Brown-Forman Corporation, Q4 2021, Earnings Call 2021-06-08

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Brown-Forman Corporation Fourth Quarter 2021 Earnings Conference 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, Sue Perram, Director, Investor Relations. Please go ahead.

Susanne Perram

Thank you, and good morning, everyone. I would like to thank each of you for joining us today for Brown-Forman's Fourth Quarter and Fiscal 2021 Earnings Call. Joining me today are Lawson Whiting, President and Chief Executive Officer; Jane Morreau, Executive Vice President and Chief Financial Officer; and Leanne Cunningham, Senior Vice President, Shareholder Relations Officer, Commercial Finance and Financial Planning and Analysis.

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 undertakes no obligation to update any of these statements, whether due to new information, future events or otherwise.

This morning, we issued a press release containing our results for the fourth quarter and fiscal year 2021 in addition to posting presentation materials that Lawson and Jane will walk through momentarily. Both the release and the presentation can be found on our website under the section titled Investors, Events & Presentations.

In the press release, we have listed a number of the risk factors 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 reasons management believes they provide useful information to investors regarding the company's financial conditions and results of operations are contained in the press release and investor presentation.

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

Lawson Whiting

Thank you, Sue, and good morning, everyone. I'm pleased to be here today to share a few remarks regarding our results this year. It's a bit hard to believe, but given that our fiscal year-end is April 30, we're at the stage in our COVID-19 journey where our results include a full year of living and working and building brands amid a global pandemic. This year showed us that we have an agile organization, a resilient business and a caring team that is emerging stronger and better from challenging times.

Our long-term values, our strategic priorities and our core purpose of enriching life have been our guide and they have served us well. I'm proud of how our team responded in this environment to deliver the level of results that we're able to share with you today. In fact, if you were to look solely at the financial reports we released today, you may or may not fully appreciate the magnitude of what we accomplished.

In a year unlike any other, we delivered top line growth of plus 6%, which is consistent with our long-term performance. Yet this year was anything but consistent and conditions were anything but normal. The pandemic created unprecedented market conditions and perhaps surprisingly, in many of our largest markets, really strong performance. At the same time, these results would not have been possible without the resilience, creativity, agility and determination of our employees around the world.

So before moving on, I do want to thank each and every one of our employees for their continued focus over these past 12 months and for all they have done and continue to do to rise to the challenge, reimagine the future, take care of each other and move the business forward. I'm immensely proud of what we were able to accomplish, and I hope you are too.

So in fiscal '21, we focused on the core elements of our strategy to deliver results. We were strengthened by the quality of our brand portfolio, our geographic diversification and the strength of our balance sheet. I'll share a few examples. First, we continued our ongoing efforts to reshape our portfolio by focusing on premium products and driving innovation in key categories such as American whiskey, tequilas and RTDs. Last fiscal, this included the sale of Canadian Mist, Early Times and Collingwood. It also included the acquisition of Part Time Rangers, a regional RTD brand in New Zealand and Australia.

We also placed strong focus on our existing RTD brands, including Jack Daniel's RTDs and New Mix. Together, they surpassed 20 million cases. And we continue to place energy and emphasis on our Jack Daniel's flavors, which has resulted in really strong growth, with Jack Daniel's Apple alone surpassing 500,000 cases in adjusted second year, and Jack Daniel's Tennessee Honey eclipsed the 2 million case mark and really has become a solid growth driver for the company.

Geographically, we established our own distribution organizations in the U.K. and Thailand, allowing us increased control over our brand-building efforts in these markets. And we've also initiated plans to create own distribution organizations in Russia, in Belgium and Taiwan.

From an organizational and people perspective, at the beginning of the year, we really redeployed portions of our workforce in response to the shifts in our business due to the pandemic. We're investing in teams in Europe that are going to focus on emerging brands. This is really an effort to accelerate our growth rate in brands such as Gentleman Jack, Woodford Reserve, our Single Malt Scotches and Slane Irish Whiskey.

And recently, we announced the launch of our integrated marketing communications organization or something we call IMC. And by investing in IMC, we believe we can improve how we connect with consumers, grow our e-commerce capabilities, fully optimize our brand assets and leverage our data more effectively. We're confident IMC will be a growth driver for our organization in the years to come as the physical and digital worlds continue to merge.

Finally, we continue to invest beyond our business in both capital and brand expense to continue growing our leading brands for the long term. Integrated within our strategic priorities are our environmental, social and governance or ESG commitments, including our focus on responsible consumption and marketing, diversity and inclusion, the communities in which our employees live and work and environmental sustainability. We believe our long-term success is tied intrinsically with our ability to lead in each of these areas. So as such, over the past year, we made considerable progress against all aspects of ESG.

From an environmental standpoint, we established ambitious new sustainability commitments with a focus on climate action, water stewardship, the circular economy and our supply chain. Given the important role business has to play and the importance of these issues to our business, we had to draw a line in the sand, so we now have compelling, meaningful, quantitative goals that we will hold ourselves accountable.

