Brown-Forman Corporation, Investor Day 2012
2012-12-12

Presentation

Jason Koval

Good afternoon, everyone, and welcome to Brown-Forman's 2012 Investor Day. We really appreciate each of you taking the time out of your calendars to come here and learn more about Brown-Forman, a company we truly believe is special in a great industry. We've got a full afternoon planned today, so let's move on to a quick review of the Safe Harbor language and then go into our agenda.

Today's investor presentations contain forward-looking statements based on our current expectations. This page highlights some 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, 10-Q, 8-K, all filed with the Securities and Exchange Commission. I also want to point out that today's meeting is being webcast for investors who are unable to attend in person, and these slides have been made available on the website under www.brown-forman.com entitled Investor Relations.

Turning now to the agenda. Paul Varga will kick off our presentations, which will run from 1:30 to 3 p.m., followed by a short 15-minute break. Then we'll return for some additional presentations from Don Berg and Garvin Brown before opening up the event to a formal Q&A. And then we'll wrap up the day with some whiskey tastings.

So with that, I am proud to introduce Brown-Forman's Chairman and CEO, Paul Varga, who I might add just celebrated his 25th anniversary with the company. Paul?

Paul Varga

Well, thanks, Jay, and thanks to all of you for being here. We've got a cast that's up here in this front row, and we're all thrilled to be here with you. We – when we think about a session like this, we do it every couple of years, we really hope that we can fill a room like this and have the kind of interest that's evidenced, I think, by your attendance. We don't take it for granted. And we know, as you can see from the agenda, that's a real serious commitment to go give an afternoon to hear about Brown-Forman's story.

I thought I'd – the names that were on that agenda, just one thing that's in your books here. Everybody should have them in front of you, at your seat. There are, in the back – I mean, of course, the presentations are in here. But in the back, we added some profiles of the people you're going to hear speaking throughout the course of the day. So we won't go into long introductions about any one of us. But one thing, as I was scanning through, is that I noticed that I thought you might find informative and helpful is that of the 9 people who will share the stage with me today, the experience of the company adds up to over 150 years of experience at Brown-Forman. So that's, on average, greater than 15 years per person and something that we're really proud of. We think it helps us collectively and individually to make really, really good decisions on behalf of our shareholders. So if you get a chance, just we'll give you a minute, if you get on a break or even after the conference, a chance to look at some of the people who are behind Brown-Forman's success story that we're going to talk to you about today.

My job is really to introduce the day and to talk to you about not only who's going to be speaking with you, but also what we are as a company. Many of you would be familiar with Brown-Forman's story and then they talked to a couple of you who go back with the company quite some time. If nothing else, what we hope you get from today is just to get current on Brown-Forman here and the winner of 2012. So on the screen behind you, you'll see a handful of items that we would – if you had to put on a one-page a descriptive of Brown-Forman Corporation today, it's a leading portfolio of premium distilled spirit brands with a very targeted focus.

One thing we often – when we contrast ourselves versus others in the industry, you don't hear a lot of people talking about Brown-Forman long tail, for example. I think that in terms of trademark families, the company had less than 20 trademark families in total. So it's a pretty focused company by comparison to most of the mid- and large-sized companies in our industry. Of course, we're known for our ownership of both the Jack Daniel's trademark and the distillery that support it, so it's something that are 2 of the greatest assets of the corporation.

If you followed the company over the years, you will have observed a growing geographic diversification in a variety of models we call RTC, which is route-to-consumer, to support that, oftentimes deployed market by market, based on the circumstances and the strategies and hopes we have for each of those individual market.

You all will be the judges as to whether or not the company is in good financial health. But our view on it is that both our current and historic performance would point to that, the company's industry-leading return on invested capital, the total shareholder return metrics on which I'll share with you here in a moment, our stewardship of capital. You all would have noticed here just in the last month, a number of announcements around both dividend and special dividend.

And then also, we work very hard to think about the company's future. And when we make decisions about it, we do a lot of work on the risk for the rewards we get. And we try to tip that balance in favor of the shareholder when we approach decision-making at Brown-Forman, and it might be an opportunity for you to observe some of that through the presentation today.

And very importantly and something we haven't always brought into these sessions, which we're going to do today, is the Brown family's control and the perspective they bring to the company, which we think is an advantage. Later on, you'll hear from Garvin

Brown on some of that.

Now shown more visually what you do, some of them we show – what a great industry, right? I mean, you get to show your charts on Cosmopolitans and mint juleps and hurricane glasses. So it's one of those types of industries that are fun. But as you go through the day, I would ask you to think about what are you seeing that reinforces Brown-Forman's prospect for growth, what do you – how might you understand better the company's growth story. You're going to hearing through a variety of presentations, various elements surrounding how the company has grown and how we continue to have really high hopes for the continuation of the growth story that we've been able to report to you over the last many years.

Additionally, we'll talk, particularly in Don's session I think later in the afternoon, about the financial strength of the company. We'll get into more detail on it. And very importantly, we'll make reference to, but won't go deeply into, what we call our Brown-Forman 150 strategy.

A couple years ago, when we gathered at a similar investor conference across town, we got into this pretty deeply. But through the course of the day, while we won't go into it greater detail today, you'll hear various people in front of you refer to BF 150. And I think the thing I would like to comment on as it relates to that strategy, is that it's the length –its length and orientation, when we first unveiled it in 2009, it was intended to point us toward a milestone, which was the company's 150th birthday in the year 2020. But that's being really only a mile marker on something that we refer to as – we use the letters of the company, B-F, for Building Forever. We like to think of this as an enduring exercise. And one of the things that you have to do if you're going to have an enduring company, is invest behind it. And so through the course of today, you'll hear varying programs about investing in our brands. You'll hear about investing in the marketplaces where we see so much opportunity. You will have observed investments in our assets, the most noteworthy of that in the last year expansions with the Jack Daniel's distillery. And then very much, the group that's in front of you and that we represent at Brown-Forman, investments we make behind what we think is the most important ingredient in all of this where – are the people that come up with the ideas and make the decisions, they make Brown-Forman continue to grow.

A chart we view several times since the close of our fiscal year last year back in really through the early summer and up to our shareholders meeting, we're very proud of the consistency of our performance against even different backdrops. Here, you'll see in the good times from we were all observing how wonderful the marketplaces were around the world. And from 2002 to 2007, it's probably evident here in the S&P 500 benchmark, that a 9% growth accumulated during that 5-year period of time when Brown-Forman was able to outpace it at 13%.

Even more noteworthy from '07 to '12, the following 5-year period, which for purposes of this we'll label bad times, we actually accelerated our growth rate and compared very favorably with the S&P. And of course, the 10 year, which show an 8-point differential ending last April for the 10 years.

So it's all the stuff that's underneath this story that I've highlighted for you that you're going to hear from people. And to kick that off, somebody that has been around Brown-Forman for a number of years and actually worked in this arena a bit who's going to follow me who's now our Chief Brands Officer, and that is Lawson Whiting. Lawson is joining most directly from – as the head of our Western European business, but has worked across the company in finance, brand leadership, regional leadership in both the United States and in the international marketplace. So we're very excited to have him now taking over the leadership role of the company's brands and portfolio. So Lawson Whiting.

Lawson Whiting

Thank you very much. All right, thank you, Paul. Very glad to be back. As Paul said, it's been – it's actually been over 10 years since I was involved in the investor relations function. But it's wonderful to be back here today and get the chance to really talk to you about our portfolio and some of the things that we see going forward.

I must say, even in the sort of the 10 minutes before we got this presentation going, just the number of faces and names that I recognize and remember is, quite frankly, it's almost amazing how many people, both on the buy side and sell side, have been involved with Brown-Forman in one way or the other for a long time. And particularly, those who've been making investments in the stock, I think you've been well rewarded over the last 10 years. And I hope that some of the things we're going to share with you today give you a lot of belief that we can do the same thing again going forward.

So this company has changed in these 10 years quite a lot. We've exited a number of businesses that were lower growth or lower returns and really reinvested or innovated into higher growth categories into what we think of as better businesses with better rates of return. So the result is we've created what we think is the one of the best growth stories out there. It's a more focused story than it was 10 years ago and one where we see loads of opportunity going forward.

To take a quick look at the portfolio, this basically breaks down our fiscal '12 volumes. You can see that Jack Daniel's represents about half the company and is, obviously, a very healthy and growing brand. It remains one of, if not – one of, certainly, if not one of the best spirit brands in the world. Today, we're going to have – or after me, we're going to have John Hayes come up here and he's going to talk about the Jack Daniel's family. I'm going to focus most of my comments on what we have going on, on the rest of the portfolio.

So as Paul just discussed, one objective that we have for this company is to basically take that – the top half of that pie graph and accelerate the rate of growth on it. We're trying to accelerate, obviously, the entire company. But one of the ways we can do that is to take that upper half of that pie graph and get it really going again. And we've taken that from what would have been, say a year ago, a low-single-digit growth rate to today it's more like a high-single-digit growth rate. So that is one of the things where we're benefiting and it's helping to drive the entire company forward. We feel pretty good about that. I'm going to try to talk a little more specifically about what parts of that are really driving that better portfolio of growth.

Southern Comfort is the second most profitable brand at Brown-Forman. It has one – it's been a challenging brand over the last few years, as probably many of you know. Mike Keyes is going to come up actually in a few minutes and he's also going to talk more specifically on what we're doing with Southern Comfort in the United States. But I will tell you, he and his team have gotten now the brand growing faster than total distilled spirits, which is quite an achievement where – compared to where it was just a couple years ago.

We have really revamped the entire program on Southern Comfort. We've come up with new TV campaign. We've really gone deep into social media. We've unveiled a number of line extensions. A lot of different things have changed on it, all of which we think are helping to the benefit of the brand. What I'm going to show you here is a TV commercial that we began running about 2 months ago in the United States, and it's also running in the U.K. quite where – it's actually running quite heavily right now at this Christmas season, and we think it's having a lot to do with some of the recent performance.

[Presentation]

Lawson Whiting

This is the TV commercial that's getting talked about. It's getting talked about in a lot of different places, and it's one that – I mean, you wouldn't think with this brand that you're going to put a middle-aged, rather overweight man walking down the beach in a very small bikini or a bathing suit with a song that was written in 1970 in a commercial that you don't see what – even what brand that we're talking about until the very end. Yet, it has cut through the clutter unlike any commercial that I have seen, particularly on Southern Comfort, but I think it's really cut through the clutter better than most spirit brands that would be out there today. And we are seeing the results. It's a very – it's only been out for a couple months, so it's too quickly to necessarily judge victory, but I think we feel pretty good that we found something there and that it's a campaign that whatever's comfortable, we can take into new things. And so we feel – all feel pretty good about what's changing on the Southern Comfort brand.

Vodka is obviously a very large category around the world, and it's what I would call one of the quieter success stories at Brown-Forman. We've had sort of a long-term 10-year growth rate of about 6% on – largely driven by Finlandia. Finlandia is about 3 million – I'm sorry, I thought that was the microphone. It's about 3 million cases today, making one of the top 10 global premium vodka brands in the world. Most of that or – well, most of it is really from Central and Eastern Europe where it's got an excellent position. It's the #1 imported premium vodka in both Russia and Poland, which are 2 very big vodka markets and very important markets, so quite proud of that.

We've also recently made the acquisition of the Maximus brands, which you can see on the slide there. We've launched Little Black Dress vodka and then the Chambord Vodka in the U.S. So there's a lot of different things going on in the vodka space and one where we feel pretty good that we've got some good growth opportunities going forward.

Tequila is another big category for us. We acquired the Casa Herradura portfolio in 2007.

And since then, that really gave us a platform to be able to grow not only in Mexico, but also in the United States. Herradura is the ultra-premium brand that you can see on the far left there, where we really feel confident that we can continue to go grow that very nicely. It's growing at a double-digit rate right now. And it's priced just below Patrón's, so it has very nice margin to it. So we feel pretty good about that.

el Jimador, which is a really, really big brand in Mexico, is also really starting to move in the United States. We've essentially doubled the volume since we bought it. And I feel comfortable that, that brand really has a very good association. It's particularly strong in the Latino population, and we feel pretty good about the growth rate for that going forward. Outside of the Americas, tequila is much smaller, yet we do see sort of more niche opportunities in places like Russia, Brazil and Australia. So some good opportunities on that.

Then, of course, North American whiskey, which really is Brown-Forman's heritage and where our roots are with this company. It's – we believe we have the best North American whiskey portfolio in the world, obviously, anchored by Jack Daniel's. But we have a number of other brands that we have a lot of strong belief in and can see some opportunity.

Outside of Jack Daniel's, it really is about Early Times and Canadian Mist. Right now, those are the 2 largest of the rest of our portfolio. And Early Times, which has been in the Brown-Forman portfolio for a long, long time, had – has had an up and down year, but right now, it is back growing again in the United States, and we feel pretty good about that. It's also growing in Russia. We've seeded it there and it's going well. And it has got a decent business in Japan. So all pretty good and, once again, a much better performance over the last year than it had, had in the prior years before that.

Although North American whiskey's penetration is relatively low, particularly if you exclude Jack Daniel's, it is relatively low in the international markets. That's something that we want to make sure we retain a leadership position in. We have really big ambitions and there's a lot of work going on right now to find out how we really play in the North American whiskey area.

One of the – or the brand, I think, that we will lead that with, at least on the premium side of things, is Woodford Reserve. Woodford is our ultra-premium Bourbon the company created back in the 1990s. So it's one that we – well, we created from scratch as opposed to buying. It is what we think and we kind of called it the proverbial tipping point in the United States. It's really starting to accelerate. It's getting really strong growth rates right now. It's priced in the low 30s, so it's also got a very decent margin to it. It's got line extensions. You can see the one on the far right there. That's called Double Oaked, which is more like a $50 bottle of bourbon. Then in the middle is a much smaller, but the Woodford Reserve Master's Collection is more like $100 a bottle. And we sell out every single one of those bottles and very quickly. So we feel pretty good that we've got a good portfolio of premium whiskey brands that we really can do something with.

Finally, wrap it back into the Jack Daniel's brand, which it still remains the core and the biggest, most important brand in the company. So this chart here will show you, it's now got – it's the fourth largest brand. This is IWSR data that you're looking at here. And we are almost ready to overtake Bacardi to become the third largest brand in the world by value. So we may get there even this year. But also to point out then, of the top 10 largest brands, if you look at the far right in the last 5 years, Jack Daniel's is the fast-growing brand of the largest 10. So it's been a really good solid success story and one where we continue to see a whole lot of potential going forward.

So with that, I'm going to have John Hayes come up, and he's going to talk about the Jack Daniel's family of brands.

