Brown-Forman Corporation, Q2 2024, Earnings Call 2023-12-06

Presentation

Operator

Hello, and welcome to Brown-Forman Corporation's Second Quarter and First Half of Fiscal Year 2024 Earnings Conference Call. — ***Operator Instructions*** —

I would now like to hand the conference over to Sue Perram, Vice President, Director, Investor Relations. You may begin.

Susanne Perram

Thank you, and good morning, everyone. I would like to thank each of you for joining us today for Brown-Forman's Second Quarter and First Half of Fiscal Year 2024 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 second quarter and first half of fiscal year 2024 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 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 a reconciliation to the most directly comparable GAAP financial measures and the reasons management believes they provide useful information to investors regarding the company's financial condition and results of operations, are contained in the press release and investor presentation.

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

Lawson Whiting

Thank you, Sue, and good morning, everyone. Thank you for joining us today as we share our second quarter and first half results for fiscal 2024. As anticipated, the key drivers behind our first quarter results continued into the second quarter. First, consumer demand for our brands continues to reflect a normalization back to our more historical trends.

Second, as we've shared we continue to grow on top of a very strong first half in the prior year, driven by the rebuilding of distributor inventories in the prior year period. To help put this into better context, I encourage you to reference Schedule D in today's earnings release.

Third, we're starting to see beneficial contributions from both Diplomático and Gin Mare while also continuing our portfolio reshaping with the announced sale of Sonoma-Cutrer.

Fourth, while higher input costs were persistent in the first half. These costs were more than offset by favorable price and mix and the lapping of the supply chain disruption costs in the year ago period.

And finally, while our operating expense growth rate moderated in the second quarter, the timing and phasing of these expenses had an unfavorable impact on our first half operating income.

Now let's turn our attention to how these drivers influenced our first half fiscal 2024 results. Our reported net sales growth increased 2% in the first half with organic net sales growth increasing 1% after adjusting for the recent acquisitions. Notably, this growth was delivered against an 11% reported and 17% organic net sales increase in the same period last year. If you were to simply add the organic growth rate in the first half of fiscal '24 due to the organic growth rate in the first half of fiscal '23 and divide by 2, the average in the first half of these periods has been 9%.

Fundamentally, our brands remain in very strong shape. However, over the last couple of months, we have seen a slowdown in consumer spending similar to the trends we're seeing across total distilled spirits and other consumer packaged goods. After 2 years of strong growth, which was above our long-term historical trends, consumer demand for our brands is normalizing on this elevated base.

In addition, as we have highlighted in past earnings calls, our glass supply significantly improved in the spring and summer of 2022, which allowed us to rebuild distributor inventories. Historically, the estimated net change in distributor inventories would have had a minimal impact on our organic results. Typically in the range of plus or minus 1 percentage point in any given year. However, the pandemic-related supply chain disruptions created changes in our historical distributor ordering patterns, which has created unusual comparisons and larger impacts over the past few years.

If you were to factor in the 5 percentage points of impact to our organic net sales from the estimated net change in distributor inventories, as seen in Schedule D, our top line results more closely reflect our longer-term trends and help support our belief that the fundamental health of our brands and our business remains solid.

Our first half results reflect our ability to consistently deliver growth even in dynamic and challenging times. This is largely attributable to our broad geographic reach and our portfolio reshaping strategy over the past decade as we built a diversified global portfolio focused on premium and super premium brands.

In the first half, organic net sales growth was driven by Jack Daniel's Tennessee Apple, New Mix and Glenglassaugh. These gains were partially offset by volume declines associated with our significant inventory rebuild in the first half of last fiscal year, particularly for brands such as Jack Daniel's Tennessee Whiskey, Jack Daniel's Tennessee Honey, Herradura and Woodford Reserve.

Jack Daniel's Tennessee Apple grew organic net sales more than 50%, led by a strong launch in South Korea. We're also better able to meet consumer demand, particularly in markets such as Brazil and Chile, a supply chain and logistic challenges eased. New Mix was the second largest contributor to the company's organic net sales growth increasing 22% and as the brand continues to gain value share in the RTD category in Mexico.

In Glenglassaugh, a fabulous brand, we haven't had yet much opportunity to discuss. We've primarily talked about this brand as part of the trio of Single Malt scotches that we acquired back in 2016, along with BenRiach and GlenDronach. Glenglassaugh was the smallest of the Single Malt Scotch brands we purchased. And while we've always believed in the strong future for the brand, there just hasn't been enough supply to be material to our results as it takes a decade or more for these products to mature.

Through the brand's old and rare program, we have discovered that while Glenglassaugh may be smaller relative to our other single malt brands, the value of its casks are mighty. We recently sold a single Glenglassaugh cask from 1967 that was one of the largest cask sales in terms of rarity, volume and value in the history of the Scotch Whisky industry. Cask sales from Glenglassaugh in the first half of fiscal '24 helped place the brand as the third largest contributor to the company's organic net sales growth.

In addition the brand has recently been relaunched with its first-ever 12-year-old expression, new packaging and new creative assets and having just returned from a trip to Scotland, I can personally attest to the fabulous liquid and the strong growth potential of this wonderful coastal single malt.