And very importantly, from a social perspective, we committed to be better and do better by building a more diverse, inclusive and equitable company and community. Internally, this includes 10 new actions from the executive leadership team to drive increased accountability and improved representation and development of people of color. For the first time ever, we tied 10% of the executive leadership team's fiscal '21 short-term cash incentive compensation to our D&I goals. And we continue to make progress against the initiatives set forth in our 10-year D&I strategy, Many Spirits, One Brown-Forman. Our 10 employee resource groups and their many leaders, members and allies are critical to our work. I'm reminded of this once again as we are in the midst of Pride Month here, embracing LGBTQ+ diversity and raising our own awareness around equality and the allyship.

Finally, from a governance perspective, I recognize that we're a bit unique, given that we are family-controlled. However, we believe strongly that our governance system gives us a distinct competitive advantage by allowing us to consider longer-term time horizons and make decisions that will benefit our brands, our shareholders and our organization for generations to come.

As you know, in January, we announced that our Board Chair, George Garvin Brown IV will retire in July and hand over leadership of our Board of Directors to Campbell Brown, the 10th Brown family member and second fifth-generation family member to serve in this role. I want to take this opportunity to once again thank Garvin, whose leadership has been steadfast not only during the last year but through his 14 years as Board Chair. It's been a pleasure working alongside you.

And as I begin to wrap up, I would be remiss if I didn't address tariffs, which continued to have a huge impact on our performance this past year and in fact, over the last 3 years. As you know, the U.S. and EU announced an agreement in mid-May to suspend the planned doubling of tariffs to 50% on American whiskey on June 1. We, of course, were pleased with that development and continue to be encouraged about the possibility of the full removal of tariffs on American whiskey.

But in the meantime, American whiskey still faces an unlevel playing field and remains subject to 25% retaliatory tariffs. We hope that the U.S., the U.K. and the EU governments can work quickly to address the trade issues affecting American whiskey and potentially threatening other spirits categories too, and please remove all spirits tariffs before the EU tariff escalation pause expires at the end of November.

Our organization has adjusted to an evolving world. We understand how to manage change and volatility and thrive. Today's results are evidence of our collective and continued success and our ability to care for each other, our communities, our environment and our business.

Finally, before I turn things over to Jane, I wanted to take this opportunity to recognize her in her 30-year career at Brown-Forman. Jane has been a valued partner of mine since we first had cubicles near each other back in 1997. In fact, we've worked together throughout most of our time at Brown-Forman as we each steadily progressed into new and expanded roles. I don't think it's an exaggeration to say that Jane has had one of the most successful careers of any executive at Brown-Forman.

Most recently, she spearheaded innovative capital investment strategies, resource allocation models and business transformation efforts that have been instrumental to achieving our ambitions. She's also been instrumental in advancing our D&I initiatives and conversations, particularly over the last year. She is a true ally. I appreciate the impact she's had not only on the business results and our culture but on the many people at Brown-

Forman that she has mentored and developed over the years. Jane, on behalf of our entire organization, I want to simply say thank you.

With that, I'll turn the call over, and Jane will walk us through our fourth quarter and fiscal year 2021 results.

Jane Morreau

Thank you, Lawson, for the kind words. It's truly been an honor and privilege to be able to be a part of this company for the past 30 years. And I know you and your leadership at Brown-Forman and the team globally will take this company to new levels in the years to come.

Good morning, everyone. As Lawson said, when we look at fiscal 2021, we are very pleased with our strong top line growth, consistent with our long-term trends despite the many challenges presented by the global pandemic. We believe these results reflect the agility and resilience of our people and the strength of our brands, allowing us to deliver mid-single-digit underlying top line growth for the year and an increase over our fiscal 2019, our last full year of performance without COVID-19.

As expected, we experienced an acceleration in our top line growth in our fourth quarter as we cycled the initial impact of COVID-19 and benefited from improving levels of consumer confidence in many markets around the world as vaccinations increased and lockdowns and restrictions were eased. Also, as we previously communicated, we continue to invest behind our brands as evidenced by the significant increase in A&P in our fourth quarter, reflecting increased support in areas where our business showed strong momentum and the cycling against last year's meaningful decline in spending during the early months of the pandemic.

With that as a recap, let's review our full year fiscal 2021 results. Starting with our top line. Compared to fiscal 2020, our reported net sales were up 3%, reflecting our strong mid-single-digit underlying top line growth and the benefit of a weaker U.S. dollar. These gains were partially offset by a decrease in distributor inventory levels in the U.S. that were higher at the end of fiscal 2020, reflecting a build in response to the uncertainty surrounding the early days of the pandemic. We believe the distributor inventory levels are below their pre-COVID levels due to various supply chain challenges.

We experienced broad-based underlying net sales growth across the IMF geographic clusters of the U.S., developed international and emerging markets, which was partially offset by declines in our Travel Retail channel and a reduction in our used barrel sales. Our U.S. business, which represents half our net sales, grew underlying net sales 10%, the highest rate of growth we've registered in the U.S. in over 2 decades. Our premium bourbon and tequila brand, along with JD RTDs fueled this strong growth. Higher consumer demand, increased premiumization mix and the RTD revolution more than offset unfavorable channel and size mix shift effects.