[Presentation]

John Hayes

Good afternoon, everybody. A pleasure to be here and obviously, it's a great brand that we all work on. And I – we like to tell a stories at Jack Daniel's. So I'm going to tell you a story about Jack Daniel's and some of the reasons for our success being one of these great global power brands.

Behind me on this slide, just showing some of the pictures of what we call the history in the maker's world of Jack Daniel's. The story of Jack Daniel's, of course, begins in Lynchburg, Tennessee, a dry colony, of all things, where Jasper Newton Daniel founded his distillery, America's oldest registered distillery in 1866. Now it's a good thing for us that he had a nickname, Jack, because calling for a Jasper and coke just doesn't quite sound the same. Mr. Jack Daniel did set up his distillery in our famous cave spring and insisted on charcoal mellowing his whiskey drop by drop true to one principle. He said, "Everyday we make it, we make it the best we can." And it's a tradition we proudly continue. Jack Daniel's gets its credibility from a real history. It's made by real people in a real – in a real place. We have multigenerational employees who take great pride in their job, creating a unique-tasting whiskey unlike any other. And another interesting fact is that we get over 300,000 people a year that come out of their way 70 miles south of Nashville to visit our distillery from all around the world.

And now as you saw in the video, over the years, the rich legacy of Jack Daniel's has made it a fixture in popular culture. Now this is something we did not go and chase. We did not pay Paul Newman to appear in HUD many years ago. Just for directors and writers and TV shows, Jack Daniel's makes a statement about the character. So we don't chase it. We let it happen. But you can see that it's created all kinds of visual imagery. And it's an iconic brand with enormous equity value and awareness worldwide not only from our story of

Lynchburg, but as you can imagine, through American pop culture, through movies and music that plays all around the world has been a great asset for us. So it's independence, it's integrity and it's authenticity and consumers feel passionately about these values and access them through the brand as the authentic masculine badge, so going all the way back to Bogart and Sinatra up to Richards and Jagger, today's Zac Brown and Eric Church in the country music arena. And even women, Lana del Ray, you can see the bottom left wearing a Jack Daniel's shirt in her concert. And even this week, we saw in the U.K. paper, Rihanna with her friend with a bottle of Jack Daniel's. So the culture continues on, as well as you can see in the movies with great actors who say a lot about the brand, whether it's Paul Newman, Jack Nicholson, Al Pacino or Tom Cruise, has been a great factor for us on the brand.

And what this has all led to is this powerful brand equity. And Jack Daniel's is certainly a power brand in the world, not only of beverage alcohol, but we believe in the world of all consumer products. And as you can see here, we've gone from 1956, as what I put back here as the year that Brown-Forman acquired Jack Daniel's from the Matlow family, where in the lifespan of brands, frankly, it is not that long ago. But back then, we were just selling about 200,000 cases in a few states in the United States, to as you see throughout this great ride that we've been on, we're now selling over 12 million cases in over 160 countries around the world.

And what this has done is create, what I like to call, is just a good challenge for us because there's a lot of balance required in what we do with Jack Daniel's. So obviously, we built the brand from these early days with a lot of the small town, special value sort of an undiscovered brand to, obviously, today when you're 12 million cases around the world, you have the risk of becoming much more of a mainstream brand. So we work very hard to reinforce the specialness of Jack Daniel's, and that's again, back to this point of through the maker's world of what Jack Daniel's is all about to the popular culture today. So we'd like to say in many ways, Jack Daniel's is the small-town hero from the United States who's made it big on the world stage.

To take that a little bit further, we also think that we live outside of just the whiskey segment in the world. Now naturally, we are a whiskey and we're thought of as a whiskey. And outside of the United States, whiskey by and large is Scotch whiskey. And so we, of course, have many of the qualities associated with Jack Daniel's that Scotch does. I mean, that's a very traditional brand. There's a lot of heritage with the brand. It's a quality product, just like many of scotches are. Being a whiskey, it's an acquired taste. And also, in particular, there's a broad price spectrum that we like to – especially in the Scotch, use Johnnie Walker as an example, all the way from Red Label through the colors, the Blue Labels to now even they've got $1,000 products that are out there. So it gives that trademark room to expand, if they choose to, both below and above. And finally, Scotch is really the world's truly global category where it is a, by and large, big in every country in the world.

Now we also compete in an area, it's probably the second biggest category in the world, which is the vodka category. And so if you look at the queues coming through vodka being much more of a – associated with modern products, more of a stylish, especially with its packaging and its advertising, vodka is, of course, by its nature very mixable with a lot of variety. Vodka has been very successful in extending into flavored, flavor line extensions. There's dozens of them today. Vodka would have been at the forefront of the RTD category. For example, Smirnoff Ice, years ago, very successful in creating a very successful business, ready-to-drink. And vodka, unlike whiskey, still very large, but it tends to be more regional, although growing in most places around the world.

So the thing about Jack Daniel's, we like to say that it's really at the intersection of these 2 categories. So if you look about it, Jack Daniel's could encompass all of these that are going on here through, again, back to my point on the maker's world and tradition of whiskey queues. But we've been able to incorporate a lot of the vodka world on, particularly, an example of Jack and Coke and mix-ability. Jack Daniel's Tennessee Honey in our flavored extension, we have a tremendous ready-to-drink business. So we like to say that Jack Daniel's is competing in both of these worlds.

With that, I'd like to now take you through an example from those 2 worlds, from maker's world and contemporary culture, and show you how we're actually bringing Jack Daniel's to life around the world through – I have 3 commercials that I'm going to show you right now. We're very proud of all 3, and you'll see that they're very different from each other.

[Presentation]

John Hayes

So that last one is an ad from Mexico, obviously, but it's running in different languages around the world. Again, it's not Scotch, it's not Bourbon, it's Jack. A simple message that's is very powerful. You saw the music spot. We spend a lot of money around the world on music platforms. And so we want to take advantage of that as well as our place in music. That's a brand new spot that's just hitting the air in a number of countries as well as, obviously, our traditional Lynchburg advertising that we've been running for many, many years that we were very proud of and continue to update and tell that story.

The great thing about this digital world that we're in right now is that one of the oldest sayings that we have at Jack Daniel's is the simple encouragement to tell our story, not to sell our story. Jack tells a story, it doesn't sell a product. And we have many stories to tell. And we've been doing it, frankly, since we've had a Tennessee Squire program since the 1950s that we believe is probably one of first consumer relationship marketing programs and that was with our most loyal consumers around the world.

Today, we're having tremendous success connecting with people in the digital world. We have a database of over 13 million fans, including over 8 million on Facebook, and more than half of these reside outside the United States. So we're able to take the same Jack Daniel's message we've had for all these years in our understated manner, very quietly confident with our friendly, knowing smile and a sense of humor that inviting consumers to tell our story and for them to tell their stories back to us.

And just a little plug. This is a chart from eMarketer magazine. And Jack Daniel's has been recognized as having the highest consumer engagement rates in the adult beverage category, that's beer, wine and spirits. We actually have the second highest number of fans on Facebook behind Heineken, but a higher engagement rate. So if you ever get on, I encourage you to friend Jack Daniel's on Facebook and just follow the conversation because it really is consumers all around the world. We like to say we're actually hosting a virtual cocktail party from around the world. So that's been a lot of fun for us in helping to continue to build this great brand.

Moving a little bit here now into how we've evolved as a brand. So what you're seeing here is our depletions on the left back to 1990 up to today at the bottom axis. And what you can see is in 1990, essentially, we were a one SKU brand from the standpoint of Black Label Tennessee whiskey. We had just introduced Gentleman Jack a few years earlier. So you can see then, fast forward to today with the introduction of, principally, our RTD business, Gentleman Jack and most recently, Jack Daniel's Tennessee Honey, our portfolio now represents – 12% of our volume is actually outside of Jack Daniel's Black Label.

It's a similar true story here on our geographic mix. Again, so you'll see cases on the left, the calendar – our fiscal year is on the right. And you can see in 1990, 80% of Jack Daniel's business was here in the United States. Now you fast forward to today, you can see the green line is our international business. And although the United States has continued to grow nicely for us, the green bar is actually a few years ago went ahead of the blue bar, and now 54% of our Jack Daniel's business is outside the United States. So very proud of that.

Just to touch on a few countries here. I've just selected a few of our developed markets. And again, the axis here being millions of 9-liter cases and, again, the years beyond that. And we've been doing business in markets like the United Kingdom, Germany, France, Australia and Japan essentially since about the mid- to late-'80s – excuse me, '70s in a very small way and have accelerated that over the years and have been very successful, obviously, the United Kingdom being our biggest market outside the United States. We're the #1 whiskey in the on-trade in the U.K., which we always find amusing in the land of Scotch, we actually outsell them. Germany has been a great story for us for many years. And since we made our move to our own route-to-consumer with our own company in Germany, our growth rate has been accelerating. France is one of our most recent success stories in accelerating growth for the last 3 to 5 years in a very large whiskey market. In Japan, which is the second-largest whiskey market in the world after the United States, we're very excited about our move with — ***indiscernible*** —, which is taking place here on January 1 and looking to continue to grow that business. And finally, Australia has always been sort of our foundation of international growth from the early years, and we continue to do great business there and again with our own company.

Moving to just a few of the emerging markets, we're seeing rapid growth in many emerging markets, especially Russia, Poland, Brazil, Turkey and Mexico. And the interesting thing with this is, again, the route to consumer, Mexico being a great example, we acquired Casa Herradura. Yes, we wanted to get into the tequila business there. But probably almost as importantly, we wanted to be able to build Jack Daniel's in that market. And we've really taken off since we've had our own company there. At the same now, we're seeing signs we tried for years in Brazil, started our own company there 2 or 3 years ago, and it's one – now one of our fastest-growing countries. Poland, again, because of our Finlandia business, we've been growing nicely. And Russia is now really one of our true, exciting short term. We've just really started to get going there with our relationship with Coca-Cola Hellenic. So it's early days in all of these markets which was very exciting for us, and we're very excited about the growth prospects for the future.

This next strategy, I'm now moving into a little bit of going forward, where are we going with Jack Daniel's? And this is just a nice snapshot to show at our highest level, we say we want to make every adult around the world a friend of Jack's. And to do this, we need to create satisfying brand experiences that nurture a relationship for life. Now in order to do this, we need to recruit new consumers and increase loyalty among our current consumers. We need to reach more segments in more markets and participate in more occasions, categories and price points. So the 2 that you see here is we need to grow our existing portfolio, as well as introducing new Jack Daniel's products. So I'm going to take you briefly through all 4 of these.

The first, of course, is Old No. 7 Black Label. This will continue to be the driver of Brown-Forman and our portfolio. And we tend to accelerate the value growth of this very special and powerful, unique brand. We've recently, after the global financial crisis, been very focused on – you've heard about us improving our margins, increasing prices. We've reduced our depth and frequency of discounting. This has gone on around the world. We're still in early days, but we're very encouraged by – that our growth continues. We've also been very focused this year and we'll continue on making sure that we're reinforcing the specialness of Jack Daniel's and getting more and more of our investment behind what we call above-the-line, directly to the consumer, telling our story, in particular in the digital world.

As far as accelerating the rest of our portfolio, Gentleman Jack would have been our first-line extension back in 1987. It's a charcoal-mellowed twice, before it goes in the barrel and after it goes in the barrel. And you'd see by this chart, again, a great acceleration not only here in the United States, but over the last few years we've been introducing it and developing it in many countries around the world. And in fact, now, 35% of Jack Daniel's volume is outside of the United States. This brand really, again, was essentially developed for – sometimes drinkers want to trade up or show off a little bit and do something different and Gentleman Jack is there for them on that status occasion.

Another line extension we did in the '90s was Jack Daniel's Single Barrel. It's a – our ultra-premium line extension. And again, you can see by the graph it's performing very well. It sells for about twice the price of Black Label. And the interesting thing on this one is over 60% of Single Barrel is sold outside of the United States and does very well in places like Australia, France and the United Kingdom in particular. It's a very high margin whiskey for us. It's aimed at discerning drinkers, and it reinforces our whiskey-making credentials at Jack Daniel's.

As you can see here, we've been doing a lot of innovation over these years. So it's not new to us. So our Jack Daniel's ready-to-drink business, such as Jack Daniel's & Cola and Jack Daniel's Country Cocktails, continue to be very successful. And the one thing on this one, 90% of the volume of our RTD business is outside the United States, an extremely big and profitable business for us in Australia, do very well in Germany and more recently in Mexico and the United Kingdom, we've seen tremendous success.

These RTDs offer consumers more refreshing and convenient ways to enjoy Jack Daniel's. And we particularly go after what we call the beer occasion. And we'd like to say as well, it's sold a lot at events, sporting events, on-premise at concerts, that it's a badge in the hand that we really like to have out there. And another example on this one is, it's more innovation, is we just launched a Gentleman Jack RTD in Australia where the super-premium RTD segment has been evolving.

Moving on to our latest and most successful introduction, Jack Daniel's Tennessee Honey. Jack Daniel's, as you can see here, was the #1 new product introduced in the United States, according to Shanken [ph] publications through market watch and impact. The reason we've got into this really, obviously a great business decision. But we know many consumers have a genuine affinity for what Jack Daniel's stands for, but sometimes, quite frankly, they just don't like the taste of full-strength whiskey, particularly in women where we've had tremendous success.

So Jack Daniel's Tennessee Honey offers the Jack Daniel's experience and character but in a more drinkable flavor experience. And you're going to hear more about Tennessee Honey from Mike Keyes when he talks about the United States. But what we have begun to roll this out. This year we have expanded to the United Kingdom, Australia, South Africa, Poland and a few other international markets. And we are very encouraged and excited by the reception. And plans are underway to expand to more markets this coming year. I'd like to now introduce our latest innovation and new brand from Jack Daniel's.

[Presentation]

John Hayes

We didn't plan this day, but we – in hindsight, I was born here across the river in Hoboken. I don't know if you're aware of this but today, December 12, is Frank Sinatra's birthday. Would have been his 97th birthday today. That's one of the reasons we did this is his 100th birthday is coming obviously in a few years. We have done this in partnership with the Sinatra family. They've been very supportive and excited and helping us out with this new brand.

It is a bold, smooth and classic whiskey that Frank would have loved, when in fact, it is a different one. That you're going to – you have the opportunity to taste here tonight, which is very rare for you all because it's still not on sale here in the United States, other than we've launched it at the Las Vegas airport in a duty-free store in Las Vegas, which we thought Rat Pack and Las Vegas, it was good place to start. But you have to leave the country in order to buy it. It's retailing for $150 a bottle at this. And we are selling, it's been there for 2 weeks and I've heard from our duty-free people, it's selling very, very well.

