotta

Great. That's really helpful. Sorry?

Jane Morreau

We're looking at the whole franchise.

Eric Serotta

Great. Just – that's really helpful. One follow-up in terms of the pricing and promotional environment. Earlier in the year, I guess, pre-COVID, there were some comments about the degree of competitive promotion moderating a little bit in the TDS market. Now I realize there's been a lot of noise since COVID with brand owners and retailers pulling back on promotions, when everyone was trying to keep the shelves stocked. But I guess more recently, what are you seeing in terms of the promotional environment and the competitive intensity, particularly from some of the players that have been aggressive at times?

Lawson Whiting

I don't – the promotional environment hadn't changed a lot compared to where it was 2 or 3 months ago. It's still – we've used the line customers or shops – they're buying, they're not shopping. They're going into these stores with their masks on and their hats on and everybody wants to get in and out as fast as they can. And so the retailers have pulled so many promotions. And they're the ones who have pocketed a lot of that different margin right now. And so we need to do a better job of getting our own piece of that. And I know there's a lot of effort behind that right now because I do think this is an environment where we want to see pricing going up. And that's an effort that we're going to have really around the world over the next few quarters that we're going to push pretty hard to try to see some margin improvement there.

Operator

Your next question comes from the line of Bill Chappell with Truist Securities.

William Chappell

Just a quick question on back on gross margin. Trying to understand with RTDs, will the impact get better, meaning, or not as bad as you scale up? Or are you putting investments behind RTDs where it won't be as dilutive to margins over time? And also with that in mind, can you give us some kind of guidance on what the divestitures due to gross margin for the next year?

Jane Morreau

I mean I'll start with the last part of your question in terms of Early Times and Canadian Mist. They're very, very small impact on our business. They will have a slight benefit to our top line and to our gross margins, but very slight. I wouldn't count on a couple tenths of a point, if any, more than that. So just to knock that out of the way.

In terms of the RTD business and where it might go and whether it will have more pressure on the margins or not, what I was referring to in the first quarter was we had an outsized impact from New Mix. And it was our #1 driver of growth in the quarter, if you look at on a stand-alone brand basis. And that, we don't expect that margin pressure or that margin items to continue. But even with so, we still are looking at this, as I said earlier, from the growth and appealing to consumers and our top line growth is forward in this environment.

Lawson Whiting

I mean we've had sort of internal conversations on it right now in this environment, I'll take the dollars if it impacts the percentage a little bit. But at this point, we'll take it. And it's not – you mentioned, they're really not going to be margin improvements within the RTD world as you get efficiencies and things like that. It's more just the fact that it's becoming a bigger part of our business and may inherently have lower gross margins. So…

Jane Morreau

Yes, I was saying that these would be…

William Chappell

That helps. And then, Lawson, just can you remind us just on the new advertising firm, the stepped-up advertising, kind of what the main goal is? And when I say that, is it trying to keep up with some of the U.S. competitors that have advertised more over the past few years? Is it a new demographic or new target audience that you're trying to reach? Or is it just more? Or just trying to understand as we see the commercials, they do look different a little bit than some of the past messaging. And so maybe just what the goal is over as it gets restarted, what that means?

Lawson Whiting

Well, I mean, it is – look, want to get back our share of voice, which admittedly, we've lost a few spots in that over the last couple of years. And so we're pretty adamant about gaining on our share of voice and particularly in the U.S. market, but that does include other places, too. And so there's a couple of different ways are coming. I mean, obviously, with the on-premise closed and events not happening and all of that, you get incremental money there, and I imagine every competitor in our industry will have – will get that, too. But a lot of it is also, you think about how much we took it down in Q1, and we're saying we're going to get back – I don't know, we'll have to see what the full year turns out to be, but it will be pretty dramatic increases over the – between now and, say, Christmas.