Speaking of the channel size mix effects, Jack Daniel's Tennessee Whiskey was negatively affected by the restrictions and closures in the on-premise due to its greater presence in this channel than overall TDS. While it is still early in fiscal 2022, we continue to experience solid growth in the off-premise compared to the same period 2 years ago, even as the on-premise continues to reopen. In fiscal '21, our U.S. e-premise share was slightly above 2%. While still small, our brands in this channel collectively grew at triple-digit rates, outpacing TDS by 10 points. The pandemic step change, alcohol sales via e-commerce and it appears that the change in consumer behavior is sticking.

Our developed international markets collectively delivered strong underlying net sales growth, up double digits for the fiscal year. This growth was driven by higher volumes of Jack Daniel's RTDs in Australia and Germany, broad-based volumetric growth from Jack

Daniel's Tennessee Honey as well as the launch of Jack Daniel's Tennessee Apple, which in year 1 is already the size of Jack Daniel's Tennessee Honey was in year 4 in Europe. These positive factors were partially offset by declines for Jack Daniel's Tennessee Whiskey, notably in Spain, the U.K. and Czechia, reflecting lower volumes due in part to the channel mix from the on-premise to the off-premise as well as a reduction in tourism.

Collectively, our emerging markets reversed its underlying net sales declines from earlier in the fiscal year, delivering mid-single-digit growth for the full year, reflecting volumetric gains for Jack Daniel's Tennessee Whiskey in Brazil and Poland, higher volumes of New Mix in Mexico, the launch of Jack Daniel's Tennessee Apple as well as the growth of Jack Daniel's Tennessee Honey, both most notably in Brazil. These positive factors were partially offset by a decrease of Jack Daniel's Tennessee Whiskey in a number of other emerging markets, reflecting declines in tourism and consumers trading down, lower volumes of our full strength tequilas in Mexico and broad-based declines of Finlandia, notably in Russia and Poland.

Finally, as expected, our Travel Retail business remained down for the year, reflecting lower volumes across the portfolio, driven by the drop in airline travel and the shutdown of the cruise business.

Now I thought I would share a few brand highlights with you for the year. The preference for convenience and at-home consumption drove exceptional growth in our RTD portfolio and our flavored whiskey brands. Globally, Jack Daniel's RTD exceeded 12 million cases and New Mix crossed 8 million cases. Remarkably for the year, we sold approximately 5 million increment cases of RTDs. Jack Daniel's Tennessee Honey approximated 2.1 million cases, and our flavored whiskey portfolio grew to 3.3 million cases, an incremental 500,000-plus cases were added for the year.

Our portfolio strategy continues to serve us well as the premiumization trend that has been going on for over 2 decades accelerated in fiscal 2021, most notably in developed markets, resulting in double-digit underlying net sales growth for Woodford Reserve, Old Forester, Herradura, Gentleman Jack, GlenDronach and BenRiach. Of our portfolio, Jack Daniel's Tennessee Whiskey was most impacted by the pandemic, given that its size and overall exposure to the on-premise and the Travel Retail channel as the brand experienced a decline in underlying net sales for the year.

Now turning to our gross margin, which declined 270 basis points and resulted in our underlying gross profit growing 3%. Higher input costs, primarily due to increased costs for agave and wood, as well as lower fixed cost absorption for Jack Daniel's Tennessee Whiskey, drove approximately 3/4 of the gross margin decrease. Negative channel and portfolio mix shifts accounted for the rest of the change.

Moving to A&P investment. As mentioned in my opening remarks and discussed in our last quarter call, we significantly increased our spend throughout the second half of the year, most notably behind our Jack Daniel's Make It Count campaign globally, the Woodford Reserve Spectacle of the Senses campaign and the Make It Gold campaign for Herradura. And finally, the derby was held this year on May 1 so we made investments leading up to the race. We invested strategically behind our business to drive our sales and to build on the momentum we experienced as the year progressed, which resulted in our fiscal 2021 underlying A&P increasing 2%.

Our underlying SG&A investment was flat as higher compensation-related costs were offset by tight management of discretionary spend, including hiring and travel freezes as a result of the COVID-19 environment. In total, we grew underlying operating income 4% for the year and report it was even stronger due to the gain on the sale of Canadian Mist and Early Times earlier in the year. This, combined with a reduction in our effective tax rate, resulted in 9% diluted EPS growth to $1.88 per share, including the $0.20 gain from the sale.

And finally, to our fiscal 2022 outlook. We are optimistic as we look ahead, and we expect the operating environment to continue to improve, particularly as the on-premise and countries we're heavily reliant on tourism further recover and as some degree of business and personal travel resume through the global Travel Retail channel. From a qualitative perspective, of course, the pace of recovery is unknown at this time and will vary from country to country depending on the state of the pandemic, vaccinations and reopening.

As a result of these factors, coupled with unusual compares to last year, we expect the seasonality of our results to be volatile during the year, particularly operating income. We remain confident in the collective strength of our developed markets and should benefit from the reopening of the on-premise channel and increase in tourism, which particularly impacted Jack Daniel's Tennessee Whiskey this past year in some of our smaller emerging brands.