We're going to be rolling it out in a slow expansion because, frankly, this is a, frankly, this is limited product we've created, and you'll hear more about it afterwards. But these are special barrels that we set aside that are called Sinatra barrels. We don't have an unlimited supply of them, so we're being careful on how we bring it out. It will roll out into some more duty-free stores next month, Heathrow, Dubai, Singapore and Sydney are on the docket. We're also launching it at one of our most profitable stores in the whole world, which is our Visitors Center in Lynchburg, Tennessee. So if you want to go down there next month, you can buy a bottle.

But we're really excited about this marriage of 2 great international icons. It's a true story. Frank really did love Jack Daniel's. We believe it reinforces the specialness of our brand again for – and what they believe. They want to keep his name in popular culture and the conversation. We did research and Frank is still very cool to young and old around the world. So we're really excited about this new brand from Jack Daniel's.

So I'm closing here with 2 slides that really talk about the future and why we're so excited about the future. The first one I'm going to talk about is the unique value of Jack Daniel's. And you'll see here on the right, you're going to see a few brands of the global volumes according to IWSR is what's on the bottom. And on the left is what the price point average a bottle on a global basis that IWSR would say for a few of the big spirit brands that we admire, frankly, around the world.

So you could start with the two largest international spirit brands, Smirnoff and Bacardi. Now they both sell 12 – I think Smirnoff's probably closer to 20 million cases, very successful brands. But it's sold at a price point you can see here. Depending on the country where it's going to be sort of in the $10 to $15 range, which we would call the standard price range. And they've been very successful at doing so.

Now you can also go high-priced like Johnnie Walker Black Label and Chivas Regal. So super-premium brands, very successful that sell for around $35 a bottle, give or take, around the world. And they're considered very special, with status. And they're selling in that sort of 5 to 6 million-case range, again extremely successful brands. However, we believe that Jack Daniel's is – we know it. It's the #1 selling whiskey brand as an expression. So Johnnie Walker, as a family, yes, it's bigger as a trademark family. But if you look exclusively at Black Label, we're the #1 selling whiskey in the world. And if you say – you put this in the perspective of, on average, Jack Daniel's around the world, $25 to $30 a bottle price point, usually in the somewhere 30% to 50% range more than the standard price category. And you can see we're seeing, we're selling around 11 million cases.

Now to put that in perspective, a brand like Jim Beam, 5 million cases, Jameson about 3.5 million cases in Maker's Mark, which we're all hearing about from this Bourbon renaissance. It's selling about 1 million cases around the world, even Hennessy, a fabulous brand at high price point sells about 5 million cases. You're looking at Jack Daniel's, what we like to somewhat say is in rarefied air at a very high price point with very high volumes. And this, we believe, back to the saying of Lem Motlow that said all goods were price charged, and we're very proud of this statement that we're making.

And then finally as far as the future, we're in the beverage alcohol business. So it's growing around the world. We are in the whiskey business. We've demonstrated to you that this is a global category, and, as seen on the left, is a growing global category. What you're seeing here is what we call standard-plus whiskey depletions. It was essentially standard priced whiskey. We're not including lower-priced local whiskeys, like the Indian whiskey that would be in here. So a growing category.

Now Jack Daniel's share within that category, we're doing well. In 2001, we had a 7% share of this whiskey category. Fast forward 10 years, all that growth we've had, we've grown share, but it's only 2 points. Very proud of that, but the exciting thing for us is we're going after that other 91%, and that is where the opportunity goes for us in the future. So we frankly just think that we're scratching the surface on what Jack Daniel's can be with enormous potential ahead.

So with that, I'm closing with, since it is the Christmas season, I wanted to close with our ad that we've created for this holiday season. We launched it last for the United States. It triggered a lot of emotion around the United States. We've now taken it to some markets outside the United States. And we believe it's again showing the emotional connection this brand brings. And you will see how we're taking that into the United Kingdom to close it out.

[Presentation]

John Hayes

We got Covent Garden this year. We're hoping to have it out here in Times Square next year. So thank you very much. With that, I'm going to turn it over to Mark McCallum. Thank you.

Mark McCallum

Well, thank you, John. It's always difficult after a 30-minute Jack Daniel's immersion not to just marvel at the strength of that story. I think, John, you probably just got on tour, do that presentation and have some fun.

So in addition to that story on Jack Daniel's and the story that Lawson shared with you in regard to our vodka, tequila and other brands in our portfolio, we want to spend the next 45 minutes bringing to you a perspective of Brown-Forman's performance through the lens of our markets, so the with the geography, geographic strategy that we've been deploying. And myself and 3 of my teammates from around the world will share with you some of this story.

So I will start with a global oversight of our geographic journey of expansion. And then Andrzej, Jill and Mike will share with you some more interesting specific insights into 3 market types, 3 market stories that underpin the validity of this strategy.

Let's just reprise the 20-year international growth story of Brown-Forman. The pie charts on the screen here will show from 1992 the 10-year run through 2002 out to 2012. Moving from 86% of Brown-Forman's business, this is a net sales share. 86% of our net sales generated in the U.S., 14% everywhere else. And all the way through now through last year 2012 where 42% of our sales generated in the U.S. and the balance 58% elsewhere in the world, behind this purposeful strategy of internationalizing the Brown-Forman company.

It born was in the mid '90s, a purposeful strategy developed by the leadership team at the time to take Brown-Forman behind the trademark Jack Daniel's through the world. Over this period of time, the compound net sales growth of the company over the 20-year period was around 5%. And then behind that, the U.S. growing around 1% compound over that 20 years, and international business growing somewhere around 13% compound over that same 20 years.

Maybe the last observation from this chart, which you won't see from the numbers here though, that from 2002 to 2012 are more than doubling of the net sales of Brown-Forman to the current $3.6 billion last year. So it is a journey of internationalizing the company. And it has been a purposeful journey, which was turbo-boosted even more so in this past 10 years.

Another way to look at it perhaps is in terms of the scale of business that we have beyond just the U.S. And what you're looking at here over the same 20 years is the number of markets of scale, or what we would say of sufficient scale to begin to encourage competitive positioning enough for us to be confident in the future of our business within that market. So from a handful of markets, 6, just 20 years ago to around 40 markets today that we would declare are of scale.

Now some of the stories behind the ability to do that, if I look particularly at the last 10 years, I would say of course that the addition – well, I guess the international movement started with Jack Daniel's. It's such an incredibly strong trademark to be able to take out to the world and interest third parties in helping us sell, market and distribute the Jack Daniel's brand.

Then early in the last 10 years, the acquisition of the Finlandia business has certainly fueled our ability to grow internationally, particularly in Central and Eastern Europe. And then 6 years ago, the acquisition of the Casa Herradura business bringing also to us an ability to grow our business beyond just the trademark Jack Daniel's. And so the story of developing markets of scale and internationalizing continues.

So it's the brands that are causing it and enabling it, as Paul said in the early lead-in here, the people that we've been adding to our business internationally been a huge and leading part of the capability of this international expansion. And also, the route-to-consumer or the way we go to the market in any particular country has been one of the primary enablers of our ability to demonstrate the performance and expansion that we've been showing.

What you're showing – or what we're seeing on these 2 pie charts is a 10-year spread, 2002 to 2012, it's net sales again. It's represented by a stripped net sales and it's talking about the type of – or the method of going to market that we have been using. If I start with the 2002 pie chart on the left, agency, 88% of our international sales, this is excluding the U.S. here, of our international sales was generated through third-party agency business.

And again, it was relatively easy to go and find partners in countries elsewhere in the world who were interested in Jack Daniel's as a brand, certainly in terms of the ability of Jack Daniel's to add margin to their own operations in those markets, but also the ability of Jack Daniel's to lead the development of some of their own brands as Jack Daniel's grew in the on- and off-premise around the world, brands in the portfolios of Bacardi and Diageo and other partners that were using 10 years ago, were benefiting as well. So this is a very successful model to begin this rapid internationalizing of Brown-Forman.

Although now over last 10 years with the acquisition of our vodka brand, Finlandia, and the additions to the vodka portfolio Lawson spoke of, and the addition of our tequila portfolio and the innovation and creation of some of their own whiskey brands, it's harder for us to get the attention of a third-party distributor to develop brands that they may also have competitive offerings of. So vodka brands, all our competitors have vodka brands. Tequila brands, most of our competitors have tequila brands. So we have set about a deliberate move to ensure that we get sufficient competitive influence in markets that are important to us to be able to grow our business beyond just Jack Daniel's.

And so the movements you see from 88% of our business in the hands of third-party distributors, mostly competitors actually, distributing our brands back then, through today, 34% of our net sales generated internationally through the same third-party arrangements. And we have moved purposefully in a number of these markets into our own distribution model, which now, 52% of international sales, we control within that market the sales, marketing distribution and general management of the business in those markets.

The cost-sharing segment that you see there principally speaks to the U.K. where we have a very favorable or a very good partnership with Bacardi in a very important market to us. And so the journey of our route-to-consumer strategic evolution has been a fascinating one for us over the last 10 years, and has, as its core, the basic need, it is not that everything will eventually move to owned because there are models in certain markets that particularly suit our business and our balance of risk and reward at the moment. I think Paul had said that it depends on the market as to how we may set our models up. But we're very pleased with the ability to do it. And mostly, we want to be sure that in the priority markets that we have, that we have the influence needed to be competitive in that market.

The slide you're looking at here, on the horizontal axis declares the key priority markets that underpin our Brown-Forman 150 strategy. And in each of those markets, the blue column illustrates the size of the total distilled spirits business in that country and the red line indicates the Brown-Forman company's market share in that market. A couple of observations I would make or offer to you here, as you look at this collection of markets, there are some commonalities in that collection with a number of our global competitors. So just like others who we compete with, the United States remains the most valuable, the most competitive spirits market in the world. I might just referring to that asterisk on the China market there. We put that asterisk there includes all the other markets' sizes are directly sourced from IWSR. We're in some very healthy discussions with IWSR about our view that IWSR has not yet found a way to accurately quantify the Chinese spirits market. In fact we believe it's somewhat overstated in the IWSR a little bit. Not a large point, just to say China's a hugely important market with a varying number of sources who believes how big that spirits market really is.

But getting back to observations of the actual markets themselves, as I said, many of our competitors were the same, the United States and the obvious emerging markets, the BRIC markets and Turkey. But there aren't many of our competitors who would have on a set of a dozen key priority markets for a 10-year strategy, markets like France, Germany, U.K., Australia, maybe even in Poland you could argue. And so what we would say is this representation of our priority markets has commonality, but is also somewhat unique to Brown-Forman. And we believe, because of the fact that we have been able to evolve our route-to-consumer model in a number of markets around the world, we're only at the early stages in a number of these markets of realizing the opportunity that they present.

In a minute, you're going to hear about 3 of those markets. You're going to hear about one of our classic emerging markets, Russia. You'll hear about one of our very interesting markets where we have our own distribution via Casa Herradura acquisition in Mexico. And then Mike's going to talk to you, of course, about the world's most valuable spirits market here in the U.S. But one of the other observations of this chart that we like to make is that our market share, no matter which model or which market you look at, our market share is below 10% in every single market.

And in the markets where, over the last few years, we have been able to gain that full influence over the development of our business, we have inexorably been able to increase our market share. So this chart fuels our belief that through the market lens, our Brown-Forman 150 strategy offers great optimism to us in regard to our future and our ability to continue to grow internationally.

And with that, I'll pass it off now to Andrzej Janota, who is here from Warsaw, Poland, has English as his third language, and has responsibility for the growth of our business in Poland, Russia, the CIS markets and some others of the Central, Eastern European area.

So Andrzej, welcome to the stage, and we look forward to hearing your story about Russia.

Andrzej Janota

So Mark, thank you, and welcome to the cold Russia. Just to give you kind of information, it's minus 10 right now in Russia. In Moscow — ***indiscernible*** — it's snowing. So it's good to be here in New York.

So as you know, Russia is the largest country in the world as we have a population of almost 150 million people. But Russia is also one of the biggest spirits markets in the world. Russia is by far #1 vodka market with 222 million cases. And that's even a lot for the Polish person. Russia is also the third biggest tequila market in the world as well as very nicely growing whiskey market. Russia of course is a priority market for Brown-Forman because we observe a strong interest of the consumers into growing categories which feeds well into our Brown-Forman portfolio in France [ph].

So in today's presentations, I'm going to talk about 3 areas. First of all, I would like to give you a highlight about the spirit category and the premiumization trends. Secondly, I would like to talk about how the current portfolio is positioned to capitalize on the growth of the premium categories. And finally, I will talk about the role of the route-to-consumer.

This is quite of a busy slide, but shows basically the dynamics of the spirits category in Russia. This is where you can see here that the spirits category, which is around 262 million cases has been declining 1% over the last 10 years. The but the decline was driven by the sub-premium categories. We can observe that over the last 10 years, a strong premiumization trend and the premium category has been growing by 14% on the annual basis, has been shifting in size to 3.6 million cases. If you look into the share of the premium categories into structure, the biggest part of the premium category in Russia is premium vodkas. It represents around 17% – 70% as we're growing around 13% on an annual basis.

The second-biggest category is whiskey, and the second biggest premium category and the fastest category is whiskey, which is around 367,000 cases and is growing around 24% on an annual basis over last 10 years.

And finally tequilas, tequilas has been growing around 19% and is around 167,000 cases. But it's worth to note that tequilas in Russia are premium tequilas. Tequila is marketed in Russia 40% [ph] is represented by the premium tequila. So it's very interesting.

So let's have a look how we are doing, how we are performing on that market. So we have a very strong portfolio of brands, which is very nice working on the Russia markets, starting with vodka. Finlandia Vodka is #1 vodka, #1 imported vodka in Russia. It's also been outperforming the category over the last decade, and our goal is to continue that outperformance over the next couple of years. We'd like to grow parent brand as well to concentrate on the launching new innovations. Like this year, we have launched Finlandia Vodka Platinum, which enable us to capture the opportunity into the super-premium vodka category. Super-premium vodka roughly is at 350,000 cases, a huge category.

2012 is also the first year of our course [ph] of the tequila in Russia. We believe we have a strong portfolio of brands with Herradura, which can play a significant role in the super-premium tequilas. And with el Jimador, which can play a growing standard in the premium tequilas as well as Pepe Lopez, we can become a very strong player in the market over the next couple of years.