In addition to Glenglassaugh, we continue to increase our supply of all of our Single Malt Scotch brands and believe these brands will be critical contributors to Brown-Forman's next generation of growth. Our Single Malt Scotch portfolio is one example of our portfolio shaping efforts over the last decade to increase focus on premium and super premium brands. Last year, of course, we acquired our newest brands, Gin Mare and Diplomatico. I'm very pleased with the integration of these brands as they contributed 2 percentage points of growth to our reported net sales in the first half of fiscal '24.

Our portfolio evolution has also required us at times to say goodbye to brands. It's always a highly deliberate and thoughtful decision when we decide to sell a brand, and we do so only when we feel it aligns with our strategic ambitions and portfolio priorities. This was the case with both Finlandia Vodka and Sonoma-Cutrer, our 2 most recently announced divestitures. The sale of Finlandia Vodka to Coca-Cola HBC AG was completed on November 1, 2023. And the recently announced decision to sell Sonoma-Cutrer to the Duckhorn portfolio and take an equity ownership position in the company reflects our commitment to long-term value creation.

We believe our equity ownership stake in the Duckhorn portfolio will be a value-generating relationship for Brown-Forman and offers the benefit of allowing us the opportunity to continue to participate in the premium and ultra-premium wine category. We continue to believe in the strength of the Sonoma-Cutrer brand and its future growth opportunities in the hands of the Duckhorn portfolio with their expertise, combined with our strong and diverse route to market, we have great confidence that Sonoma-Cutrer will continue to grow and on an accelerated trajectory.

In addition to acquisitions and divestitures, we've also focused significant effort on premium innovations. We recently released the third member of the Jack Daniel's Bonded series, Jack Daniel's Bonded Rye, building on the success of the Jack Daniel's Bonded Tennessee Whiskey and Jack Daniel's Triple Mash. And it was just a year ago that we launched the iconic Jack & Coke cocktail as a branded ready-to-drink adult beverage in Mexico. Since then, we've expanded Jack & Coke into 13 markets, including Germany, which just launched in September. Overall, we're pleased with the initial launches and are excited about the brand visibility and market share gains.

For example, in the U.S. the Jack Daniel's and Coca-Cola RTD is now a top 10 spirit-based ready-to-drink brand and the #1 whiskey-based RTD in Nielsen. In the Spirit business, a global industry trade publication, just named Jack Daniel's and Coca-Cola as the big product in 2023.

The positive feedback from distributors, retail and most importantly, consumers continues to benefit not only the Jack Daniel's and Coca-Cola RTD, but also the perception for Jack Daniel's Tennessee Whiskey as noted in consumer research. We continue to expect that planned organic net sales declines in the Jack Daniel's and Cola RTD will partially offset the growth of the Jack Daniel's and Coca-Cola RTD as we continue its transition. We believe this premiumization provides us with the greatest opportunity for long-term growth and value creation.

Before turning the call over to Leanne, I'd also like to add some additional perspective on our gross margin and operating expenses. In the first half of fiscal 2024, our reported and organic gross profit increased 7%, both ahead of the respective top line growth rates. We continue to focus on the execution of our long-term pricing strategy and believe we're in a strong position given the strength and relevance of our brands and our continued brand-building investments.

We're also benefiting from the absence of costs related to the supply chain mitigation. As you'll recall, this time last year, we incurred increased transportation and logistics costs in order to satisfy the demand from our distributors and retailers ahead of the important holiday season. Collectively, we have tailwinds of favorable price mix, the absence of supply chain disruption related costs and lower tariff-related costs due to the removal of the U.K. tariffs on American whiskey, which more than offset the headwinds of higher input costs and the negative effect of foreign exchange. This resulted in 280 basis points of gross margin expansion in the first half.

As expected, operating expenses moderated in the second quarter is the phasing of our brand building investments was significantly skewed to the first few months of our fiscal year to support the launch of the Jack Daniel's and Coca-Cola RTD as well as increased investments for Jack Daniel's Tennessee Whiskey. This resulted in organic advertising expense growth of 12% in the first half of fiscal '24. And while also moderating in the second quarter, organic SG&A investments increased 9% for the first half as we continue to invest behind our people driven primarily by higher compensation and benefit expenses.

Since I mentioned the removal of the tariffs on American whiskey, I will share the latest update on the EU tariffs. When the EU tariffs were removed a year ago, a final agreement still needed to be reached concerning steel and aluminum prior to November 1, 2023, or the retaliatory tariffs on American whiskey would return. In mid-October, the U.S. and EU announced they will continue negotiating for 2 more months. Importantly, the American whiskey tariffs are not expected to return while negotiations are ongoing.

Brown-Forman continues to work with governments on both sides of the Atlantic, advocating for a solution that brings long-term stability to the U.S. and EU trade relationship. We believe that all parties are seeking a solution that neither party wishes to see the return of these tariffs. We hope that as the deadline for an agreement approaches, the U.S. and EU governments will find a solution that enables the long-term health of the global spirits industry.

In summary, we believe we're off to a good start in fiscal '24, continuing to grow on the exceptionally high same prior year period base even as consumer demand normalizes. I hope these results illustrate how our business has remained resilient through very dynamic operating conditions as we continue to focus on our long-term strategic ambitions. We believe we will continue to benefit from our long-term pricing and revenue growth management strategies as well as a more normalized cost environment.

Our brands and our business continue to grow because the people at Brown-Forman, I would like to thank them for their continuous efforts and commitment to ensuring that there's nothing better in the market than Brown-Forman.

With that, I'll turn the call over to Leanne and she will provide more details on our first half results.