Additionally, our portfolio remains well positioned to capitalize on the continuing spirits premiumization trend. In aggregate, we expect strong growth in our emerging markets as well as travel retail as we cycle the effect of easy comparisons and begin to stabilize and recover. Further, we do not expect our noncore business, mainly used barrels, to have a material impact on our results. We expect some improvement in our gross margin for the full year, driven by positive channel mix as the on-premise and tourism recover, benefits from a number of productivity-related initiatives currently underway begin to be realized and the easing of historically high agave costs start to reverse.

From a quantitative perspective, we expect both our underlying net sales and operating income to grow in the mid-single digits. Similarly, we anticipate our operating investments, advertising and SG&A to be in line in this range as we continue to invest behind our brands to support our top line growth as well as begin to work toward activating various strategic initiatives, including 3 new RTCs, the expansion of our emerging brand teams internationally to select markets and an increase in our digital marketing and e-commerce capabilities.

We expect our effective tax rate in fiscal 2022 to be higher than the 16.5% registered this past year, largely reflecting the absence of discrete items. We estimate the rate to more closely approximate our fiscal 2021 rate from operations of about 21% to 22%.

In summary, while fiscal 2021 was filled with rapidly changing market dynamics and twists and turns at every corner, we delivered strong top line growth, consistent with our long-term aspiration. Our business model remains excellent with nearly a 34% operating margin and an approximately 20% ROIC, both industry-leading metrics. We thoughtfully and judiciously prioritized, managed and allocated capital throughout the pandemic, emerging with an even stronger balance sheet.

We remain committed to our long-held capital allocation philosophy to first invest fully behind our business, which we expect CapEx spending to be in the $130 million to $150 million range in fiscal 2022; second, to pay increasing dividends; and third, to look for acquisitions opportunistically that will create long-term value.

And finally, as always, we will look for opportunities to return cash to shareholders in a judicious and tax-efficient manner, including our own assessment of known and proposed changes in tax law. The timing, amount and form will depend on our assessment of the environment. This recipe has resulted in terrific returns to our shareholders over the past decade of 17%, and we believe our strategic priorities will help deliver superior returns over the next decade.

Now before we open the call up for Q&A, please join me in congratulating Leanne Cunningham, currently the SVP, Shareholder Relations Officer, Global Commercial Finance and Financial Planning and Analysis, who will be promoted to the position of Chief Financial Officer on July 2, 2021. Many of you are likely familiar with Leanne as she has served as our Shareholder Relations Officer for nearly the past 2 years. She is a 25-year veteran at Brown-Forman, with extensive experience across the company's production and financial operations that make her uniquely qualified to lead our global finance organization. As Sue indicated, she is with us today and will be available for Q&A.

So with that, this concludes our prepared remarks. We will now take your questions. Operator, you may open up the line.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question comes from the line of Kevin Grundy from Jefferies.

Kevin Grundy

Jane, Leanne, congratulations to both of you. I'd like to start with the strength of the U.S. business, Jane, as you rightly mentioned, understanding the year-over-year comparison, the 2-year stack or the 2-year average was exceptionally strong. So I just – maybe you could spend some time, Lawson, as well, just kind of talk about some of the building blocks here and the strength that you're seeing.

I also think it's noteworthy. You're the second U.S. alcohol company that we've heard from this week that's noted surprisingly strong strength in the off-premise even as the on-premise recovers, which is noteworthy. So any comments you hear on overall consumption and consumer behavior and channel dynamics, and just kind of tie that in with what you're expecting for the year, I think, would be helpful.

Lawson Whiting

Yes. I mean, okay, I'll start and Jane, you can tag along. I mean, yes, I think we have been a little bit surprised at the strength of the off-premise as the on-premise has sort of begun to recover. To talk about the on-premise for a second, I mean, the data that we've been seeing, and we generally use OpenTable, I know a lot of you have done the same. It has improved significantly in the last few months where it was down hugely last summer, improved a little bit in the fall and then took a nosedive down around Christmas time and was down in that 50% range for much of the winter, has improved to only down mid-single digits now.

So you have seen a pretty rapid recovery as the restaurants have begun to open up. And I know everyone anecdotally talks about it, the restaurants these days feel very crowded and very busy. And so a lot of people wanting to go back out.

The off-premise though does remain very elevated. I think if we looked at the NABCA data, which would include some of the off – on-premise volume, I mean, the trends have moved from what would have been mid-single digit for, I'll say, the 10 years before the pandemic hit is now very high single-digit, even low double-digit growth rates. And so obviously, the off-premise has held up pretty well. And I think the good news, at least for us, is the categories that are leading that tend to be 2 of the strongest categories out there, tequila and American whiskey, and that is essentially the vast majority of our portfolio. So Jane, anything to add on to that?

Jane Morreau

Yes, I'll just add on. I think that's exactly where I would have gone. You're asking why we've done so well. I think our portfolio, as we've been saying all year long, is well positioned to take advantage of the trends. Convenience, we benefited tremendously from our RTD business. RTD business has been very solid in the U.S. And of course, you know we just entered a new partnership with Pabst, which we believe will take our RTD business to an even higher level.