And finally, whiskey. Jack Daniel's is the #1 the premium whiskey in Russia. That's based on the August-September results from AC Nielsen. Jack Daniel's is also the #1 American whiskey in Russia and Jack Daniel's is – still can shift potential to growth. But as the appetite for the American whiskey is growing in Russia, we decided to launch Early Times Kentucky Whiskey. Early Times enable us to kind of recapture the opportunity over standard whiskey category in Russia. So we have a very strong brand which are very relevant to the kind of the categories and the consumer interest in Russia. But it's also very important to have a very strong growth [ph] to consumer.

So let me kind of put this into – a bit into historical perspective vodka's had over the last 10 years in Russia. We started the business in Russia only in 2004, followed then 3 years by the ban on imports. Afterwards, we've been growing the market pretty much – the business pretty much in line with the market. Until 2010, when we decided to kind of explore opportunities of a partnerships with the biggest Coke bottler in Europe, Coca-Cola Hellenic. In 2011, we decided to go together with Coca-Cola Hellenic. It give us a great opportunity because Coca-Cola Hellenic can give us the access, direct access, to around 60,000 stores in Russia which is spread around on the great, huge territory of the country. So the first results of that are really very promising. We've managed to – we are currently approaching 0.5 million cases, of which 60% more prior to the year before transition.

So having a very strong portfolio of brands, and having a very strong route-to-consumers, we also very, very much on building a strong team in Russia. We have a very strong Brown-Forman organization which is responsible for creating this strategy as well as building the right brand-building activations for the brands.

In closing, we have a strong brand. We have very strong route-to-consumers and we have a strong, dedicated team that I believe will give us a great potential for the further growth. With this, I would like to move from the cold in Russia into sunny Mexico, the biggest tequila markets in the world, where Jill Jones will show us a bit of the color, how the brands are going there. Thank you very much.

Jill Jones

Thank you, Andrzej. And thanks for joining us today so I can talk about our successes and our opportunities in Mexico.

Today I want to talk to you about 3 main topics. First, I want to talk about the size and the composition of the spirits in ready-to-drink market and the recent growth trends. And then I want to talk about the power of our portfolio and that key brands we have to grow with. And then I want to talk about leveraging distribution that we acquire with our tequila brands that have helped us grow Jack Daniel's.

First of all of, many of you may know that Mexico right now is going through a bit of a renaissance. There was a great section in the recent Economist about how well Mexico is doing. So I won't belabor it, but I will say a couple things. It is currently of the 11th largest economy with a population of about 120 million, much of it skewing young, so that's very favorable for Brown-Forman.

Now as well on the slide you see, the left side of the slide shows the spirits market and the composition by type spirit. It's a 22 million-case market and the largest segment is at the bottom, it's 7.8 million tequila. It's the #1 spirits market and it's growing at 5%. We have the – we're the #2 player in tequilas. Also noteworthy, if you look at whiskey growing at 20%. Of course with much as around the rest of the world, Jack Daniel's is iconic and aspirational for Mexico as well and is helping us gain market share there.

If you look at the right side, the ready-to-drink category is 11 million cases. You see at the bottom, the yellow, and that 5 million cases is our brand, New Mix, which is a ready-to-drink. It's made with our el Jimador tequila and it's been growing at 12%. Now ready-to-drinks are only 1% to 2% of the Mexican beer market. So we think we have a lot of room to grow and have only begun to tap in to the potential with our Jack Daniel's and Finlandia entrance into this category.

So I'm going to talk a little bit about our portfolio in Mexico. For our tequilas, we have the #1 super-premium brand in Herradura that has been benefiting from premiumization trends that allowed us to grow double digits. In fact, this year, net sales are up 22% over and above last year, but had nice growth. We also have a strong regional brand in the premium segment called Antiguo. It's the #1 on-premise brand in Guadalajara and we believe it can expand nationally. In the mainstream category, we have el Jimador, which the #2 brand by value and volume.

In the RTD segment, I mentioned that our New Mix is the #1 brand, and we've been able to leverage that knowledge and our position in the market to introduce Jack Daniel's. We introduced the Jack Daniel's RTD in 2009 and is already the #1 premium RTD, the #4 RTD overall. We also introduced the Finlandia Frost, our Finlandia-based RTD, and it is the second-largest vodka-based RTD, and it is growing faster than its competitor.

Of course, everyone loves Jack Daniel's. Mexico loves Jack Daniel's. It's a Tennessee whiskey, as you know, growing in scotch-dominated market. And we believe it can play in a super-premium category and we have whiskeys that can play in the mainstream. And if you noticed at the top, in the super-premium category, we have Jack Daniel's Single Barrel, Gentleman Jack and Woodford, all that we believe can do nicely in the Mexican market.

In the aggregate, this portfolio has returned to growth mode over the last 2 years and allowed us to grow at 13% in fiscal 2012 and 10% year-to-date. So let's look specifically at the success we've had, leveraging our distribution to grow Jack Daniel's. If you look at this chart, I'm going to kind of walk you through it, we've converted fiscal year 2001 to our base year and we have it at 100. The brown bars are our spirits volume, and then the blue bars sitting on top of the brown bars are our RTD volume, and then green line represents our net sales.

Now until 2008, we were with a third-party agency doing our distribution. In 2008, we brought Jack Daniel's into our Mexican distribution that we acquired with our tequila brands and you can see the inflection point there. You can see that we grow from – if you just look at 2008, we get up to something that would be 56x what it was in the base year ’01. But if I just kind of eyeball it here versus when we moved it in, in ’08, you see a significant growth, I’m going to say at least 10x. So you can see that we have a great portfolio in a growing market with a good economy, a good own distribution, and we have a wonderful people that we believe and are confident will continue to deliver growth in this segment.

With that, I’m pleased to announce and introduce you to Mike Keyes, President of the North American Group to discuss how we have accelerated our growth in this market over the last 2 years and to explain how we have confidence we will continue to grow. Mike?

Michael Keyes

Thanks, Jill. I guess I’d just start out by saying business is strong in the United States. So it is a great time to be with you to share our success over the last 2 years, in both gaining market share and also in accelerating the growth rates across our portfolio of brands. Mark had talked about – he’d used some great words: attractive, competitive, valuable. Another word I would use for the North America U.S. spirits business is innovative. And if there are a few things that I’d like you to take away from the presentation today, they are these: One, the spirits category has been improving in ways that Brown-Forman is uniquely positioned to benefit from. Brown-Forman used the challenges of the recession to ramp up innovation, to create opportunities, to improve our overall business and with the success in our innovation and with the current environment that we’re operating in, I’d like to leave you today with the confidence that we will continue our top-tier performance and that we are gaining and winning in the marketplace.

As we talk about the environment, there’s one observation that is very, very important to Brown-Forman. And that is that the growth trends for premium brands are outpacing both the total distilled spirits category and the value and popular price segments. This is particularly beneficial to Brown-Forman where 87% of our portfolio in the United States sells for more than $15 a bottle. In fact, Brown-Forman is the most premium of the top 5 spirit companies ranked by value in Nielsen.

With the economy slowly continuing to improve, spirits brands are returning to taking more price than they have in recent years, and Brown-Forman has been taking more price than the market in general, again according to Nielsen. Jack Daniel's is supporting its price increases by building brand equity in a number of ways in the United States. This year, we have significantly increased our media expenditures and our presence by placing advertising on network television and buy out-of-home spectaculars in key markets across the United States. This creative use of ad placement betrays the look of a leader and further helps us to premiumize the brand to our consumers.

Jack Daniel's is blessed with an ability to balance its storytelling. I think John did a great job of taking you through how Brown-Forman and Jack Daniel's use authenticity, integrity, tradition, Americana and independence to bring our advertising alive. With the increasing importance of multicultural consumers, I'm also proud to say that for the first time in our history, Jack Daniel's is placing advertising on Spanish-language television.

Innovation has also been significantly increased across our portfolio and within the Jack Daniel's family of brands. This year, we're introducing a number of new super-premium offerings that reinforce the small-town handcrafted credentials of the Jack Daniel's distillery. Examples include Holiday Select, which is a brand that kind of fits into that holiday Christmas barrel tree program, and we make a large donation and the program revolves around Operation Ride Home, which provides our cash-strapped soldiers with the chance to return home for the holidays.

Another great product that we are introducing is unaged rye. It's currently being introduced in Lynchburg and throughout Tennessee for the holidays and it will roll out in the rest of the United States in February. And John has already told you about the excitement behind the Sinatra bottle. And I'd just reiterate what John had said, if you happen to find yourself in Las Vegas or down at the distillery, please pick up a bottle. You won't be disappointed.

We have also increased the investment that we put behind our digital marketing initiatives. And as John pointed out, this is paying huge dividends. Jack Daniel's now has over 3.5 million friends on Facebook in the United States, and we have the highest engagement scores of any spirits brands in the world. We will continue to use our partnerships, including our sponsorship of GRAMMY Award-Winning Zac Brown, with messaging that reflects the values of Jack Daniel's by creatively relaying the importance of responsible consumption of our products. We've also increased our presence in professional sports venues by partnering on advertising and responsibility initiatives with groups like Be My Designated Driver, and these affiliations are very visible and important to our key legal drinking age to 25 – to 35 year-old male consumers.

Jack continues to bring iconic and integrated marketing programs to the marketplace. Our summer independence program reminds consumers that Jack is the authentic American spirit. Our holiday programming emphasizes the fact that Jack has a tradition of bringing family and friends together, and our music programs reflect the historical role that Jack has played in nurturing pop culture throughout the world.

Bourbon and Tennessee Whiskey have significantly outperformed total distilled spirits over the last year. As you can see from the slide, this is particularly beneficial to Brown-Forman, where over 60% of our company's retail value in the United States, as measured by Nielsen, resides within this category. We have a great portfolio of brands and not only is Jack Daniel's innovating, but many of the brands within this – with this – in the set are also innovating.

Honey has been the most successful new product launch in our history, and I'd like just to take about 1.5 minutes to show you how we've support – supported the launch of this brand within the United States.

[Presentation]

Michael Keyes

Early in its first year, Tennessee Honey became the #1 brand in the growing flavored whiskey category and it outsells Red Stag and American Honey combined. As John mentioned, Honey was also chosen by IMPACT Magazine, as the best new brand introduction of 2011, and it's already become a top 100 brand in the United States. The brand has accumulated nearly 1 million new friends on Facebook, of which 1/2 of these are incremental to our existing Jack Daniel's franchise. And as we approach 2 billion media impressions, we certainly have extended the reach of the Jack Daniel's family of brands by bringing new consumers who haven't used Jack Daniel's into the Jack Daniel's franchise.

Earlier this afternoon, Lawson showed you the new Southern Comfort television spot and we're very, very excited about the work that's going on to revitalize this brand in the United States. As with many of our brands, we began shifting resources to media over the last year and Southern Comfort is certainly maybe the biggest benefactor of that move. The new Southern Comfort Whatever's Comfortable campaign has both significant media and digital components, and it's capture the attention of U.S. spirit consumers. We believe that the consistent delivery of our message with 36 weeks of television advertising will drive unaided brand awareness and that this schedule, coupled with the new creative and with exciting new line extensions like Bold Black Cherry will continue to grow the brand, and the results have been dramatic improvements in our U.S. sales and value trends. I'm proud to say that after several years of decline, the Southern Comfort family was up 3.2% in Nielsen value for the last 3 month reporting period.

If I take you back to my opening comments, here – there are few things I'd like you to walk away with. We're growing, again, we're growing value share. The spirits category continues to improve in both the on and off-premise, the shift in consumer preference to both premium spirits and the Bourbon and Tennessee Whiskey is real. And if you combine that with our ability to take price, it's created a very positive and enviable position for Brown-Forman in the United States. I'd like to thank you all for your attention. We're now scheduled for a break. I would ask if you could return to your seats by 3:20, that would be terrific. Thank you very much.

[Break]

Executive
Ladies and gentlemen, please welcome Don Berg, Brown-Forman Chief Financial Officer.

Donald Berg
Good afternoon, everyone. Let me add my thanks to you all for joining us this afternoon. Before the break, we covered quite a bit of materials on the opportunities that we see for our brand portfolio globally and especially outside of the United States. I'll put a financial context around that. And I'm also planning on adding a little bit of color around the North American whiskey opportunity, some of the premiumization trends that we've been seeing, our international expansion. And then I'll talk a little bit about our capital deployments and then total shareholder returns.

So let me start with this slide. It's a slide that many of you have seen before. It basically summarizes the results of everything we've talked about so far. And I do think it's a great example of what we mean when we talk about how we think long term.

This chart basically shows you net sales, gross profit and operating income going back over a 35-year, 25-year, 15-year and 10-year time horizons. And the one thing that I'll point out is that you basically see very consistent performance in the high single digits across all these time frames and across all 3 metrics. For the last 5 years, you'll see we have not quite performed up to these historical levels. But as you all know, during that time, we had one of the biggest recessions that we've seen in modern time. And with that recession, we saw the move going from the on-premise to the off-premise. We saw trading down versus trading up. We saw competitors competing more on price than on brand-building, and we saw the inability to raise prices to recoup costs.

But in spite of all of this, we still grew. And I would say that one of the reasons for that growth is, to a large extent, a testament to much of what you've seen up here in the course of the day regarding our geographic distribution. And to the extent that we have diversified so much geographically over a number of markets, we were able to buck those trends during that time.

More recently, as I'm sure you all have heard in our recent conference calls, we are performing back to closer to those more historic levels. In fiscal '12, we had underlying operating income and underlying sales growth at 9%. And then more recently, year-to-date through October for fiscal '13, our underlying sales grew at 8% and our operating income at 12%. Also, you've seen so far in fiscal '13, we talked a lot about being focused on driving high single-digit growth through better balance in pricing and volume growth.

Prior to the downturn, we generally were experiencing price representing about 1/3 of our revenue growth and volume the remaining 2/3. And those are our goals now here, as we've stated, for fiscal '13. When you look at the performance year-to-date, our price/mix is up over 2 points, with the underlying growth of 8, so we are definitely headed in that right direction.

Let me talk for a minute about gross margins. This slide illustrates our gross margin over the last 10 years. As you can see, we're off a bit from the peak in 2006. Although in recent years, gross margin basically hovered around 50%. Coming into this fiscal year, we talked about our focus and how we were using pricing to support and elevate the premium position of our brands but also importantly, over time, to recapture some of this lost margin.

As we reported last week, year-to-date through October, our gross margins are up 260 basis points. And out of that half, 130 basis points are coming through the organic improvement that we're seeing through price/mix and through reduced costs.

In addition to pricing opportunities, let me also add some color on the resurgence that we've seen in the North American whiskey category. As you can see in this pie chart, our portfolio skews towards whiskey, and we believe this positions us well to outgrow the industry as we believe that the revival of the category, particularly for bourbon and U.S. whiskey, is still in its early stages. And we believe that this is true both in the United States, as well as globally.