Leanne Cunningham

Thank you, Lawson, and good morning, everyone. I will provide additional details on our geographic performance, other financial highlights as well as our updated fiscal 2024 outlook. From a geographic perspective, our emerging international markets continue to lead the company's growth, collectively delivering very strong double-digit organic net sales growth, driven by Jack Daniel's Tennessee Whiskey particularly in Turkey as momentum in the premium whiskey category continued. The United Arab Emirates due to increased distribution and strong consumer demand and Poland, which is benefiting from our pricing strategy.

New mix, which grew strong double digits in Mexico is benefiting from our pricing strategy and gaining share of the RTD category and Jack Daniel's Tennessee Apple, led by Brazil as well as Chile, where the brand is returning to normal levels of supply.

Also during the quarter, we launched our own distribution in Slovakia. Slovakia has a substantial premium whiskey market, where American whiskey is the value leader of the category. This makes it an important market as we drive the global growth of the Jack Daniel's family of brands and bring our broader portfolio to the market, in particular, our recently acquired Diplomatico Rum. As we have demonstrated with our previous route-to-consumer investments, we believe own distribution provides us with increased consumer insights, focus on our broader portfolio and a greater portion of the value chain.

Organic net sales in the Travel Retail channel were flat in the first half as the channel lapped 67% growth in the year ago period. Strong double-digit growth of our super premium American whiskeys such as Woodford Reserve, our exclusive Global Travel Retail offering, Jack Daniel's American Single Malt and Jack Daniel's Single Barrel were offset by declines in Jack Daniel's Tennessee Whiskey and Jack Daniel's Tennessee Honey.

Organic net sales in our developed international markets collectively were down 2% for the first half as growth in Singapore, Germany and South Korea were offset by declines in Japan and the United Kingdom. Jack Daniel's Tennessee Apple was again the largest contributor to growth, driven by the continuing successful launch of the brand in South Korea.

Glenglassaugh, as Lawson highlighted earlier, drove the growth in Singapore. El Jimador was the next largest contributor. This performance supports our belief that el Jimador has the ability to create and grow the premium tequila category outside of the U.S. and

Mexico. This growth was more than offset by year-over-year declines for Jack Daniel's Tennessee Whiskey, which was negatively impacted by Japan due to an estimated net decrease in distributor inventory. As an update on our transition to own distribution in Japan, we are pleased to announce that we recently opened our new office and are on track for the launch on April 1 of this fiscal year.

Turning to the United States. Organic net sales decreased 5% as a result of lower volumes due to an estimated net decrease in distributor inventories of 6%, partially offset by higher prices across much of our portfolio. As Lawson highlighted, in the first half, we cycled against the significant inventory rebuild during the same period last year. This was particularly impactful to the U.S. market, where we saw a 7% contribution to organic net sales growth in the prior year period from an estimated net increase in distributor inventories. As we lap this inventory rebuild, we believe that distributor inventories are at normal levels.

From a takeaway perspective, trends for total distilled spirits as well as Brown-Forman continued to normalize with the recent value growth below the historical mid-single-digit range as consumer demand has slowed. Growth continues to be driven by RTDs, U.S. whiskey and tequila, which aligns well with our portfolio.

We expect our portfolio to continue to benefit from consumer premiumization as the launch of the Jack Daniel's and Coca-Cola RTD and demand for our super premium Jack Daniel's products partially offset the volume declines. The Jack & Coke RTD continues to grow, gain share and bring recognition to the entire Jack Daniel's Family of Brands and the newest member of the Jack Daniel's Bonded series, Jack Daniel's Bonded Rye along with Jack Daniel's Sinatra and our specialty launches such as Jack Daniel's Single Barrel Rye Barrel Proof are delivering strong growth. Not only do these innovations premiumize the Jack Daniel's Family of Brands. They elevate our whiskey credentials, provide a halo for the rest of the family and gives consumers the opportunity to explore and discover within the Jack Daniel's Family.

As Lawson has shared the details of our gross margin expansion and operating expenses for the first half, I will now turn to our operating income. In total, reported and organic operating income increased by 1% in the first half of fiscal 2024, largely driven by our gross profit growth, partially offset by the phasing of our operating expenses. These results, along with the benefit of a lower effective tax rate were more than offset by an increase in interest expense, resulting in a 1% diluted earnings per share decrease to $0.98 per share.

Before moving to our outlook, I'd like to take the opportunity to provide you with an update on our recently announced share repurchase program. As we announced on October 2, 2023, the Brown-Forman Board of Directors authorized the repurchase of up to $400 million of our outstanding shares of Class A and Class B common stock from October 2, 2023 through October 1, 2024. As of November 30, 2023, we have completed over half of the program.

Our Board of Directors also recently approved a 6% increase, quarterly cash dividend, marking the 40th consecutive year of an increase to the regular dividend. Brown-Forman continues to be a member of the prestigious S&P 500 Dividend Aristocrats Index and has paid regular quarterly cash dividends for 80 consecutive years.

We remain appropriately attentive to today's uncertain market conditions while also confident in the long-term potential of our portfolio of brands. Our capital allocation philosophy has allowed us to maintain a healthy balance sheet and has produced superior returns over the long term. We continue to believe that our capital allocation philosophy, coupled with our strategic ambitions will deliver strong results for our investors.