When we think about the mixability, our flavored whiskey did very well, particularly honey in the U.S. business – in the U.S. market because of the ease of mixing great-tasting cocktails. As tequilas, Lawson just referenced, that category has been on fire. We've got 2 of the best tequilas, we believe, in the industry and have benefited because of that.

And then something else we've been talking about all year long is everyday luxury. And that is playing great to the strength of our brands: Woodford Reserve, which has continued this phenomenal growth; in Old Forester, there's – what is it, a series, Whiskey Row series, yes, which is doing terrific. And then even we've introduced some higher-end expressions in the tequila category, which is where the growth is coming from. So I think we're benefiting from a lot of those type of trends, Kevin, to be honest with you. Yes.

Operator

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

Vivien Azer

I'll echo my congratulations, Jane. It's been a pleasure working with you. And Leanne, congrats as well on the new role. If I can just pivot the conversation to margins, please. Jane, it was helpful that you were able to dimensionalize a good proportion, 75% of the drag on gross margin. But as we kind of think about potential recovery on Jack Daniel's going forward, how do we think about operating leverage helping to abate some of the drag on that gross margin, please?

Jane Morreau

Yes. So yes, just to step back, as you said, we did have a pretty big drag on our margins this year and it was driven in large part because of input cost. That was the biggest piece, that was 3/4 of it, so I think wood and agave and I'll get to it as we look forward. So really, mix only had a small impact. It was only 1/4 of it, so [0.6] or so. And when you break it out and you pull it apart, yes, a piece of it is because of Jack Daniel's Tennessee Whiskey and the fact that the on-premise were shut down and Jack Daniel's in the U.S. alone is 1 of the top 3 on-premise brands. And so it was impacted significantly and it impacted our margins, of course.

So when we look ahead to F '22, as I said in my script and you just referenced, we are expecting some improvement. I will call – pause for a moment and the improvements we're expecting is because we do expect some of these last couple of years of hurt from agave to begin to reverse, only began next year. We can talk more about that later if people want to know what we're seeing in that. But we also have had a number of productivity initiatives from our global production organization that will start to begin realized next year. And we've got several years before they're all fully realized because of, again, just a reminder of our aged whiskey products and how things go on to the balance sheet.

And then mix will benefit some but it's not the hugest piece, as I said, this year, I said from this past year and how much it hurt. What I will want to pause and point out for a moment is something that we have included in our forecast and that's a pretty significant increase in commodity costs. Inflationary commodity cost is around double digits is what we currently have forecasted in there. Otherwise, we would have expected a better improving margin next year or this year. And we're going to keep an eye on that, by the way, as I know all consumer products companies are.

But right now, we feel where we sit that we can improve – expect margins to begin to improve in F '22. And as we look beyond that, we expect improving trends thereafter. As a reminder, tariffs are still in our numbers. They're still dragging down our numbers and hope – we've got optimistic that, that will go away at some point down the road.

Lawson Whiting

Yes. And I think to go beyond, Vivien, you also asked about some operating expenses. I mean the A&P line, as we've – I think we've said this before, I would expect that to trend in line with sales. It's a little bit less than that this year because we cut so deeply really in Q1 of last year. But I would expect us to reinvigorate that a bit. And we are, as Jane mentioned in her prepared remarks, really investing significantly behind the Make It Count campaign. And then SG&A, also sort of in that mid-single-digit growth range as we continue to rebuild and T&E begins again and people travel and business feels a little bit more normal.

Jane Morreau

And invest behind the RTD, as you mentioned. Yes.

Lawson Whiting

Yes, yes. So another SG&A effort that has been very important over the last few years. It started with the U.S., that's our emerging brands group, which we've talked about in previous calls. But pre-COVID, that group was delivering really stellar, high growth rates for some of our smaller brands that are all in the sort of super and ultra-premium price point. We're taking that model and exporting it to a number of markets in Europe and Australia and hope to see pretty strong benefits in terms of portfolio growth from that group. But that's an investment level, too.

Jane Morreau

— *indiscernible* — And by the way, just to build on what Lawson said, despite the on-premise shutdowns largely in the U.S. this year off and on, for sure, in the U.S. this year, our emerging brands collectively wasn't as strong as prior years, but it did grow double digits, thanks to the team in the U.S. organization. They did tremendous work and pivoted quickly to the off-premise.

Vivien Azer

That's super helpful. If I can just squeeze in a follow-up. Can you comment at all on any changes that you're seeing in the promotional environment in the United States with the reopening of the on-premise? Specifically, any off-premise step-up in promotional spend from your competitors?

Lawson Whiting

Yes. I mean I haven't seen much. I mean, I think the promotional intensity actually somewhat led off, I mean, off-premise over the last year as consumers, we've said a few times, were walking into a liquor store. They were looking for the brand that they know and enjoy. They were buying it and taking it off the shelf without being too picky around price. And so you've seen pockets of increasing price in the off-premise in the U.S.