If we look at U.S. whiskey and bourbon buy-ins on a totally global basis, we've seen growth since approximately the year 2000. And more recently, according to IWSR's most recent information, 2011, bourbon was the second fastest growing category. So what do we think is driving this global growth? Well, we believe that one of the biggest reasons is the enormous global appetite that we see for Americana [ph]. And Jack Daniel's is the premium imported American spirit brand, as I think John Hayes did such a great job highlighting earlier today.

If we look specifically at the U.S. market, Mike shared some of this with you as well on value terms, and when you look at U.S. whiskey and bourbon, it's basically growing faster than the total distilled spirits for the last several months. We believe some of this renewed interest has to do with some of the interest that we've seen in craft distilleries. But really to a large extent, the early stages that we believe that we're in, in terms of innovation, and it's a great example of that, which you saw earlier with Tennessee Honey, which year-to-date has grown at 50% rate and in the United States has continued to grow this year at 20%.

Let me turn for a minute to premiumization. As you've seen, Brown-Forman has one of the premium portfolios in the industry, with 90% of our total retail sales value at premium prices and above. So we believe with that, we're also uniquely positioned to capitalize on the premiumization trend. We start in the developed worlds, and you look at all the developed markets together, what we've seen is the further you move up the pricing ladder, the greater the growth. In this chart, we have brands priced premium and above growing in aggregate at 7% at compounded rates compared to those at standard and below growing at 4%. When you compare that to the emerging markets, the emerging markets are actually more striking and at the high end have been growing at double digits and roughly twice the rate as the standard-and-below price points. And we really believe we're only beginning to tap into the enormous potential around the world that premiumization has to offer.

Let me move to our international expansion. As Mark showed earlier, our mix of business has been undergoing its own diversification for some years now. 10 years ago, he said 23% of our revenues were outside of the United States. In the year ended with fiscal '12 in April, that number was 58% and was driven by a 19% CAGR over that time frame. And in fact, when you look at it over that last decade, 85% of our growth has come from markets outside of the United States. And again, we believe we're early in penetrating this global opportunity, particularly when you consider this in light of the fact we have some of the smallest shares of the total non-U.S. business when you consider the large spirit companies.

Before leaving this slide, let me just make one quick comment on the U.S. business. U.S. sales have grown during this time frame, it's been, albeit at a relatively slower pace. But when you look at the more recent results, as Mike was talking about, year-to-date through October, our underlying sales growth in the United States actually now approximates our global growth rate over the last 10 years.

So let me talk for a second about this long runway for growth. Oftentimes, I'll get the question, how long do we believe we can continue to outperform the industry? How long is that runway? Mark shared a similar slide looking at specific individual countries. This wraps them all up together and actually looks at the global marketplace. And when you consider all of the volumes the spirit brands sold across the globe, Brown-Forman today only represents about 1% share of that market. So when we think about that and the fact that this market continues to be relatively fragmented, we believe we continue to have substantial opportunities for growth as we increase our market share around the world.

So with that, I'm going to segue and talk a little bit about our capital redeployment and our total shareholder return. This chart looks at cumulative cash flows for 10 years through the end of April this past year. Over these 10 years, we generated $4.6 billion mainly from cash from operations. Of this $4.6 billion, we've reinvested $1.6 billion back into the business, either in the form of capital reinvestment or in acquisitions. We also paid a steady and growing dividend, which was roughly another 1/3 of this $4.6 billion. And finally, we were able to pay both special dividends, as well as buy back some of our stock. So when you look at it in total, we basically reinvested 1/3, and we returned 2/3 to the shareholders.

Our priorities for deploying cash remains consistent with our philosophy to, first, we reinvest in future organic growth; we look to grow the dividend as our earnings grow; we search for acquisitions that bring us new brands or new capabilities; and to the extent there is excess cash, return it to shareholders via share buyback or through special dividend. After paying the special dividend that we recently announced, our debt to EBITDA will be roughly about 1.5x, which we believe we invest with very ample debt capacity without jeopardizing our investment grade rating.

So what are our plans today and what have we been doing recently? Well, as I said, we start by looking for opportunities to invest behind our business, targeting long-term returns that can be multiples of what is invested. Our business model really is quite efficient relative to the industry, with about 2% to 3% of sales on average being reinvested in CapEx and usually generating very healthy ROIC. In fact, our industry-leading ROIC has been in the high teens for years and was over 20% during the most recent 12-month period ended October 31.

Next, we consider the dividend. We believe the dividends are important to our shareholder base. We've paid a dividend for 67 years, and we've steadily increased it for the last 29 years. A few weeks back, our board announced a 9% increase to an annualized payout of $1.02 per share.

Then we look at other ways to invest behind the business. While we haven't made a large acquisition lately, we continue to look for ways to strengthen our leading position in whiskey. We'll also look to ways to strengthen our vodka portfolio such as the addition of Maximus last year. And we're also very interested in any type of local brand opportunities that could play an important role in our future, something similar to what you saw earlier when we talked about Mexico and the distribution business there that we acquired back in 2007.

It's important to note we continue to view acquisitions as an opportunity for Brown-Forman rather than a necessity. So we'll continue to execute them only when we're confident that they really create long-term value for all of our shareholders.

Then finally, turning for a minute to how we return excess cash to our shareholders. As you saw before, over the last 10 years, we've returned it through a combination of buybacks and dividends. This chart shows you the dramatic reduction in our shares outstanding as a result of our history of share buybacks going back to 1987. More recently towards the end of November, given the strength of our balance sheet and our strong cash flows, we announced a special dividend of $4 per share that will be paid in late December.

As in the case with many other family-controlled public enterprises, we focus on delivering the greatest returns for our stakeholders while minimizing the risk profile. This chart illustrates one way to look at that. It shows the outperformance of our total shareholder returns compared to the S&P 500 over 10 years, against one major risk, a relatively lower average debt position over that time horizon.

Here's another way to think about it. This slide looks at the highest returns with the lowest volatility or risk, in theory what's known as the Sharpe Ratio. In reality, it means positioning the company to endure with a careful eye on cost, a strong balance sheet and a long-term view to building our brand measured in decades, not in quarters.

The first bar in this chart illustrates the number of companies that outperform the S&P 500 over the last 10 years. There were 292 companies that accomplished that, and Brown-Forman was one of that 292.

The second bar shows the number of companies in the S&P 500 that both outperformed the index but also had a beta less than 1, an example of lower risk but higher reward. There are 139 companies represented here, and Brown-Forman is one of these 139.

Finally, the third bar represents the number of companies in the S&P 500 over this period who had both higher returns than Brown-Forman but also a lower beta than Brown-

Forman. Only 6 companies were able to outperform Brown-Forman on this metric. Or looking at it at a different way, Brown-Forman outperformed 494 of the 500 companies during this period in terms of delivering higher rewards for lower risk. What we like to think about this is that we believe it demonstrates our approach to the business, targeting higher risk-adjusted returns for good times and bad, and it's a strategy that we believe has allowed us to thrive and endure for 142 years.

So let me summarize the reasons that we believe Brown-Forman continues to be a great long-term investment. It begins with one of the best portfolios of premium brands in the world, focused on categories that we believe are well positioned to outperform. Second is the unbelievable power of Jack Daniel's, the fourth largest global spirits brand, growing in the high single digits and just hitting in stride in markets outside of the United States. We believe the runway for Jack Daniel's is long, and we are focused on that product. Third, while our U.S. business is growing nicely, it's our growth outside of the U.S. that has been driving results and will continue to as we increase penetration in the emerging markets. Fourth, it's our incredibly long-term track record of being strong stewards of capital, investing in the future, acquiring opportunistically and returning cash to all of our stakeholders. And then fifth, the competitive advantage that we've enjoyed through our engaged and passionate long-term shareholders, the Brown family. The family, like most of you in this room, want to see sustainable, long-term earnings growth, dividend growth and capital appreciation. And with approximately 59% of the voting stock, their support has allowed us to focus more on the long term and ensure that the company endures for future generation. And this, we believe, is one of the company's many competitive advantages and one that has driven some of the amazing numbers that I have been able to share with you today.

So with that, I'm going to turn the stage over to our final speaker, Garvin Brown IV, our Chairman of our board and a fifth-generation Brown family member. And Garvin is going to share with us his perspective on the family, as well as some of the evolutions that we've seen over the last few years as it relates to the company, its management and its board. Garvin?

George Brown

Thank you, Don. Good afternoon. Can you hear me? Good afternoon. It's a treat to be here today with all of you. I recognize voices from the earnings calls and, of course, many names and even some faces. So thank you for joining us this afternoon.

As you can imagine in the course of any year, I spend a lot of time talking about Brown family governance, our Board of Directors and even our company. I've spent a lot of time talking also to investors. I live with some investors, and I'm related to many, many more. But it's not always that we've actually taken the family governance topic and brought it out into the public sphere, and it's not often that I've had a chance to talk to our public investors and analysts about this subject.

I think if you're in a family-controlled public company and trying to judge what's family and private and what's appropriate to go in public, it's a challenge. There is no textbook on our governance. I've looked for one, I can assure you, but there is none. So lately, with all the work that we've been doing, we thought maybe it would be appropriate to come in the public and share some of this. Paul and I, the board and I, my family and I think that it's probably best practice for a family-controlled public company to come share this sort of work. We think – I think that you're owed the respect of an explanation as to how the Brown family organizes itself. And I even think that you'll enjoy seeing us work and that you'll see how it helps your investment.

So for those of us who work on this topic, we always start with these 3 bubbles: board, family and company. And starting with the company, I'll say that in the old days, it was – it seemed a lot easier. You could put forward family and company all on the same slide in one photo. We even had our – an old approach to corporate governance. The 2 older gentlemen sitting in the middle were brothers, and what they did actually was marry 2 sisters. So the other 3 were their sons, and they were actually also double first cousins to each other, as I think it probably made family politics a little bit easier to manage. The man on the far right is actually my grandfather. He died just before I was born. And on the far left sitting up a little bit higher is Lyons Brown. Lyons brought his 3 sons into the company. And for those of you who have been around for a while, you'll recognize I think at least 2 of them, if not all 3. On the far left is Lee Brown, who was our Chairman and CEO really as I grew up in the '70s and the '80s. And in the early '90s, he went on to become a U.S. Ambassador to Austria and actually lives in New York now. On – in the middle is Martin Brown, Sr., who for 25 years ran the Jack Daniel's business and really put it on its sure-footing that you saw in John Hayes' slide from the early days up until '86.

And on the far right is Owsley Brown. He's here about my age. Owsley is the one from that generation who probably represents the totality of that generation's leadership just because you wouldn't have known the other 2 as well. And a lot of what we saw here today is the realization of Owsley's vision and his goals not just in the business, but in the quality of the people that have been standing on this stage. And I often think if there is one thing – and he gave us many things – if there's one thing that Owsley gave us, it was actually the uncanny success at succession planning. Owsley reached into the organization probably going back to the late '80s and the early '90s and could recognize a great talent when he saw it. It was back in 2003 that Paul Varga took over our beverage company from Bill Street when he retired. And then it was in 2007 that Paul took over as our Corporate Chairman and CEO. And so actually, some of the numbers that Don was showing today, our 10-year CAGRs, Paul is just 1 year shy of those being his CAGRs, but he's really been running our Beverage business now for 9 years.

On the board side, we've had some changes as well. Of course, I joined the board 6 years ago along with 2 other cousins from my generation, the fifth generation. On the far left, you can see one of them, Sandy Frazier. Next to her is Jim Welch, who joined the board around the same time, who's here today and you'll see him afterwards, the Vice Chairman of our company, for cocktails. Next to Jim is Martin Brown, Jr., the son of that earlier man in the black-and-white photo.

But it's not just family members on our board, of course. We're – I'm happy to say that we've got a lovely new set of independent directors. On the prior board, many of our dependent directors coincidentally were born literally within 18 months of each other. So we had this amazing thing where 1938, I think, was the proper [ph] year for Brown-Forman. We're all retiring at the same time. And so today, we've got a wonderful net – new set of independent directors. They bring enthusiasm and excitement about the business, excitement to work with Paul and his team, but they also bring into the room their life experiences from places like McKinsey and P&G and GE and other companies. And so the richness of conversations in that board room reflects all the things that you would hope to find in the board room of such a public company.

So on the family side, I don't know how many of you have given PowerPoint presentations about your family. But I think we figured out a way to describe this in a way that I hope is meaningful for you. Like a lot of families, of course, we have our matriarchs that are legends in our hallways.

On the left is George Gavin Brown's wife, Amelia Owsley from whom we have that name. And she was from a wonderful family in Kentucky. And then we've also got Sally Brown there next to her, who was Lyons' wife and recently passed away at the age of 100. Sally grew up with her father abroad. He was a military attaché. She grew up in Vienna between the 2 world wars, and so moved to Kentucky. Probably not a common Kentucky distiller's wife at that time. She was fluent in German, French and spoke Italian and Spanish pretty well and some sort of a — ***indiscernible*** —, having summers in Sarajevo as you did in that day and age. And so I often think that the breakfast conversations were probably unique for a Kentucky home in the 1950s that she would have generated.

Like a lot of families, we've grown over time. Here is one way of looking at the family tree. I'm in that bottom row. There are about 40 of us in the fifth generation. 17 of us are involved in some way with Brown-Forman. But there's 3 of us on the board; another 9 inside the company. I've traveled both those worlds. And then there is many others who are involved in this family committee that we have that I'll talk about it in a second. Actually, I think even beyond formal family to me, we've got others that volunteer on the subcommittees. There might be 26 of us now between the fourth and fifth generation who do stuff on Dixie Highway with Brown-Forman in the course of a year.

That's what we look like. That was a reunion a few years ago. Some young kids from the sixth generation sitting up front there as well. You can see Aunt Sally in her trademark Austrian wool coat sitting there on the bottom left in her armchair.

So what interests us at Brown-Forman? Obviously, look, we do follow the share price. We are interested in the financial success of the company. But we've had to live through things in the marketplace, as you all have. None of us will forget, of course, the success at the turn of the century of companies like pets.com [ph], when we as family shareholders were going to cocktail parties and feeling so unfashionable with our stake in this old industry. We made it through that period and, of course, don't have any regrets about not having diversified out of it in those days. But the point here is that, look, we all are following the share price, but you all know better than I do that it doesn't always reflect underlying value in a company.

BF150, our long-term strategy plan through the year 2020, which now, of course, is just an 8-year view. It is something that probably approaches – just approaches the timeline that we would like to assign to our investments. And so we warm easily to that sort of a long-term strategy plan.