Turning now to our revised fiscal 2024 outlook. And what has been a highly volatile and dynamic operating environment, we continue to be optimistic and believe global trends are normalizing after 2 years of very strong growth. We expect to continue to grow on this elevated base due to the contributions from our long-term pricing and revenue growth management strategies as well as the addition of 2 super premium brands, Gin Mare and Diplomatico to our portfolio.

As a reminder, we completed the Gin Mare and Diplomatico acquisitions in the third quarter of fiscal 2023. Therefore, the contributions of these brands will be included in our organic results going forward.

As we mentioned last quarter, we remain cautious due to the current macroeconomic volatility and the potential impact of inflation on consumer spending. Despite a moderating inflationary environment, complex global economic conditions remain, which is creating mixed consumer and channel dynamics and creating a more challenging operating environment. We maintain our belief that the collective strength of our U.S. and international markets, along with the Travel Retail channel will deliver growth in fiscal 2024, though have tempered our expectations due to slower-than-anticipated growth through the first half of the fiscal year, particularly in the United States and Mexico due to recent changes in trends in the whiskey and tequila categories. With this, we now expect our organic net sales growth for fiscal 2024 to be in the 3% to 5% range.

Today, we have highlighted the impact on our results from the strong shipments in the year ago period, related to the rebuilding of distributor inventories as supply chain disruption eased. As we have shared in previous calls, I would like to remind you again of the stronger shipments associated with the launch of Jack Daniel's and Coca-Cola RTD in the United States in the back half of fiscal 2023 that will be lapped in the second half of fiscal 2024. This is reflected in our guidance.

We believe inflation will continue to negatively affect input cost even with the favorable agave pricing trend. As we mentioned last quarter, while we are very encouraged that agave prices are finally on a downward trajectory, the benefits to our cost of goods sold will not be immediate. Additionally, we believe higher input costs will be partially offset by lower year-over-year cost due to the absence of the supply chain disruption we incurred in fiscal 2023.

Our outlook for the full year operating expenses continue to reflect a normalization of incremental advertising spend, aligned with our long-term philosophy for advertising spend to be in line with our top line growth. Also, our expectation is that SG&A growth will remain higher than historical averages as we continue to expect higher compensation-related expenses and expenses related to the transition to own distribution in Japan.

Based on these expectations, we anticipate organic operating income growth in the 4% to 6% range for the fiscal year. We also continue to expect our fiscal 2024 effective tax rate to be in the range of approximately 21% to 23%. And our capital expenditures to be in the range of $250 million to $270 million for the full year.

Before wrapping up, I would like to add a few additional details regarding the sale of the Finlandia brand. As is customary, divestitures are subject to a closing process where the sale price is adjusted for inventory and other working capital items. Based on the adjusted sales price at closing, the value of the net assets held for sale as well as the absence of Finlandia's operating income in the second half of fiscal 2024, we expect the transaction will be accretive to our fiscal year 2024 diluted earnings per share by an estimated $0.12 per share.

In summary, we have now lapped a historically high first half reported and organic net sales growth rates, while adjusting to more normalized levels of consumer demand and we continue to deliver both organic net sales and operating income growth. As we look towards the second half of fiscal 2024, we will begin to compare against a more normalized environment. We believe we will benefit from the strength of our strong portfolio of brands, the benefit of our portfolio evolution efforts with the addition of Gin Mare and Diplomatico, our pricing strategy, our gross margin recovery and the phasing of our brand investments.

Over the last few years, we have faced significant disruptions and challenges. We believe we have now moved beyond the most difficult comparisons of our fiscal year and remain focused on executing our strategy and 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 Peter Grom with UBS.

Peter Grom
So obviously, a tougher first half given the inventory dynamic. And I recognize if you back that out, organic would have been relatively solid in the first half. But to kind of hit the low end of the range, it does imply a return to kind of mid-single-digit growth in the back half of the year. So can you maybe just walk us through the confidence in the outlook at this stage? Should we expect growth to be more at the low end rather than the high end? And just – any thoughts on phasing as we look out to the back half of the year? Maybe specifically, obviously, I'm not – it might be hard to guess, but is there any kind of shipment dynamic if that's kind of occurring as we kind of work through this EU tariff situation?

Leanne Cunningham

Thanks, Peter. I'll start with that. Our guidance does imply that we're going to have sequential improvement in the second half. And as we shared in our Q1 call, we continue to remain cautious with changes in trends such as the impact of inflation on consumer spending and the current macroeconomic volatility and as you heard in our prepared remarks, we do expect kind of all of our markets and channels to continue to grow, but it's about the tempering of our expectations.

And when we were specific to the United States, when we were on our call, in our first quarter, we were looking at U.S. 3-month value growth trends for TDS with acceleration and trends kind of in that mid-single digits. And the environment that we're in today has – we've had a change or a shift in trends where we're looking at TDS decelerating in low single digits. So that's been included as we look out. But the drivers that we see for our acceleration is that you can see on Slide 5, we've now lapped and are growing on top of just a really exceptionally high first half of last year, which was a plus 17%. So like we said in our prepared remarks, that average is 8%.

And one thing we've also talked about is we did launch Jack Daniel's and Coca-Cola in the second half of last year, and we will have to comp that as we go through the fourth quarter of this year. But again, generally speaking, the back half of the year, our – we have significantly easier comps in the back half. And we continue to believe that we're going to be able to benefit from our long-term pricing strategy. We're really leaning on our revenue growth management strategies. We'll talk about that probably in a bit.