It has not – I'm not sure that it's really changed a lot over the last few months. I think – I know we have a bias, an increasing bias, and this is more of a global than just the U.S. that we need to see pricing going back up again. And that is a strategy we're going to employ over the next year.

Operator

Our next question comes from the line of Sean King from UBS.

Sean King

I have a question about the guide. And sorry if I missed this, but what base should we be thinking about for the mid-single-digit operating profit growth guidance? Is that off the reported number or off the underlying number?

Jane Morreau

Yes. I'm sorry about that. It's definitely off our underlying number. So just as a reminder, the difference between our reported and underlying was largely due to the sale of Canadian Mist and Early Times, so you would definitely want to take that out of your numbers.

And we also had a 1-quarter benefit or 1 quarter, they were still in our results for the first quarter of the year, so would definitely want to take that out when you consider first – top and bottom line.

Operator

Our next question comes from the line of Rob Ottenstein from Evercore.

Robert Ottenstein

I was just wondering if you could talk kind of big picture in kind of looking back now on just the U.S. and the impact of COVID on demand for U.S. spirits versus wine versus beer. And obviously, spirits has been gaining share for a long time, particularly against beer. You noted an acceleration in terms of premiumization last year. But do you also think that just the nature of COVID and people staying at home, perhaps less social occasions or high-energy typical beer occasions, helped spirits last year and notwithstanding the fact that your spirits for at-home is very strong right now, but that could possibly reverse during the summer a little bit?

Lawson Whiting

I mean I'm not – it remains to be seen what happens over the summer. It's going to be interesting to watch as obviously the comps get – they're very, very volatile as we were at such a rollercoaster last year. I mean I do think as at least if the most recent trends, although I'm talking the last few months, the off-premise market has held up. So it gives us some optimism that those levels are going to stay. I don't know if it will stay at a double-digit growth rate, but clearly, everything that is off-premise-focused these days, particularly in American whiskey and tequila, too. I mean, there is – there has been quite a swing between categories. And thankfully, we – as I said earlier, we are in the right one.

As far as the wine – beer and wine, I mean, beer has obviously got a lot more event business to it. And that – they lost all of that and that helped exaggerate the numbers.

But I think in general, the pandemic – we've said this a few times too. Any trend that was happening prepandemic just accelerated. And so the spirits versus wine and beer would be one of those. Premiumization would be another one and convenience as the other core one. So all 3 of those trends have been working in our favor. And it's just – as I say, it remains to be seen how it unfolds really as we get into the summer months.

Jane Morreau

Yes. I was going to say I was going to agree with Lawson. I'm not sure that we'll – it will be interesting to watch summer moments. It may take a while for all of this to shake out beyond this year even. A lot of people I know anecdotally have invested in outside entertaining spaces and things like that. And definitely, we're still seeing the at-home purchases of online, so e-premise, to still be strong for bev alcohol, very strong. So indicating to me that people are still that behavior of driving, of bringing things to your home is still there. We'll see. I mean that's the most recent results I read this morning, so – but it is going to be interesting.

Robert Ottenstein

Got it. And then my follow-up question. As your portfolio shifts a little bit, at least in terms of packaging, more to ready-to-drink in cans, and again, talking about the U.S. market, can you talk a little bit about how that may or may not change your route-to-market strategy and particularly your ability to access channels like convenience that haven't necessarily been traditionally strong points for the wine and spirits distributors?

Lawson Whiting

Yes. I mean that was – I mean, the whole – the majority reason that we partnered up with Pabst was to be able to access all those distribution points that, as you say, our traditional wholesalers weren't reaching. And so that's just started in the last, I mean, it's weeks-old kind of thing. So we're going to – we'll see how that progresses. But certainly, we have optimism that with all those additional points of distribution that we'll capture an even bigger price within the RTD business in the U.S.

I do think – and it's just more of a reminder, our RTD business is much, much bigger outside of the United States than it is in. I mean we've got 8 million cases of New Mix in Mexico and we've got 12.5 million cases of Jack Daniel's spread out around the world. That does include the U.S. business.

Jane Morreau
Take off 3 million parts.

Lawson Whiting
Our international RTD business is significantly bigger and more important to the company right now in terms of…

Robert Ottenstein
Can you just give us maybe 30 seconds just on the mechanics of the Pabst relationship for that, just how the flow works?

Jane Morreau
Can you elaborate just a little bit more, Robert, so I make sure we…

Robert Ottenstein
So you're going to Pabst – I'm just trying to better understand your partnership with Pabst exactly what they will be doing for you and how that relationship is constructed.

Jane Morreau
Yes. I mean they are going to make the product there other than our glass bottle facility we have there. So they're really going to beef up our can, Jack Daniel's Country Cocktails which we don't have any today to speak of. So that's one thing. But we're going to sell

them the glass. They're going to then distribute it throughout all their channels that we don't, as you asked initially, we don't have traditionally access to.

And so they're going to make it. They've got better capabilities as it relates to packaging, configurations, things like that, so we can have some mixabilities, pack sizes and shapes and so forth like that. And so that is the relationship with them. So we will be selling things – selling to them and they'll be selling on to us, we'll get a – in effect, we'll get a royalty, an agreed-upon royalty and it will scale up as they grow. That's the simplest way to talk about it.