And we'll see what happens. The – it's not really going at, by the way, a new – it's not really going at a new consumer necessarily. We've always felt that we've got sort of legal drinking age all the way to – with the LDA to DND, a legal drinking age to damn-near dead. That is still compliant. And we're going to work hard at getting that back again.

Operator

Our final question comes from the line of Bryan Spillane with Bank of America.

Bryan Spillane

Just 2 for me. One, Lawson, you made a comment in your prepared remarks about not – maybe not expecting to see as much trade-down in this sort of episode versus what we've seen in prior recessions. I'm assuming you were talking about the U.S. and developed international. But just a little bit more color on why you think that would be the case, especially if we get to a point where there's less fiscal help that governments are providing for consumers?

Lawson Whiting

Yes, I mean – okay. I do think, one, we have not seen the down-trading in our own portfolio. And it's – although it's probably worth pointing out, too, over the last 10 years, we have shed most of our brands that were sort of less than premium. And so we don't have a lot to trade down, too. But I think in the broader question across the whole of TDS, certainly, the stimulus money is a big part of it. And that travels all the way through to Europe and some other places. And as you say, in the emerging markets, there is some trading down, I think in the emerging markets that we have seen. And a large – a lot of that would be stimulus related, too. But I also think in this environment, now is back to the U.S., a little bit more, we're also in the right categories. So tequilas and whiskeys are places where consumers are really buying these days, and those consumers are – a lot of the consumers, while unemployment may be high – it is high right now, there's a lot of consumers in the United States that are saving money from not traveling and not vacationing and not doing all those sorts of things. And they've got money. And about the only thing that's fun to do is throw a little home party or sit at mix cocktails and make all that kind of thing.

And so those tend to be very super-premium consumers and that's what they're spending their money on. And so for us, things like Woodford Reserve, Double Oaked or within Old Forester, the more premium line extensions there, those things are all on fire. They have been for a while, but they've remained very, very strong. And so we just happen to be the recipients of – we're with the trends. Our portfolio matches up with the consumer trends these days, and we're getting some benefit from that.

Bryan Spillane

Okay. And then, Lawson, maybe just one more. Just as we're thinking about on-premise and maybe like a couple of years out and especially if we get into a point where there's less T&E, right, we're all traveling less. Just – is your expectation that the on-premise revenue pool 3 years out will ultimately still be smaller than where it was pre-COVID? Just trying to understand how you're thinking about rate of recovery and kind of what on-premise could look like over a multiyear period?

Lawson Whiting

Yes. I mean, look, I'm going to be guessing or forecasting because I don't know any better than you would. I mean the – certainly, I think over the next 6 to 12 months, the on-premise is still going to be way down. And I think you're going to see a lot of restaurants closed and all those kind of things. But I'm also a strong believer that humans are very social animals and they miss it. And people really miss going out to dinner and socializing. And so I don't really see a permanent change in that. I just think it's going to take a while to sort of rebuild itself back up again.

So I don't know. As I say, I think it will be pretty weak for the next 6 to 12, and then you'll be comping against such easy periods as restaurants back – open back up again, you're probably going to get a period of pretty good acceleration. But 3 to 5 – 3, 4, 5 years out, I just don't know.

Bryan Spillane

All right. Well, we won't hold you to your prediction for on-premise recovery, but we may hold you to your Derby predictions. So good luck guys.

Lawson Whiting

Thank you.

Bryan Spillane

All right. Have a good Labor Day, everyone.

Jane Morreau

Thank you, Bryan.

Operator

And we have reached the time for allotted questions. If you have any closing remarks, please proceed with that.

Leanne Cunningham

Thank you, Dorothy, and thank you, Lawson and Jane, and to all of you for joining us today for Brown-Forman's First Quarter Fiscal 2021 Earnings Call. If you have any additional questions, please feel free to contact us. For those of you in the United States, we wish you an enjoyable long Labor Day weekend. Thank you.

Lawson Whiting

Happy Derby.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference call. We thank you for your participation and ask that you please disconnect your lines.