What else is going to drive our acceleration is that Gin Mare and Diplomatico, our recent super ultra-premium acquisitions are going to come into our organic results in the back half of the year which will help us. And we continue to see that our cost trends are heading in the right direction, and we're on a path to gross margin recovery, which is going to continue to help deliver some of that acceleration in the second half as well as you heard us say in the first quarter call as well as this quarter, in the support of the launch of Jack Daniel's and Coca-Cola in the U.S., we just had a lot of operating expenses loaded into the first quarter of this year. We saw a moderation in the second quarter, and we're going to continue to see that moderation as we go through the rest of this year.

So those are kind of the components that are built into our outlook.

Lawson Whiting

And you talked about tariffs real quick at the end of that, just a brief thing on that. First, and I assume what you meant was have we been shipping incremental cases into Europe ahead of the potential for these tariffs, and we have not. We have not largely, because we don't believe that they are going to come through in the real near future. For those that are not as close to this whole situation, we continue to work with both sides of the Atlantic. We said that on the prepared remarks a little bit. There have been some rumblings lately that these tariffs could come back around.

Look, we're smarter about this than we were 4 or 5 years ago when it first came out. We've got a lot of mitigation scenarios that we know what to do. But at this point, as long as the both sides are at the table, which they are right now, we do not expect this to come around, and I think our pretty strong belief is that this will be kicked down – they'll kick the can down the road for at least a couple of years until some of these tariff conversations can get resolved.

Peter Grom

Got it. So basically, even if we get to this deadline, you're kind of more on the view that this could still be kicked down the road, negotiations could continue. So it's not like a month from now, just automatically goes back in is kind of your view?

Lawson Whiting

Correct.

Operator

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

Vivien Azer

Hoping to follow up on your commentary around more cautious outlook on the U.S. also, maybe you can just unpack it a little bit. Are we more concerned around price elasticities? Is this more tempered outlook, a function of more down-trading than you were anticipating? Or is there something kind of more structural in terms of per capital consumption within spirits?

Lawson Whiting

Oh, no. It's definitely not the last. Look, I think it is simply a – the consumer has weakened a bit over the last 3, 4, 5 months, that's kind of what's changed since where we would have been last quarter. As Leanne went through it, I mean, if you just look at TDS, which as you know, has been running at 4% to 5% for 20 years or something like that, certainly stepped up over the COVID, which I know some of you called it a super cycle. Went up quite a bit over those years. And it's come back down. And I would have said most of 2023 – calendar 2023, we were in that mid-single-digit range, and then it really fell off over the last, as I say, 3 or 4 months. And so I think there's just been a bit of weakness in consumer confidence that has hit the entire market and brought the number down a little bit, but it's still growing, I should say, too. It's still at a sort of plus 2% range. And so it just made us get a little bit more cautious on the outlook for the U.S.

Vivien Azer

And just as a quick follow-up. You guys noted the inclusion of Gin Mare and Diplomatico, those are quite high-end offerings. So how are you kind of thinking about the contribution to organic growth from those 2 brands? Is your outlook a little bit more restrained on that, too, given concerns around the consumer?

Leanne Cunningham

Well, where we see kind of really strong growth for Gin Mare and Diplomatico, globally, yes, but these brands are really large in our European markets where we align well with the investments we've made in our route to consumer. So we believe with those brands in our hands in those markets and the performance that we're seeing in those markets. we do see consumers in Europe, I mean, they're optimizing their spend, but they're still looking for experiences and everyday affordable luxuries. And so we see a path to growth for those brands. And again, in our reported results, they've contributed 2 points of growth for year-to-date from – and we expect that momentum to continue as we go into the back half of this year.

Operator

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

Filippo Falorni

I had a question on the – your comment on distributor inventories. I know you cycled the rebuild in the first half. And you also mentioned that they're now on a normal level. Given the weakness that we're seeing at the consumption level, which you alluded to, is there a risk that you're going to see more of a normalization further below this current level? Many of your spirits peers have talked about more of a normalization of distributor inventory. So I'll be curious on your perspective there.

Leanne Cunningham

Okay. Great. Yes. We believe that kind of like we stated in our prepared remarks, in general, that distributor and retailer inventories have normalized. The impact of that estimated net change in distributor inventories for us is largely related to that year-over-year comparison. And if you take a look at Schedule D, which – or B, I'm sorry, which is in our earnings release, and you kind of look at the shipments and depletions for our full strength portfolio, you'll see that they are – the shipments and depletions are largely aligned. And we've talked about – we've lapped supply chain challenges, our inventories returning to normal. So really, what we see going forward is going to be related to consumer demand.

One small note is that our recent acquisitions of Gin Mare and Diplomático aren't yet reflected in the schedule and we'll be adding those in the next quarter? And maybe just to kind of dig in a little bit deeper, the U.S., we believe they're back to normal. This time last year in Europe, we were – and really in October was the big month where we were airfreighting cases into Europe. So we had products available. So we were still rebuilding inventory. Again, in Q2 of this year, we have really the largest impact of the absence of those supply chain disruption costs, but we believe they're back to normal as well.

And then in our largest markets in Latin America, Brazil, our business is strong and our inventories are at normal levels and Mexico as well. For both Brazil and Mexico, we own our route to consumer. So we have visibility through there. And then we purchased retail inventory data that continues to let us see further through the chain. So Brazil, we feel like our levels are normal. And in Mexico, yes, with the really recent change in trend, we're adjusting accordingly. And all that's still built into our guidance.