Robert Ottenstein

Perfect. Congratulations all around.

Jane Morreau

Thank you.

Operator

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

Lauren Lieberman

I was curious as I love this topic of the emerging brands, sales force efforts, as you all know. And I was just curious, I guess, one, retrospectively during the pandemic, in addition to, as Lawson, you mentioned kind of the team in the U.S. quickly shifting to prioritize off-premise, any progress that's been made on, on-premise? We've heard other beverage alcohol companies talk about consolidation of wine and spirits and beer lists and those sorts of things. So I was curious, if anything, you're able to talk about how you're positioned into on-premise recovery for those emerging brands in particular.

And then in terms of the international build-out, I just wanted to make sure I understood correctly that, that's a new initiative, not something that's already been started, so should kind of build steam as we move into maybe second half of ’22 at the earliest that it really starts to impact the business.

Lawson Whiting

Yes. I mean, well, the first half of the question on the U.S. business and what trends that we’ve seen. I mean I do know so many bars and restaurants had to reduce their inventories over the last year. And so it became an advantage for established big brands to turn faster, and it made it challenging for newer brands, particularly some of the craft brands that just don’t have the ability to continue to push as hard as the major brands do. So there’s been this window of opportunity, I think, from companies like Brown-Forman to be able to command a bigger piece of the back bar. And we’re going to go make sure that we get more than our fair share of that opportunity as things evolve over the next few months.

In the international side, I mean, yes, it is brand new. It’s not even really formed yet. It will be over the next few months. But Europe, obviously, is several months behind in terms of openings of bars and restaurants and didn’t make a lot of sense to put a lot of effort on that until the restaurants began to open again. But as I think you all realize, our business outside of the United States, in most markets really is a Jack Daniel’s company. And we have a big effort to continue to expand our portfolio in those markets led by like a Woodford Reserve would be a great example.

But our Single Malt Scotches are very important to us. Fords Gin, even Slane Irish Whiskey, those are much smaller brands but brands that we see a bright future for, and that’s the purpose of putting these dedicated people in place in these markets that have been so Jack Daniel’s-oriented. It’s very difficult to build a Slane Irish Whiskey next to Jack Daniel’s Tennessee Whiskey. I mean it’s just salespeople’s incentives need to be aligned behind the right initiatives. And so that’s the reason we’re doing it. We feel pretty good that it’ll

– we'll be in the right place at the right time and hopefully make that into a significant piece of business.

Jane Morreau

Just building on a couple more points that Lawson just made. What we're doing, just to give you some scale, Lauren, really, our focus initially is just on a handful of markets. It's the U.K. and Germany, I think, Australia.

Lawson Whiting

Poland, yes.

Jane Morreau

Okay. And then – so it's very, very small in nature. And each of those markets are going to have 1 common priority across all, which is our great Woodford Reserve brand that we're so excited about. But what they do within the other rest of our emerging brands will be unique likely, depending on the category in those markets and how they're – what's important in those markets though, whether it's the Scotch or whether it's an Irish whiskey or what. So just to give a little bit more flavor to it.

Lauren Lieberman

Okay, that's great. And then just diving a little more deeply on tequila. The portfolio in the U.S., some of it's kind of tough to parse out, performance of Herradura versus el Jimador, that's more the mixable and slower growth. So what can you just update us on what you've seen, I guess, through the pandemic? I know we talked about premiumization. But is Herradura, would you say now, growing kind of more in line with its peers and competitors at that super premium end of the category?

And then as we move through '22 and reopening and hopefully el Jimador and bars, everyone starts making margaritas again, that the tequila portfolio as a whole shows better performance. Is that a reasonable way of thinking about it?

Jane Morreau

Yes, it's hard from our tables, I guess, that we provide to really understand, but the U.S. market is doing quite well. So both brands are growing and both brands grew volumetrically last year double digits, Herradura much stronger within the 30% range. And then their sales growth were even stronger because of the pricing that we had. So if you just looked at our U.S. tequilas, and we don't have a New Mix there, so it's RTD. This is our full strength, so it's Herradura and el Jimador collectively grew over 30% in the U.S. at a top line perspective. So very strong.

And to your point, if we look at Herradura, according to the latest in NABCA data, we're growing right at the category so we're proud of that. And I think that if you look at el Jimador price point-wise, it's growing right in line to its price point as well. We've got a number of initiatives underway. Lawson may want – I'll pass it over to him, he may want to talk about it as we look at the U.S. market and how excited we are as we go ahead with these 2 great brands.

Lawson Whiting

Yes. I mean I'm quite happy with the performance of Herradura over the last year. One of the challenges for Herradura has been a good thing prepandemic was about 40% of its sales was running through the on-premise. That's one of the higher brands in our company. And to have that business shut down so much to be able to deliver the sales growth that Jane just mentioned, was a pretty good performance. And I know there's a few brands out there that are grabbing a lot of headlines. We seem to be flying a little bit below the radar but know that the growth has been really good.