In terms of brands, look, obviously, we understand Jack Daniel's. Those of us in the company have worked on it. Martin Brown, Sr. lived in Lynchburg, Tennessee with his new bride in the '60s. We get Jack Daniel's, we get Lynchburg. Our roots are in Kentucky. We are originally from a small town called Munfordville, halfway between Louisville and Nashville, from which we moved in the 1850s [ph]. So we understand places like Lynchburg.

In the rest of the portfolio, though, we separately see a Jack Daniel's way to break out. When we walk into an account, we do look for Chambord on the back shelf. We are interested in line extensions on Finlandia and the wonderful new package change for Herradura.

So what do you do with all those people and all that enthusiasm? Do we all run into Paul's office and share with him our opinions on the Chambord package change? I mean, we honestly couldn't fit through the door these days, and I'm sure you would agree it's probably not the best use of Paul's time to meet with all of us about the Chambord package change. So I think of family governance as that intersection between enthusiasm and what's right for the business.

Back in 2007, as Owsley was retiring, we were all reading the papers. And in any year, the papers will be littered with stories of families that I think haven't gotten governance just right, let alone for a public company with non-family shareholders. And so we put a lot of time and energy into how to better organize ourselves for the future. We've got something called the family committee now that dates back to 2007. It has on it a number of family members from all walks of the family. Paul and I co-chair the committee. It has subcommittees that tackle governance, education, communications and actually, as well a topic of issues for the family and the company, environmental sustainability, which is part of the inheritance we have from some of our work in the Wine business.

That's what we look like. Our photo is often in the annual reports. You see in there, of course, the 2 co-chairs, Paul and myself. Ernie Patterson is next to me. He's here today, Director of Family Shareholder Relations. You'll see him afterwards, who helps organize so much of this work, and other members of the Brown-Forman team here. On the far right actually is Lee Tatum, who is also around today and works for Paul.

We divide our work into something called a curriculum map. We educate the family committee on the company and the industry, on governance, on ownership topics and also on family and community topics. We have a family constitution that we wrote, and at 98% of those, north of 18 approved. The other 2% have since explained to me that they missed the deadline and other things. The family constitution has languages that should look familiar to you. It looks and sounds like a lot of Brown-Forman work. It's thoughtful. It talks about the long term, and it talks about the company's commitment to a culture that prides itself on independence.

This is what we look like at our summer meeting when the family comes in at the annual meeting, and then show [ph] our people who are on the board working at the company, people who don't work at the company but whose father might have been on the board or whose mother might have been there too. There's a woman whose dad was on the board for 40 years sharing a beverage with our CEO. Then there are multiple generations including, of course, these young kids from the sixth generation, teenagers, here listening actually to John Hayes present on Jack Daniel's, along with their great aunt and their dad, and little kids for whom we design different things so that they can get their heads around this industry and what it means.

Obviously, they're not quite into ROIC just yet, but we're working on that. They'll get there. I like this one of these little girls. Actually, for me, it's a much better symbol of a family in the 21st century than that black-and-white that I started with. There were no girls in our old photos. These 4 actually live across 8 time zones. There are at least 2 passports amongst them, 3 different accents. They're Jewish, Catholic, Protestant and Greek Orthodox. None of them have the same last name. But all of come to Brown-Forman every summer. They've got their little Brown-Forman lanyards, and this is what they associate with their company and their extended family.

So back to that family tree. Here it is as a blank slate. I like to look at it through the lens of engagement with Brown-Forman. The traditional lens is to look through the generations at the people that have actually worked at the company or who have been on the board or we who've worked at the company and moved on other things. We also had a Lenox board when had the Lenox company, which was another way to engage family members who didn't work at the company who may not or who may not have been in the Brown-Forman board. And so the color coding here, that's me with the dotted red over here in different colors as a Board Chairman. The Chairman and CEO are the solid redlines. And so this is one way, of course, at looking at family engagement. Thanks to the work of the Family Committee. Another committee is like the Major Gifts Committee of the company. We've been able to color in – literally color in more people on this family tree to demonstrate their engagement and involvement with the business. If you add in internships, you get even more colors.

So we've been in the press also. I'm pleased to tell you not the sorts of stories that we are reading in '07 but in the pleasant stories, saying good things about how we've organized our family governance in a manner that benefits all shareholders.

So some people like to quote the Bible, others prefer Shakespeare. I like Jack Daniel's, and I remember a great ad from when I was working on Jack, with Mike Keyes, actually, and John Hayes. Mark McCallum was CMO at the time. Lawson, actually, the whole old crew is here, was our financial analyst. And it tells a story of the growth of a brand from a small town. It's enjoyed in 135 countries at that time, made in a town with one stoplight. And so how does a business from a town with one stoplight grow into the numbers that you've seen today? Of course, a team, a commitment, a playbook. It's brand equity for Jack Daniel's. And for me, that's a great metaphor. This brand has grown around the world and hasn't lost its way. Now I think that for the Brown family, as it grows over time, across time zones and nationalities, gender, ethnicity that we've pulled together something here much like Jack Daniel's, a set of rules, a set of cultural practices that keep the family together in a way not just for itself, but in a way that benefits all shareholders whether they're family or not family. And I think that this work today also will allow the company and the family to grow its way around the world without losing its way.

So you've seen a lot of the team today that have helped grow our business over the years. On the family governance side, I'd be remiss not to applaud the role of that actually Paul has played in forming all of this work. He sat a bunch of us down in the family in 2007 at Owsley's retirement party in Los Angeles. And we all had a heart-to-heart about this. "Look, what are we going to do? Are we going to be like those people in the newspaper? Or are we going to great something different?" And with his partnership, we've created something different. And as you've seen – so you've seen some of his CAGRs today almost to 10 years. But in this work, you've also seen some of his leadership.

So with that, please, help me welcome back to the stage, our company's Chairman and CEO, Paul Varga.

Paul Varga

Thank you. A very nice thing to say that. Thanks, well done. Well, it's fun. Before we go off to Q&A, I could just reflect a little bit on this last couple of hours we've had here. And

I just can't tell you how enjoyable it is for me personally to not only hear such nice things, thank you, Garvin, but to see Brown-Forman sort of flow over you for 2.5 hours. And I may just – you saw all these half points and references, and I was thinking about a couple of things that hit me during it. It strikes me that you all know our numbers. I mean, we're a public company. We report them. We do our very, very best to all, either the Q&A and the formal reporting, to give you a great transparency into how the company is performing and what we see ahead of us. We try our best to do that. You are always interested in more.

What we wanted to do today that I hope you feel we accomplished was to give you a better understanding on why the company is performing as it is today. I mean, a little bit – a deeper look than we can sometimes do around in earnings release or that kind of thing. And you get to see lots of charts and trends and graphs, but I mean, you also – think about it. You got to see some people in Speedos. You got to see barrel trees. You got to see other kinds of things that actually do inform you as to how you might think about Brown-Forman and what it's trying to do out in the world. So we basically wanted to improve your understanding as investors or potential investors in the company. But most importantly, we wanted you to share some of the enthusiasm we have for the opportunity ahead of us.

Don had a slide there that talked about the company, and I had some of it at the beginning. You probably saw variations of this throughout the whole thing. We really, in terms of the – we focused a lot today on the categories where we're present and how we're currently represented there and what opportunity we see for them, and then the places where we do business. I want to thank those who gave just a short glimpse, Andrzej into Russia, Jill into Mexico and Mike into the U.S. I mean, we could have gone for hours, you all, on success stories in France and other places around the world that we think you'd enjoy and maybe we'll do it another time.

But more than the opportunity, we want you to share with us the feeling that we believe we're really well positioned to seize what's ahead of us, too. Just a quick listing of some of the things I heard where a premium portfolio, of course, led by Jack Daniel's and I am extremely biased in this point of believing it's the world finest distilled spirits brand. I really do. I think there was this chart I love that John showed. There is no other brand that is above $20 a bottle that sells more than 10 million cases in the world. There just isn't. We are fortunate enough to own it, and we believe it is just beginning to scratch the surface in terms of its geographical reach but also some of the very appropriately done, I think, line extensions. And this Tennessee Honey story, I think, was a good example of that. We also believe we have the financial resources and flexibility to pursue this opportunity, as well as a nice track record that Don took you through related to our history of financial stewardship. It has been very shareholder-friendly.

I do think as well Garvin's piece here of having the family so well organized and so supportive of what we're trying to do and then just by its own nature, exposing you to so many of our team here today. Some are very familiar faces that should be to you over the last decade. Others are some new faces that we hope you get a chance to talk to here when we break after the Q&A. We hope you share our belief that this is a great management team that is fortunate enough to lead another 4,000-or-so people around the world to the sort of results that we've been able to share with you here today.

For those of you who are currently Brown-Forman shareholders, we hope you're even more committed after today. And those of you are not but are considering, we hope you – what Garvin said, you can't join the Brown family but maybe, you can the Brown-Forman family, and we hope you're as enthusiastic about the future of the company as we are.

With that, Don and I and some others are going to get organized here real quickly to answer your questions. And, but just so you'll know, we will probably direct a number of them to – and feel free to ask questions of individuals who you saw on stage here today. So thank you very much. And I think – let me just see how this is organized. I think we have a handful of microphones that we're going to – will be probably spread throughout the room, where you all will be able to use those to ask questions so the entire room can hear you. This is also being webcast so it will help with the technology we're using today.

Question and Answer

Judy Hong

Judy Hong from Goldman Sachs. I wanted to just ask about the Jack Daniel's line extensions. It sounds like you're maybe accelerating sort of the pace of some of the innovations there. So if you can just talk about if you have certain targets in terms of what that mix looks like between the Tennessee Whiskey versus the line extensions. And how do you sort of balance your ability to maintain sort of the brand heritage and not get line extensions too different from the core brand as you go forward?

Paul Varga

Okay. Just as a test, did everybody – was everybody able to hear the question sufficiently in the back, particularly? Okay. So this is an often-asked question about how we balance the extension of what we would consider to be the world's most valuable distilled spirits brands. So you do it with what we consider to be great thought and care. As a reference point to the flavored Jack Daniel's Tennessee Honey that you referenced, you should know that as an example for the United States, when that was introduced just, I mean, that will be a little – it would be 2 years in the spring, I guess, so since it was introduced. That was really the first full-strength spirit line extension from Jack Daniel's, I think, since the late 1990s. So it had been 15 years. So our track record of full-strength extensions, particularly, we've been pretty careful with it. And I think it showed, to be quite honest with you and it came on a couple of times during the presentations, that not only have we been successful in introducing Jack Daniel's Tennessee Honey in the United States but if anything, we feel it has had a positive accelerating effect on the Jack Daniel's trademark. So the true test will be over time, and it's still only been a couple of years here. And we'll continue to watch it closely. But how does Jack Daniel's Tennessee Whiskey and how do people feel generally about the trademark? So you just – you monitor it. You try to do the best job you can with it. And I don't – I think we were asked this on our earnings call last week. We plan to take it quite cautiously so that we do exactly what I think you're encouraging us to do, which is to balance it well. Any others? Mike, you've been involved with it. John, you yourself. Any who might know things about the – maybe the consumer data that we've seen since the introduction, that sort of thing?

John Hayes

That – I'd like to start as well in saying we don't do a lot of it. We've been doing a bit more, but if you go back to Gentleman Jack, Single Barrel, RTD has been over a – frankly, almost a 20-year period. So this is just another new one of frankly through a lot of consumer research that – as I said, there are – we're trying to recognize, identify new consumer segments, new occasions for the trademark. And so this is just another example. As I said as well – also, we find that people were actually – they have a great respect for Jack Daniel's and like it. But just Jack Daniel's Black Label as a whiskey brand, some people just don't like whiskey. And we found Tennessee Honey being an example where our data is showing us that probably over 50% of people that are enjoying Tennessee Honey are not Jack Daniel's drinkers. And so is it more of a within women, for sure. The Latino community, we're seeing great success here, African-American communities. So again, in our quest to open up the brand to new consumer segments and occasions, again, very carefully studied. And we're very – again, very optimistic for the continued success of this brand. Mike, do you want to add anything?

Michael Keyes

Other than from my own personal experience, John will laugh, is I follow Jack Daniel's on Twitter, right? So anybody around the world that talks about Jack Daniel's, you just pull it up. I mean, it pops up and you see who it is. There's a picture. And since we've introduced Tennessee Honey, the faces on Twitter are marketably different than they were for Jack Daniel's. And so you have more – as John said more women, more Hispanic Americans. And the only thing I'd differ with John on a little bit is that they don't drink Jack Daniel's. I'd like to say they don't drink Jack Daniel's Tennessee Whiskey yet.

Bryan Spillane

Bryan Spillane from Bank of America Merrill Lynch. A question about scale, international scale, and I guess this goes back to one of the slides that Mark McCallum put up, I think maybe one of the ones that you had as well, Don. You've done well the last 10 years or so regaining control of distribution in a lot of markets and also just expanding your footprint. And I think there was a slide there where we have 40 markets with 50,000 or more cases and 24 with more than 100,000 cases. Can you give us some idea where those markets stand relative to the corporate average in terms of your profitability, so maybe operating profit margin? I guess what I'm trying to get at is what's the level – what's the case level or the revenue level in each market that – where you actually see inflection in terms of profitability first? And then second, as we kind of look out over the next 5 years or so, should we expect to see the rate of profit growth and the rate of the contribution to the corporate total to increase from those markets as you've kind of moved past the investment phase?

Paul Varga

Mark would be – have given some thought to your first question. And maybe I'll start with your second. And I think the answer to that one is yes. I mean, here, 40 key markets that have already reached a level of development distribution velocity almost – most of those, I'll say, are Jack Daniel's, markets where you could say that they are poised for very nice success going forward. So I think the answer to your second question is yes. Those would be driving markets for Brown-Forman Corporation going forward. On the other one, I don't know that – my personal view, I think we haven't studied it in a way that you asked the question to be able to give you the definitive answer, is that it is a mixed bag as to when it gets to that scale of profitability or gross profitability perhaps, depending upon how you might look at it on the P&L, where you get this inflection point and you're now sufficient to move it to a totally new level. One of the ways I think about what happened, I mean if I think about my own philosophies about this 10 years ago, we would always talk about focus and focus and focus. And here we are 10 years later, after having focused and focused and focused, and now we're one of those scale people. We are a bigger company that is more independent around the world because of largely the brand development work that has gone on, on the Jack Daniel's brand and – but importantly, other important pockets in key markets from other brands in the portfolio as well that give us some excitement. But as a specific response to your question, I don't know that I could give you a ratio or a critical metric we look at that when it hits that, we say, "Now we go." And Mark, do you have anything that you would add on that sort of the – on the RTC front that could provide some insight to the way he had asked the question?