Filippo Falorni

Great. That's very helpful. And then a quick follow-up. On your tequila business, obviously, we're coming off a cycle of a very high inflation in agave cost, which is now turning the other way. How do you assess the potential risk of more price competition in the category, particularly given we're seeing also a slowdown in consumption levels?

Lawson Whiting

Yes. So look, tequila has been on a pretty unbelievable run actually over the last few years as particularly, I'll say, that 22-, 24-year-old up into their 30s, really have adopted tequila as sort of their drink of choice and it's done really, really well, particularly at that super-premium, ultra-premium price points which is where Herradura plays – — ***indiscernible*** — is going to be a little bit less than that, but still a solid, well-positioned brand across both Mexico, the U.S. and — ***indiscernible*** — case, increasingly in some other markets around the world.

So now to your question about what's going to happen with pricing in the category. Look, I think and hope that the people that are playing in that ultra-premium price point for tequila are the big players, who all have suffered through a period of time when agave costs were so high and hurt everyone's margins that would have been playing in that, that it's time now to reach some of those benefits of the better margins.

So I don't expect that we're going to see significant changes in promotional pricing, and I haven't seen it yet in any kind of material way. But we'll have to see what happens over the next 6, 12 months. But I know at least from Brown-Forman's perspective, we are not planning to get more aggressive in that category. We want to be able to stay as an ultra-premium brand.

Operator

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

Nadine Sarwat

Earlier, you called out seeing low single-digit net sales growth for the U.S. spirits market overall. Are you anticipating getting back to that long-term mid-single-digit growth rate that we saw in the U.S? And if so, over what time horizon, are your expectations sort of that coming back in the next few quarters? Or is this well over a year into the future?

And then just a slightly shorter-term question. Any color that you could add on what you're seeing in the last month in U.S. Spirits and Global Spirits since the end of the quarter. Any changes to the trends that you've reported today? Or is it largely in line?

Lawson Whiting

Well, look, those are pretty short time frames there. I mean I think forecasting where the U.S. market is going to go, as I said, it's in that sort of low single-digit range right now. I just talked a minute ago about it being in the 4 to 5 for years and years and years with the exception of the COVID boom. Look, I don't know how to predict when it's going to come back. Certainly, if we look at past cycles, the only time that TDS has really materially weakened in the last 20 years was after the financial crisis, so sort of 2009 time frame. And it's snapped back really fast. I think all of us – those that have been in this business that long remember that because it surprised everyone and it came back. And I think it's a category. This is an amazing resilient category in the United States spirits. And I do not believe it's lost that factor.

So I do think it's just sort of a weakening right now, and then we're just going to have to see where consumer spending goes over the next 6 months, but hoping and believing we'll be back in that sort of mid-single-digit range and I'm guessing here, but we're talking 6 to 12 months or so.

And what was the second half of the question? I have to be honest with you, I haven't really – I haven't seen – I'm looking at the same data you are in terms of Nielsen and NAFTA. I haven't seen anything real recent there was any different. The step down was more in the August, September range, not even sure the numbers have updated to October yet.

Operator

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

Bryan Spillane

So first question, just Leanne, I might have missed this, but Finlandia just, is it the divestiture now included in the guidance? I think I kind of missed that towards the end of your prepared remarks. Just trying to understand how Finlandia impacts the guidance now versus the previous guide.

Leanne Cunningham

Right. Well, we guide on an organic basis, which would exclude that benefit, but that's why we also thought it was important to give to you all today, quantify that impact, because it does kind of fall outside of our organic outlook. So we wanted to make sure that you had that piece.

Bryan Spillane

Okay. And that's true for EBIT as well as revenue, right?

Leanne Cunningham

Yes.

Bryan Spillane

Okay. And then second is just Lawson as you talked about the U.S. a bit. I just travel retail in Mexico, I guess those are 2 other areas where we have fielded some questions just about potential slowing. So is there anything there we should have note – I guess, in terms of how you kind of moderated the full year outlook, aside from the U.S., those 2 or any other geographies, I guess, that might have factored into the more moderate growth expectation?

Lawson Whiting

Yes. Let me hit Well Global Travel Retail first. That one really is a factor of comps, because you can remember, this time last year, we were refilling that channel in a big, big way. And

I do expect that – I mean, just look, anyone who's been traveling anytime recently, the planes are absolutely jammed. And so I feel pretty good that, that business will return to sort of its historical rate very, very quickly. It's just got to get through this comping thing.

Mexico is a little bit different and a little confusing necessarily. I mean, if you look at our schedule. And I think the year-to-date sales was plus 9%, something like that. So Mexico is the second largest market in the world for Brown-Forman. And so it is an important market, and it has been growing pretty dynamically for us for a period of years. Now that's being led right now by New Mix, which is a great brand. It is absolutely enormous down in that country, and I think everyone knows that at this time.

But the rest of the business, which had been doing okay throughout this year, I think we're getting a little more cautious that the Mexican consumer is showing some weakness, too. And so we are expecting a little bit of a slowdown in the second half of the year in that market. But not falling off a cliff or anything like that either. It's just both tequila and whiskey have slowed down a little bit. And so we're expecting that to continue through the rest of the fiscal year.