And the ultra-premium side of tequila is just – I mean, it is growing so fast. And we've got some – we've got really a brand called Herradura Legend would be our primary entry in that space. And we've got some other upper-end line extensions that are not huge but certainly taste really good and have a great place with bartenders and can really grow the Herradura name. It's a brand that's one of the authentic Mexican tequilas that's been around for a long, long time, and we play off that heritage and that authenticity in all those SKUs. And that is the way we're going to build these brands.

Other brands are using the celebrities so much in the tequila category. We haven't done that much in this company. We're certainly watching it. It's been fascinating to see how some brands have absolutely taken off with some of the celebrity endorsements. But we're playing this a little bit for the long haul and building brands that we think will be around literally for generations. And so we feel pretty good about it.

Leanne Cunningham

And then as Jane mentioned, we are investing in the new creative and the launch for Herradura to support the brand and invest back behind the brand and build it for the long term to Lawson's comments.

Jane Morreau

Exactly. Thanks, Leanne. That's exact point I was going to say, to make a build campaign and then we see tremendous opportunities for distribution for both of these brands. And then just to switch gears slightly on el Jimador outside the U.S. and outside of Mexico, we see tremendous opportunities to introduce this brand to the rest of the world, it's at the right price points to keep people having to drink tequila, to enjoy it, to use it and mix there. And so we've got plans as we look ahead for that, too.

Operator

Our next question comes from the line of Andrea Teixeira from JPMorgan.

Drew Levine

This is Drew Levine on for Andrea. Just curious, Jane, I think you called out some supply challenges with distributor inventories in the prepared remarks. So just curious on the sort of cadence of being able to rebuild those inventories and maybe the magnitude of the shortfall in your view. And then maybe just what are the sort of pain points in getting the product to the distributors at this point?

Jane Morreau

Yes. Thank you for asking. And I think what I'm going to talk about here is I'll first talk about, it's impacting us supply chain-wise, disruptions that we're seeing from the materials to the customer. Now when I talk about that, let me break it down a little bit. As you alluded to, we talked about our results being impacted somewhat by the supply constraints in the U.S. where our distributor inventories and our retail inventories are down versus pre-COVID.

And so what's happening there is really we're not unique to this in terms of the back end of what's going on here, which is what you've heard probably from other CPG companies or read that there's lots of transportation and logistics challenges out there that are ramping back up as the economy improves, people start to build back and restock inventory. So we see delays in rail service, container availability and ocean – time-to-ship things across the ocean, trucking capacity in the U.S. as example. And then labor shortage that we hear in bars and restaurants, it's also in the warehousing industry.

So with that being said, we know that it's – our inventory levels are down at the end of this past year, as I said, in the U.S. They are also down outside – in parts of Europe as well. And so we hope and we're working with our teams the best we can. Again, we're at the mercy of the supply chain somewhat in this as things work out.

But when I think about the material aspect of things, because I also said we've had some disruptions on the material side, think about how we make barrels, we've had some disruptions in steel that we use to make the hoops around the barrels. But the key ingredient that we've had some disruptions on is our glass supply. And that is certainly something that is really important to us and something that we are working closely with our supplier now, work out the quality, get behind that and get that resolved.

So as I gave our guidance today, the top line mid-single-digit underlying and same for mid-single-digit bottom line growth, we think at this point, we had these disruptions estimated and covered. But if things get worse, we'll have to update that guidance as we go on in the year.

Drew Levine

All right. And then second question just for either yourself or Lawson, you mentioned the positive tariff developments. I think during the last earnings call, Lawson, you said it would be the Brown-Forman way to consider reinvesting a good chunk of that. With potential relief more in sight, just any sort of updated views on what the magnitude of a reinvestment could be if the tariffs come off?

And then just I think the U.K. might be ahead of the rest of Europe with review of tariffs. So if you could just tell us what the magnitude of tariff relief would be if the U.K. came off before Europe.

Lawson Whiting

Yes. I mean I hate to say we're getting more optimistic on tariffs because I've said that a few times and have been wrong every time. It was good news that they didn't double. I think we have said that. So that would have been extremely painful. The G7 meeting that is happening now puts a little bit of light at the end of the tunnel that maybe they can come up with some constructive trade agreements at this meeting and that we would benefit from that.

In terms of total dollar benefits, I've seen a few folks have – don't really have the number right. It's probably in the range, like $70 million to $80 million.

Jane Morreau

At most, $70 million.

Lawson Whiting

$70 million. And what I don't know is how much of that we would reinvest versus let drop to the bottom line. We just really haven't made that decision yet. It depends on how the business is progressing, I think, throughout this fiscal year as to how much that we would reinvest. But it's going to be a pretty significant amount, I think, which would be great for the long-term health of our business. We very much look forward to that day and having to wrestle with where we want to invest those incremental dollars because it's pretty significant.

Operator

Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to Sue Perram for closing remarks.

Susanne Perram

Thank you. And thank you, Lawson, Jane and Leanne, and to all of you for joining us today for Brown-Forman's Fourth Quarter and Fiscal 2021 Earnings Call. If you have any additional questions, please contact us. And with that, this concludes our call.

Operator

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