Mark McCallum

I really don't from a metric point of view other than maybe to say that perhaps, if you reprice that list of 12 markets that we're on that priority set, they differ so much as examples of what you may have been asking us just now. Some of those markets are investment-phase markets. Brazil, I'll give as an example, is an investment-phase market. But what we do know is what I would say unusual in this industry, this category and with this lead brand, Jack Daniel's, the ability to price at a level that throws off – I have to be – that throws of the sort of margins that you would need to more quickly get to scale is amazing. And I guess I have a background in Campbell Soup, Cadbury Schweppes, those companies. This is an amazing industry and to be able to say that we are premium, premium-plus and get to a potential leverage point earlier than my experience in those other industries.

Paul Varga

And Bryan, it's really one of a handful of factors we will look at when we make that determination is to change a model. It could be for a strategic reason. Sometimes, we would do it simply because we will be more interested in building brands other than Jack Daniel's than any other partner we can envision. There is all kinds of criteria we look at when we make that determination, but scale is one of them. Scale is certainly one of them that we pay attention to. And we're in the fortunate position after these years of growth that in many more places today, we can – we have more options available to us.

William Chappell

Bill Chappell from SunTrust. Just going back to Tennessee Honey in the U.S., where it's been, as you said, for now 2 years, can you give us kind of a more color on how you're managing the brand? Because obviously, it's exceeded expectations out of the box. But now, as it's not mature, I mean, do you say, "Hey, eventually it can be this size compared to the core business, so we should manage to that"? Are you stepping up advertising even more in Year 3? Or would you start to scale back and get a better profitability? How do you try to manage that growth as now you have a little more data to look at?

Paul Varga

I'll let Mike start it. And John, you chime in. Don, myself, a bunch of us can help with that answer.

Michael Keyes

2 years in, the first thing I'd say is we're still experiencing trends of plus 20, and so we

believe there is still a tremendous upside for Tennessee Honey in the United States. And you start out with a big brand with lots of advertising and the off-premise feels pretty well with 750s. We've now introduced 175s. I don't think we've even scratched the surface on distribution opportunity. It's even in the off-premise, and the on-premise tends to come a little more slowly. So I don't think we scratched the surface. And I would also say to your question we're certainly not in any kind of harvest mode. The brand is a great brand. It's very profitable, and we will continue to invest behind the brand for the foreseeable future. I mean, it's still growing at just tremendous rates.

John Hayes

The only thing I'd add on to that is that if you look at our – you build a brand, first of all, through making people aware of it. We still have tremendous upside on awareness. There's still a lot of people out there who still haven't heard of the brand, leading to the trial of the brand. There is still a whole lot of people that haven't even tried it and that we're still converting when they do because a lot of it, you still get into that, always Jack Daniel's, "I don't like whiskey" or something. And so we spend a lot of time and investment on trialing and sample opportunities both in store and within bars to convert that into trial and usage, so tremendous upside is still here, of course, in the United States and then huge upside outside the United States.

Paul Varga

It's a pretty normal conversation for brand at this stage to be having, which is right on where your question, Bill, was and that you all just say. I mean, there are examples of flavored products from categories that started as expressions out in the marketplace that have become, I mean, one of the foremost, there's Captain Morgan, that over a period of time developed as that single expression into a very large brand, much larger than Tennessee Honey is today. So on one end, you can think of what would it require and what has to happen for an expression from Jack Daniel's to have that kind of success. And then also, if it's not going to have that kind of success, where is it? On some continuum and what is required? And they were really just touching on some of the basics that happened in the first couple of years about distribution awareness and trial. And we haven't even begun to think of mix ability and extended use and all these other things that are very natural considerations. But we're going to be learning about it, and as we learn more in these next couple of years, I mean, we haven't even taught you – your question didn't even address the international expansion. That's just the U.S. So we think there is still a lot of runway for Tennessee Honey.

Krim Delko

This is Krim Delko with Orange Capital Partners. I have a question concerning – if I look, let's say, 20 years into the future, I would assume that the U.S. business, as a percent of the business, will keep shrinking. And I guess as my first question, is that correct? Or how do you think about that from a strategic point of view? And with that, I'm just thinking how – maybe this is for Paul. How do you think about the skill set of the company? And what is required for that switch? I mean, if you keep growing like you have been growing international, clearly, your business is changing. And can you use the same skills from the U.S. and transfer them into markets outside the U.S.? Or how is that – how do you think about that?

Paul Varga

I'll handle the second question in a moment. But if anyone want to comment on just that first one, Jim. You work on our strategy a lot as it relates to the position of the U.S. This question was how would we envision the U.S. going forward as a percentage of Brown-Forman? It's been declining as a percentage as the international has grown and I mean...

James Welch

Yes. I mean, one factor to consider is the share the U.S. represents of global value of total distilled spirits, which is something like 35%. And so we would certainly always want to be at least indexed to the percentage the U.S. represent at the global spirits market. Our aspiration is to actually continue to grow share in the U.S. But certainly, there are tremendous opportunities. You've seen the really small market shares that we alluded to in the presentations. So lots of upsides. And yes, we spent a lot of time as a company evaluating how we want to grow as a global enterprise. We've gone through the standard evolution of a corporation from a domestic company to an export company to an international company to a multinational and we grow – I guess, we grow the organization and our capabilities in the same way that we grow our brands, which is very thoughtfully considered and done on a market-by-market basis. We are obviously then integrating all of these international businesses so that we're sharing best practices, understanding the learnings from all these root-to-market evolutions, sharing those across markets so that as we continue to expand in new countries, we can leverage the knowledge and learning that we've from growing – or controlling our root-to-market in other countries. And we're still a small company. We have 4,000 employees around the world. I'd like to say that we have more folks at a high school basketball game in Kentucky than that. And so what it does allow us though is stay very connected with each other. The leadership team knows most of our employees around the world. They're a highly, highly engaged workforce, and we continue to stay very connected in that way across cultures and languages.

Paul Varga

Yes. So I mean, the only little spin I would add to what Jim said is that we would not have predicted 5 years ago that the environment in the United States would be so conducive as it is today to Brown-Forman. I mean, for many of us who've been at the company a long time, we were not a big – what we used or referred to as a white goods company. We were squarely in the whiskey category, which have been declining in the United States for a long time. And lo and behold, I mean, it's stabilized and started to grow. And now it's sort of leading the growth of the U.S. distilled spirits market in the more recent periods here. And who better to be positioned for that than a company like Brown-Forman? So the U.S. remains very exciting as a country to us on a multitude of levels, but there are only 300 million people plus in the United states and there's another 7 billion out there who are growing with their personal income and disposable income that just like Tennessee Honey – we just mentioned Jack Daniel's Tennessee Honey, I mean, some people don't even really know what's that well yet. So we've got a lot of work to do on both. And so the skill set question, what kind of skill sets. I mean, the ones we wrestle with the most, I mean, because we're known – because of our U.S. base, people think of U.S.-oriented capabilities and skill sets. I hope to – some exposure to – for example, Andrzej here today and others who you have encountered in our conversations at Brown-Forman, you'll see a broader group of capabilities and experiences of the company that reflects the global marketplace. I mean, we don't pretend to know it all right here. That's why we want to give you access to people who – I mean, this is probably one of the premier vodka brand builders in Brown-Forman you've had a chance to look at today because our business – even though in the United States, we all think about vodka being, "Man, what a great business." And it is in the United States, particularly the premium side of vodka. But I mean, the vodka-consuming parts of the world that we have aspirations, as people's incomes rise and they spend more and as premiumization continues, are very much in the world that Andrzej was describing to you today. So there are different capabilities that are required to win in this marketplaces. The ones that we, as a group, struggle with and have the most debate about and I suspect a lot of companies do, deal with portfolio management and resource allocation. How do we know we're allocating our time and energy and creativity, the right things at the right time to do it well? I mean, overall, I think we do it very, very well. We're always challenged at this company because we own Jack Daniel's and it's a captivating brand. And finding unique ways to organize your work, organize your resources so that all the brands can get appropriate attention is really important. That's an ongoing challenge when you own a trademark like Jack Daniel's. But

I do think when you're in it for the long run, you'll find a way to develop those capabilities. You'll either hire them or you'll just get better. And so we're pretty committed to that.

James Welch

I'd like to add one of the things real quick, just I – when I opened up my presentation, I was talking about how 10 years ago, when I was in Investor Relations, this is what the company looked like. 10 years ago, this company, my current role or the role that I've been in the last few years has been managing the Western European business. That role used to be based in Louisville. Our Finance Director for Europe was based in Louisville. That was only 10 years ago. That is completely changed, where it's not so much that we're exporting Louisville talent out into the rest of the world. We've made a big effort to bring people that we've found in the rest of the world and bring them into Louisville and bring them back and forth. And I think that's really exciting, that the people having worked around that and having shipped some people into the United States in the last few years has really been a good experience for them and it's helping us to build a management team that we think can be around for a long time.

John Hayes

I'd make one other comment, too. The – and I've seen this even going back as far as 1994 when we really got started in the emerging markets. One of the things that I was really impressed by and continue to be is as popular as Jack Daniel's is, it's also a very popular brand to want to be associated with. And the quality of the people that we are able to attract because of the business that we're in and the brands that we have has really been, in my mind, one of the reasons why we've been a successful as we have been. Today, when you look at – or the total population working at Brown-Forman, there's actually more people working outside the United States than inside the United States. And it's just been a real testament, I think, to the company and to the brand in terms of the quality of people we've been able to attract.

Paul Varga

We get a – you can imagine I'm interested in the topic of capabilities. So I'm just glancing at this group. And I'll just give you some quick examples. Jane Morreau who's here with us, who a lot of you might know her voice from earnings calls, is going to, in about couple of weeks, start leading our production group. Garvin has worked and overseen our European business and our Jack – and have been a very important part of our Jack Daniel's business. Mike Keyes has overseen both Jack Daniel's in the U.S. and worked in a variety of functions. John Hayes has worked both on Herradura and Jack Daniel's. Jim Welch has been throughout Brown-Forman Corporation, I mean, has led our corporate affairs – leads our corporate affairs and strategy today, but also has led human resources for the company. Mark's been both the Chief Marketing and Brands Officer as well as Chief Operating Officer. Jill has just moved from head of production over to lead Latin America and North America. I give you those as examples. I talked Lawson early. Don used to run our advancing markets group and worked in the United States, he's our Chief Financial Officer. And some of the stuff, you all, it really helps to build the group of executives that know this business broadly and deeply and if you can keep everybody together and work and create an environment where you can work well with one another, I think it's a real advantage for our company. And so I give you those as an examples of ways you build capabilities as well by understanding the different disciplines and functions and areas of the company that over a longer period of time add up to a real asset. Ann?

Ann Gurkin

Ann Gurkin with Davenport. — ***indiscernible*** —

Paul Varga

We can't hear you. Yes.

Ann Gurkin

Ann Gurkin with Davenport. Great. I have 2 questions if I may. The first relates to the route-to-consumer. On your international marketplace in the slide, you referenced – showed Brown-Forman owns 52% of that route-to-consumer. And I was curious, if you look out 10 years, how does that evolve, how do you see that going, is it partnerships with **— *indiscernible* —**? Is it more ownership by Brown-Forman? Do you have the capital? Are you willing to commit it to owning your own route-to-market? And then the second question, are there any brands in your portfolio that we should watch out for? I know in the past you've highlighted Tuaca. Southern Comfort, it looks like it's turning around. Can you just comment on any kind of areas we should look for over the next several years as potential opportunities?

Paul Varga

You're going to get everybody to answer on that second one. But Mark, do you want to go ahead and tackle the first one?

Mark McCallum

I would say the last 6 years, in particular, has been reasonably frantic in terms of the degree of change to that 50-some percent of our International business that is now an owned distribution. I think we've said in a number of ways that the market situation will determine what the best route-to-consumer is for us. And so I – it is definitely not the case that we are inexorably moving toward that pie chart being 100% owned distribution. We have route-to-consumer models in markets today that we would prefer to have versus owned distribution. So if I was to think forward, I think you put up sort of a 10-year forward horizons on your question. I would say that it would be a very orderly and careful and perhaps not quite so frantic establishment of the route-to-consumer model that for that priority market makes sense for us. And Russia, the example that was given and it is a classic example, as is the U.K., of where actually even though we have scale, the model that we are currently adopting suits us very well. That's the first part. The brands I'm going to give to everybody else.

Paul Varga

Yes. And all of this, of course, assumes that the whole world cooperates with you. I mean, if some of these things – if the global economy went in the tank or something, you'd think differently about it but I think that is generally the way we've been thinking about it, we'll continue to think about it. Anybody – I mean, just to open this to anybody, any brands that you all particularly feel on that this group should pay more attention to it or watch their development. I mean, the one – I'll start with one, I just think Woodford Reserve, Lawson was starting to talk about that today a bit about it sort of an inflection point. And we're just very excited about it and that's a brand that's only, I think, it's in its maybe 16th or 17th year. So pretty patient approach from Brown-Forman, renovating a distillery, introducing a brand and we have very, very high hopes for that brand as we do for all of the premium and superpremium line extensions. So…

Lawson Whiting

I'll take that one as well. Coming from the cost area [ph] or business which I was fortunate enough to manage for about 5 years is the Herradura brand that you see here, I think, and personally, it's just a jewel that had been one of the leading-ultra premium brands in Mexico but was losing share to Don Julio. And as we did research and things, you go out, you found it. The packaging just wasn't delivering. And by simply making the package change down there, it's completely turnaround the Mexican business where it's doing really, really well in Mexico. And as well and since that time as well in the United States, it's a brand that is beginning to catch on. And that's one – I'm personally proud of and I think has huge potential in this country, the United States.

Paul Varga

Anything else, others? There's a couple of nice examples for you to keep an eye on and there's others, too. Vivien?

Vivien Azer

Vivien Azer, Citigroup. It struck me, it's interesting that China, while it has come up, wasn't a big focus and of the markets that you presented for Jack Daniel's, it's the only one that, at least, visually I could tell looks like you've seen depletion contraction. Over the last few years, as I understand it, you guys are stepping up your investment in China today. Can you speak to that and how your strategies evolve over the last few years in China?