Leanne Cunningham

Sorry, I was just – the only thing I was going to add on to that. As we said in our prepared remarks, GTR is comping at plus 67%. When you look at the 21st halves, the average of that were 29% and then one of the things that we would also add on Mexico is that while we're seeing kind of weakness in the whiskey and tequila categories, we're gaining share across that in our takeaway data. So – but again, it's what is talking about for our outlook, kind of a revision in our expectation and that's just kind of for that deceleration in the back half of the year.

Bryan Spillane

Yes. No, that makes sense. And Lawson, maybe I could just sneak one last one in just the Sonoma-Cutrer deal, which was creative, actually, a pretty good creative solution, I thought, in terms of finding a good home for it. And making it a transaction that is kind of attractive to both sides. So it was actually a really good I thought, creative solution to it. Just your thinking about portfolio more going forward? Is there – just how should we be thinking about acquisition divestiture? Is this just continuing on kind of the reshaping you've done? Or is there a chance we see it sort of move in either direction more meaningfully?

Lawson Whiting

Sure. So I mean, look, as we would have said literally 10 years ago that we were going to reshape our portfolio to focus on spirits, in particular, on super ultra premium spirits. And that is largely finished. We – you know all the different brands that we've sold over the last 5, 6, 7 years, and we've brought a lot of new things in. And so we have definitely premiumized the portfolio to a pretty big extent. The Sonoma-Cutrer one was slightly different, because that within the world of one, that is certainly a super-premium brand. But we were not – it was the only wine brand that we own fully on. I mean Korbel is still here. But the brand was sort of sitting by itself, which is not the most efficient way to operate it.

And the Duckhorn group are one, they're fully focused on super ultra premium wines. They're one of the sort of premier wine companies in America. And I just – it's one of those where we believe the value creation opportunity is better under their hands than ours. I hate to say that in some ways, but wine is really – it's their focus. It's what they do. It is the accounts that they call on are all very similar and Sonoma-Cutrer is a huge benefit to them, too, because it is so big, particularly in on-premise in the United States. And so we just thought it made more sense that way. And as you say, we're going to own a piece of that company now, and we'll share in the upside that hopefully comes in the relative near future.

Operator

Our next question comes from the line of Lauren Lieberman with Barclays.

Lauren Lieberman

I was curious if you could talk a little bit about Latin America, about Brazil, in particular, you already touched on Mexico. But in Brazil, which I know it was a smaller market for you. You definitely heard some of your peers out there talking about a more challenged environment. So wondering if you could talk a bit about that? And then probably much more importantly, the U.K. The U.K., just backing into, it looks like it was down pretty significantly this quarter. I know there's the Jack & Cola dynamics in there, but just any help and perspective on U.K., I guess I was just throwing Germany, too, but Western European, sorry, I mean France. I mean France, sorry. Those are the 2 that for me were tick a little weird. But just perspective on the consumer environment there or how much of this is more about Jack & Cola transition that's impacting the numbers right now?

Leanne Cunningham

Okay. Great. Thanks, Lauren. For Brazil, specifically, again, you can see in our year-to-date results, we've got high single-digit organic net sales growth. A lot of that is being driven by – and again, when you think about how we prioritized brands and geographies in supplying our products at co-supply chain constraints. Jack Daniel's flavor portfolio has a much improved supply or really a back to normal supply, and we are able to support the consumers case profile for our products of Honey and Apple and really the launch of Jack Daniel's Apple along with our geographic expansion strategy that we've had in that market for a while is continuing to gain market share. So the consumer takeaway is slowing a bit and we do see the competitive environment intensifying, but we continue to believe we're going to do strong business in Brazil.

So I'll move to U.K. and I think you've already said it, our business is strong there. What we’re seeing is this is really about the transition of our Jack & Cola business out of our results, because this will be a market where that is led by Coca-Cola with the Jack Daniel’s and Coke.

And then specifically to France, that continues to remain a challenging environment with declining consumer sentiment and inflation has been high. It is starting to impact the consumers there and their discretionary income spend. We are seeing a little bit of down trading in that market and maybe a little bit even of a switch to beer in that market while the consumer is going through this period of high inflation.

But again, as we look over the longer term and how we are thinking about how Diplomatico Rum will have a strong impact to that market over a period of time. We believe that – and as we continue to revise strategies there, we continue to believe France is going to be a contributor to growth over the mid to a longer term.

Lawson Whiting

A follow-up on the app Tennessee Apple question or comment. You saw that how it is doing a brilliant job in Brazil. It is doing a really good job in Korea, some sort of unusual markets that we would be talking about. But Jack Daniel’s Tennessee Apple was launched in the middle of COVID and was – as really all new products, during COVID was a really tough time to launch things and it didn’t meet anywhere near our expectations.

But now that we’re through a lot of that, the expectations on Apple are going up a lot. And I think it’s a great product. I mean, it’s just a taste alone. It’s excellent and appeals to a very wide palate, I think, on a global basis. And so you’ll hear more from us on Apple over the next quarters or years as we think that really has the potential to be a really nice, big addition to the Jack Daniel’s Family.

Lauren Lieberman

Okay. And sorry, just one more follow-up on the Jack & Cola piece on the U.K. Should we assume that there's a significant drag for the next like another 3 quarters till that's fully out of the base? As we…

Leanne Cunningham

As we're transitioning because that Jack & Cola business will be coming out of our results, so that we would need a full 12 months before we lap that.

Operator

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

Stephen Robert Powers

Great. Just one final question on the U.S., if I could. In terms of the lower growth expectations, are you able to talk a little bit about whether that's whiskey, that's tequila or other in your – from your mind? Or any color by kind of price to your product? Just trying to get a little color as to where you see within the portfolio, the most – the biggest step down relative to your prior views or if it's more widespread?

Leanne Cunningham

I think it is about lapping and growing on top of that really high impact of rebuilding the inventories in the year ago period. And then as we look at where we are year-to-date and understanding what acceleration can be and what it could potentially look like between here and the year ago period. So I think we would just say that and then Gin Mare and Diplomatico would be a smaller positive impact for the U.S. But again, we do think it will be a positive impact for the U.S. I mean, I think that's – it's just kind of generally where we are in the year to year ago period with what we've seen in the current trends of TDS.

And one of the things we've talked about is on this kind of path back to normalization and currently being kind of below that mid-single digit, we believe there's not going to be a linear path back to normalization. It will probably be a little bit up and down over a period of time, but we've factored in a little bit of that as well.

Lawson Whiting

I do think American whiskey and tequila are still the 2 strongest categories in the U.S. Spirits business, which is where the vast majority of our portfolio is. Now delta from where we were. I mean, I think we spread it out a little bit. I think both are – tequila is coming down off of sky-high numbers, where American whiskey was steady, high but not as high as tequila. So I guess the delta would be more on the tequila side of things.

I do want to point out to – I just want to reiterate one more time. Now for Jack Daniel's Tennessee Whiskey, so core Black Label. Now this is not a U.S. statement as it's global, but the brand was up last year, first half, plus 18% for a brand the size of Jack Daniel's Tennessee to be at plus 18% is an enormous amount of volume movement.

Now to be down 2% over the first half of this year, while we don't love that, the 2-year average is still 8%. And so I don't – I want to make sure people don't take away from this that the brand is somehow not healthy or anything down that path. The brand has had a not only the last 2 halves, but even over the last 5 years, Tennessee Whiskey has continued to be a really strong supporter and continues to be the single biggest source of growth for Brown-Forman and will be for the foreseeable future.

Leanne Cunningham

And then one last thing I'll add on specifically about the U.S. As we talk about understanding what our opportunity, our long-term opportunity is with Jack Daniel's and Coca-Cola, we know it's now a top 10 spirit-based ready-to-drink brand, it's the #1 whiskey-based RTD in Nielsen. It's got over 2% of the category share, and it's really getting great accolades like we talked about in our prepared remarks is named one of Jack Daniel's and Coca-Cola as the best new product in 2023 from the spirits business. So again, we think this product is still fairly new in the market, but the accolades are supporting what we believe will be that future growth.

Stephen Robert Powers

Yes. That's helpful. So just playing it back. It sounds like the revised expectations are fairly broad-based. But just given the large numbers that were embedded in tequila growth to begin with, but more of the step down is showing up in that category. Is that fair?

Lawson Whiting

Correct. Yes.

Operator

Our next question comes from the line of Robert Ottenstein with Evercore.

Robert Ottenstein

Two questions. First, I think in prior calls, you had talked about going to kind of a 2% to 3% or 3% price increase in the U.S. and trying to do that on a steady basis. Is that under review or at risk now given the weakness in the market? So that would be the first question.

And then the second question is more on your distributors and route to market in the U.S. and whether you're getting the kind of execution that you expect doing a lot of channel checks, talking to a lot of people. A lot of the spirits, the wine spirits distributors have gotten very big, some of them are taking on beer, doing other things. And I am hearing more complaints about the execution in the U.S. market and people trying to figure out what they're going to do and deal with that. So I was just wondering if that's an issue that you're looking at?

Lawson Whiting

I'm laughing people complaining about U.S. distributors. Look, the pricing question first.

Look, we still believe and see solid consumer demand. And so we are not planning on really changing that pricing strategy. We have – we've been doing it now for 2, 2.5 years, where we like in the U.S., it's been that 2% to 3% range. It's actually been higher in other parts of the world. And it has a lot to do with why our gross margin has expanded so much over the last, say, 6 months.

And so we love that and still see a lot of really good pricing opportunities. So it's that low – very casual, low and slow where we believe in that over the long term is the way to go. We did not do – like some of our competitors took huge increases back when supplies chains were very constrained and all that and go to double digits. And that is a risky strategy, I think, in our industry and not one that we're going to pursue, but we are going to continue with the sort of low single-digit range, and I see that continuing for the foreseeable future.

Now back to the U.S. distributors. I mean, we are – we – certainly, there's been a lot of consolidation in that space over the last decade or really 2 decades. We're very comfortable with where we are. They're doing a good job for us. We're, in many cases, the largest supplier in many, particularly in the RNDC markets. And so we get our fair share of attention and feel good about that. And these are great partners that we have and we need and have good relationships with. So I don't really see any significant changes happening there in the near future.

Operator

Thank you. Ladies and gentlemen, due to the interest of time, I would now like to turn the call back over to Sue 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 Second Quarter and First Half of Fiscal Year 2024 Earnings Call.

If you have any additional questions, please contact us.

I would like to note that yesterday, December 5 was the 90th anniversary of Repeal Day, which is the end of prohibition in the United States. And if that isn't enough reason to cheer, 90 years ago today, Brown-Forman became a publicly traded company. So I hope you will join us in celebrating responsibly, of course, these 2 milestones as well as the holiday season ahead of us, cheers to everyone and happy holidays.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.