Paul Varga

I mean. Yes, I'll start. A lot of us could comment on it. I mean, we have – we've been sort of struggling out there for a variety of reasons. Some of which you would all be able to observe some of these reasons and I mean it's a really competitive market. We find that it's a – I mean, it's difficult trading environment there in terms of particularly sort of penetrating this important non-premise channel for the imported spirits spirit business. We've had some stops, some starts with partnerships there. I mean, some of these things, to be honest, are not unusual for emerging market world for a company that's going in and evolving its business organically. There are a few other reasons. I mean, I think the really wonderful thing is that the Jack Daniel's trademark in that country remains with what we still refer to as one of the accepted brands in Chinese drinking culture even though it's had some tough depletion times in the last couple of years. And the thing that's giving us the greatest hope here in the last sort of happy year or so is we've retooled the leadership team there to get focus with some experienced people. The trademark is still the wonderful trademark, and we'll continue to look at ways that – innovative ways to take Jack Daniel's as the primary entrant from Brown-Forman in that market. But I'm always encouraged that as much as we hear in the world, both in our industry and other industries about China, that this wonderful success story you've heard today has been unfolding really without much contribution from China. So when we get that right, we're really excited about it.

Vivien Azer

Follow-up to that. How important is scale in China, i.e., does China need to look like a Mexico? Do you need to make an acquisition to get distribution scale there at least in a tier cities?

Paul Varga

Well, actually, the way we build. I mean, Don, you can probably recall. Do you want to talk about how we got going there in a way that might give some color to that? Yes.

Donald Berg

Yes, so a lot of times when you look at these markets, one of the first questions that you ask yourself is where do you need to focus your brand building. And what does that market structure look like. And in China, there are basically 2 different markets there. You've got your western style drinking occasion and then you have kind of the business entertainment drinking occasion. And generally in the business entertainment environment, surprisingly maybe, it's really all about discounting. There is a very – it's basically you're talking about these karaoke bars. They have just a very small select brands they allow in, and they allow in the one that's going to give them the greatest discount. It's an environment where typically you don't get a lot of brand building. The host is looking to – is looking for a face and generally will just look to the highest priced item on the menu and that's what gets drunk. But it doesn't necessarily translate to continued consumer behavior out of that occasion. And so, we basically elected to focus most, if not all, of our efforts in the Western bar drinking occasion and looking towards those young people that have the Western-style lifestyle aspirations that are looking to those kinds of venues for their entertainment and are really looking to those types of brands to be their badges in terms of what they aspire to. And in the initial years, Jack Daniel's did extraordinarily well in that venue. There weren't many, but over time, the number of those types of bars grew throughout China. I think when we first started, we probably had about 20, 25 people running around trying to create, do the brand promotions and create kind of the poll, if you will, and the loyalty behind the brand. I think today we've got over 70 people, if I'm not mistaken, continuing to do those types of activities and really kind of create the knowledge around the brand and what it's about. It's a little bit more difficult and complicated in China because you still are at a stage where people still fully understand or appreciate all the different nuances around Western-style spirits. It's still very much about face and price. But those things will evolve and change over times. And we believe that the type of brand building activities that we're doing today will pay off for us as the consumer just becomes that much more educated.

Paul Varga

Mark, anything?

Mark McCallum

Just to say that we're – I don't think it's ever been a distribution access question. It's actually – China is a fascinating market, as Don said. I mean 90% of the international spirits business is on premise. Flip that to Russia and it's the inverse. It's 90% off-premise, and so that's a more organized and scale play, hence Coca-Cola partnership in Russia. But for China, access to distribution isn't a challenge. What we're doing is, as Paul said, we've refreshed the leadership team over the last 6 to 12 months and we're refreshing the 70-plus person sales team quite substantially, retraining and also changing our sub-distributor and distributor route-to-market. We're in the middle of all that right now, it's a – don't come to China just yet.

Paul Varga

Back here. I think we've got a question.

Mark Swartzberg

Mark Swartzberg, Stifel, Nicolaus. Question about the U.S. pricing environment. Could you speak to the last kind of 4 or 5 years, how it's evolve to this greater emphasis recently on price and what you think is really driving that? When you look at the consumer environment, it doesn't seem all that logical, but it might be that Diageo and you are saying we need to harvest this market to invest more in emerging markets. So could you just speak a little bit to what you think is really driving this, both from a macro perspective and then from kind of an industry-thinking perspective?

Paul Varga

Mike, you want to take that?

Michael Keyes

Yes, I can talk a little bit about our perspective and where we're looking. For the last – 4 or 5 years ago, as the recession hit the United States, the on-premise really dried up and we're really blessed with a brand like Jack Daniel's. We maybe see things a little more quickly than some other brands because our demographic is so broad. And so we saw that early on and we made a decision that because of the economic environment, that we had to make our brands more accessible. And so we move product – or resources from – more from what you saw today, although we continue to do those things but less. And we actually had more gift pack. We had more couponing and discounting on a lot of our brands. And as – s couple of things happened, as I said in my presentation, the environment started to change a little bit. The on premise started coming back. Even though the economic recovery is very slow, I think consumers just made a choice that these are affordable luxuries and that they're going to splurge a little bit and get out and socialize. And as that happened, we move our resources over the last couple of years back predominantly to what we call pull activities from push activities. Meaning mainly media, digital, packaging, things that really premium-ize our product. And so in the last couple of years, for us, I mean we're starting to see brands like Jack Daniel's, Herradura, our premium brands, get to a place where we can actually sustain both – we were at the volume stage 4 or 5 years ago, but both volume and value. And it just seems to be a perfect environment for us right now to do that. And to do that, like I said earlier, we've got to continue to make sure the consumers see our brands as very premium and willing to pay that incremental pricing.

Paul Varga

I think one – the only other thing, at least, I've read about and have observed, particularly with some of the smaller brands, that you've seen more of this in the last year. So our people who are looking ahead and if they're looking at explosive growth on their aged products, that some of them are looking out in the world and saying, hey, I want to fund and fuel the emerging markets, so I have to watch my – what I can allocate over to the United States so I'll therefore, take my prices up. So I think they're – in the last year, you would have read some of the companies in the world talking about that, particularly in the Scotch, whiskey arena much more often. And that could be having an influence as well.

Michael Keyes

As it relates to pricing, just to make sure people understand. As it relates to pricing, we look at pricing as part of the overall brand building exercise and the brand building model. We're not looking at pricing as a tactic to milk the United States, quite the opposite. We continue to see a lot of opportunity in this market and we believe that consumers' perceptions over what is premium changes over time. If you're not taking the price up with it, you risk having something done to you, like years ago it happened to Smirnoff with Absolut coming in. And so we're definitely looking at price as part of our brand building.

Analyst

Shane Finimo [ph], Manikey Partners [ph]. You've had such wonderful success which you've talked about today, but I was just wondering if you could talk about some of the challenges that you face in maybe a few of the areas where you've had difficulties sort of meeting the ambitions that you've set out and maybe some areas where you think you might need to provide additional focus to get the success you desire?

Paul Varga

I mean, we've heard some of them. Southern Comfort in the last few years. So that hit – it starts second most important brands, so getting that on the right footing. We're starting to see signs over the United States, got our fingers crossed for the international marketplace. So you've heard some on that. China, there's a question was just asked. One of the few countries around the world where we've had our fits and starts and more fits lately than starts. And so we've talk about that. I don't know that it's a challenge or a problem but being able – when you sit out and look at where you're doing – where you want to do business, how you might improve your business and we oftentimes talk about really limited things for us in on the acquisition front, it would be evident in our last half a dozen years or so that we just haven't gone out and bought much. Thankfully, we've been very dedicated to innovation, line extensions and things that have helped to drive the company and frankly, I found those as more advantageous long term than the acquisitions even, but doesn't mean we're not interested in acquisitions. So we have sort of a 4a scale we look at as we assess what we might be interested in and it's sort of, first, it has to be attractive. It has to be available, has to be affordable and then in the end, the way the whole thing comes together, it has to be advisable. So we have pretty strict lenses we place on those things. And so the thing I always say, people are always interested when are we going to acquire something. What's the next acquisition? And you'll know when we announce it. That's when you'll know because – but know that we go through a rigorous process of trying to figure out the right things to bring in to Brown-Forman, just as we do when we have disposed of brands and businesses in past years.

We will really look at it and study it closely. Yes, Lauren.

Lauren Torres

It's Lauren Torres from HSBC. Just curious, how can you or how have you've been competing against the brewer? It seems like with deeper pockets these days and them focusing more on premium beers and craft beers, they're going head-to-head with spirits more so now than they ever have. So if you could just talk about the dynamic in the U.S. and how you're competing? And outside of the U.S., in Mexico and Brazil, for example, there's a very big beer culture. So also there, how do you compete? How do you get people to switch over and keep them in the category?

Paul Varga

I mean, I'll give you a real honest answer on the U.S. question. It's so competitive in the United States among spirit companies and the fact that so many entrepreneurial spirits companies exist and are being successful in the U.S., we probably don't have time to get over to the brewers. We like the success we've been having at the expense of some of the beer business, though. I would say – your other question, I'll let maybe Mark talk about Australia and some of the Mexico, Brazil questions that you all, Jill, others – because we do think we compete, because of the RTD format in those countries, a little more directly so we're probably more preoccupied in some of those places where we have good size RTD business thinking about the beer occasion. Do you want to talk about any of the new mix or...

Jill Jones

Sure. A couple of things. One, so when you think about the beer market, a lot of that is convenience in the can. And in both Brazil and Mexico, a lot of the RTD, same thing, consumer looking for a convenient way to enjoy the beverage and also economical, not to go out and buy a whole bottle of whiskey but to be able to economically enjoy something to drink other than beer. So I think that by itself helps. I would say though, when I think about craft brewers, I think about craft distillers. And craft distillers, you still have to make a fine product. And in the case of craft distillers, they have increased awareness around the product but it's actually benefited Brown-Forman in a number of ways like Woodford reserve being the original craft distiller, people migrate that direction. So I'm not sure that craft brewers are impacting us. But when I look at the opportunity to come into other markets, be it RTDs or craft distillers to get emphasis on our things, it's really about finding some way to connect with the consumer in the occasion they want. And I think we have a number of ways that we're able to do that. Mark?

Mark McCallum

Perhaps the only other thing to say, internationally, we do know that the success that John described internationally for Jack Daniel's RTD and others of our trademarks in Australia, in Britain, in Germany touches on the beer occasion. And so it is true that through our ready-to-drink expressions of our trademarks, we are able to enter that occasion where we would not normally do that with full-strength spirits. The other thing I would say just I think is the U.S. craft brewing phenomena is a lens into the resurgence of Bourbon and North American whiskey. I do believe that this is personal. From what we've observed is that the interest in more flavor and taste, which is the phenomena driving consumers away from mainstream beer into different tasting, stronger tasting beer, I do believe that phenomena is also touching on why not so much vodka anymore but more so Bourbon and North American whiskey.

John Hayes

Lauren, I just want to make one comment. I don't know if you find this interesting or not, but if you were to be able to get a telescope lens into Brown-Forman and watch it over the course of any period of time and how we talk and what we look at, you'd probably be surprised how little we even talk about beer. It doesn't show up a lot in our presentations.

There are number of things that are going spirits way here in the United States, as well as outside the United States to the extent that consumers continue to look for more flavor and more variety. You tend to have – to come to spirits for that. And we stay pretty focus on the consumer. Whenever I come out into the investors world, I probably don't go a day without getting a question about beer and beer share and what's happening there and all of that. And a little tongue-in-cheek. The only time I ever think about beer is the day before I come to a conference like this because I know I'm going to get the question. And I probably need to go and take a look at what's been going on. And so certainly when it comes to looking at beer occasions and the ways that we can be more competitive in that arena, we'll look at that from a consumer perspective. But you won't see beer names as competitive brands as we think about our business and how we're growing it.

Ian Shackleton

Yes. Ian Shackleton from Nomura. I had a couple of questions on Don's slide on M&A. When we're looking at local acquisitions, what are the real criteria? It strikes me you did reference Herradura. It was probably a bit of an exception in quite a premium brand, because most of local acquisitions will be a little margin, less premium. And the other question was really around the categories that you're fishing in which probably quite a small pond of Scotch and Irish and a really simple question why aren't the MO [ph] categories there, something like premium rum? Or is that an issue with the Bacardi distribution alliances?

Donald Berg

I'll take the last part first. One of the things that – we believe as we think out into the future and how the company needs to evolve. If we're going to be able to continue to compete in a top-tier level and outperform the industry overall, we've got to be pretty selective that we're going into the kind of categories and the kind of brands that have the ability to do that. And so as we've kind of gone through the discipline of looking at the business and what we think those areas are that can consistently and sustainably continue to outperform, the 2 by far and away that we've got the most confidence in would be the Scotch arena and the Vodka arena. And so, hence, those would probably be the 2 highest level of priorities that we have. Certainly, at premium levels and above, we like the premium positioning that we have. We think that's really where the long-term future of this business resides from a profitability and a return standpoint. And given that, we really don't have today the assets or the capabilities to do Scotch. If we're going to go in there, it probably is going to necessitate some form of an acquisition in order to do it. On the Vodka side, as you noticed up there, we've got both innovation as well as acquisition and we're going to look at what are the different types of regional opportunities there that – where our brand would do well in our hands. It doesn't mean that we won't look at other things. It's just if things will come up for sale, we'll probably take a look at them, determine whether or not we think it could fit some of the criteria that we have. But when we think about proactively where the industry is going and where we want to go within it, we see those 2 areas as the ones that we probably be the most proactive about.

Paul Varga

Something for you, just as a – we use categories and sometimes countries to demonstrate prioritization and to actually to illustrate opportunity. But you should know that even within a particular category of interest, the vast majority of trademarks aren't of interest to us. We are, I mean, a much more focused brand-building company by definition. And we just see those categories as offering superb opportunity for a company that wants to grow forever. And so you look for long-running runways for growth is really the idea there. But within it, you're going to want to be really picky and choosy about the trademarks that you think will do very, very well in your hands. So. I man, while we talk a lot of times and use the categories as a reference point, we are in no way shape or form are out trying to dominate categories and countries in some way. Our share of the global marketplace would – I think it will be unrealistic for us to think that way. So keeping to a narrow focus against great opportunities is really the way we think about it. And that's really – resides in a brand trademark.

Donald Berg

One other short comment to make. I was talking about the rest of the portfolio growth that we have. The one thing we do not have at Brown-Forman, which is obviously a very good thing, is a long tail compared to most of the industry, other participants out there. The last thing we want to do is make acquisitions, whether local or international, for scale sake that would eventually turn into a bigger tail. That is not something that we're interested in doing at all. And one of the strong or toughest criteria we put against any of the acquisitions is, it's got to accelerate the company's growth rate, not decelerate it. And so the bar is pretty high and that's why we're pretty choosy on this.

John Hayes

I think everybody's ready for a drink.

Paul Varga

You all, thank you very, very much for what has been a long afternoon. I really appreciate you sticking with us this afternoon. Thank you all.

John Hayes

Thank you.