Q4 2025
2025-06-05

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Brown-Forman Corporation Fourth Quarter and Fiscal Year 2025 Earnings Call. — ***Operator Instructions*** — Please be advised that today's conference is being recorded.

I would now like to turn the conference over to Sue Perram, Vice President, Director of Investor Relations. Please go ahead.

Susanne Perram

Thank you, and good morning, everyone. I would like to thank each of you for joining us today for Brown-Forman's Fourth Quarter and Fiscal Year 2025 Earnings Call. Joining me today are Lawson Whiting, President and Chief Executive Officer; and Leanne Cunningham, Executive Vice President and Chief Financial Officer.

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

This morning, we issued a press release containing our results for the fourth quarter and fiscal year 2025, in addition to posting presentation materials that Lawson and Leanne will walk through momentarily. Both the release and the presentation can be found on our website under the section titled Investors, Events and Presentations.

In the press release, we have listed a number of the risk factors you should consider in conjunction with our forward-looking statements. Other significant risk factors are described in our Form 10-K and Form 10-Q reports filed with the Securities and Exchange Commission.

During this call, we will be discussing certain non-GAAP financial measures. These measures, a reconciliation to the most directly comparable GAAP financial measures and the reasons management believes they provide useful information to investors regarding the company's financial condition and results of operations, are contained in the press release and investor presentation.

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

Lawson Whiting
Thank you, Sue, and good morning, everyone. Thank you for joining us today as we share our fourth quarter and fiscal year 2025 results. Throughout fiscal 2025, Brown-Forman navigated the extremely challenging and uncertain operating environment by remaining focused on the long term, leveraging our strengths and executing our business strategies with a focus on improving our route to consumer in several markets, evolving our workforce to simplify and streamline our organization, allowing us to become more agile and efficient and growing our portfolio of brands through sponsorships, media campaigns and innovation. That said, the fiscal year unfolded largely as we expected. This reflects the continued path to normalization following the significant multiyear disruption related to our supply chain, 2-plus years of exceptionally high demand and the impact of higher inflation and interest rates on the consumer and trade over the last 2 years. For context, in fiscal 2025, our shipments closely matched our depletions for the first time in 6 years.

Our reported net sales decreased 5% in fiscal ’25, while organic net sales grew 1% after adjusting for the divestitures of Finlandia and Sonoma-Cutrer in the prior fiscal year, the negative effect of foreign exchange and the business model change for Jack Daniel’s Country Cocktails. Putting our fiscal ’25 results into the longer-term view, our 5-year organic net sales compound annual growth rate was 6%, reflective of our historic trends.

Now let me share some perspectives on the fiscal 2025 results through our integrated business strategy. I’ll start with the performance of our portfolio and provide a few updates on our people, then Leanne will share more about our geographic performance and our investments, along with other financial highlights and our fiscal ’26 outlook.

From a brand perspective, Woodford Reserve was the largest driver of organic net sales growth. And if you look at the Nielsen takeaway trends for the top 20 spirits brands by value for the 52 weeks ending in April, Woodford Reserve was 1 of only 3 brands growing. This reflects the strength of Woodford Reserve, but also the exceptionally challenging environment our industry is navigating right now. An increase in used barrel sales was the second largest contributor to organic net sales in fiscal ’25, followed by growth from New Mix and Jack Daniel’s Tennessee Whiskey.

Woodford Reserve delivered organic net sales growth of 8%, driven by higher volume as well as positive price/mix with Woodford Reserve Distillers Select once again leading the growth. Woodford Reserve is also being discovered internationally with very strong performance in markets such as Japan and Turkiye as we continue to position this brand for global growth.

Last month, the Kentucky Derby was held in our hometown of Louisville and Woodford Reserve was once again the presenting sponsor. The 151st Run for the Roses was the most watched Kentucky Derby since 1989 with over 22 million household viewers generating more than 4 billion earned media impressions for the brand. This event creates numerous opportunities for collaborations across spirits, sports and fashion, enabling Woodford Reserve to engage with current consumers and make new fans of the brand.

Innovation and premiumization also contributed to the brand's growth with the success of Woodford Reserve's largest product launch, Double Double Oaked, along with continued double-digit growth of Woodford Reserve Double Oaked. These craft and luxury expressions reflect our strategic approach to innovation, which enable us to capitalize on growth opportunities in the U.S. whiskey category.

New Mix continued its impressive growth in fiscal '25, leveraging innovation to capitalize on consumer trends of flavor and convenience. The brand had another year of double-digit organic net sales growth, surpassing 11 million 9-liter cases and continuing to gain market share in Mexico. In addition, I'm excited to share that New Mix will launch 2 flavors, New Mix Paloma to New Mix Cantarito RTD in key U.S. states later this summer. With 58% of the U.S. Hispanic population originating from Mexico, this launch offers consumers the opportunity to purchase a brand that is currently only available in Mexico and reflects the authenticity, tradition and culinary richness of the country.

In fiscal 2025, organic net sales for Jack Daniel's Tennessee Whiskey increased 1%. As we have shared throughout this year, we're continuing to engage a new generation of legal drinking age consumers while remaining intently focused on retaining our core consumers through our McLaren Formula 1 and music sponsorships an evolved on-premise strategy and a new media campaign. Jack's connection to Formula 1 and music are on full display in Jack's Garage, which is a bold brand platform that unites race and whiskey fans through the power of music.

The momentum of this experience continues to build with the most recent Jack's Garage in Miami resulting in more social impressions than all of the U.S. Jack's Garage events held in calendar 2024 combined. Also raising awareness, the first members of the Jack

Pack, the team of Jack Daniel's brand ambassadors are now in place in key cities such as New York, San Francisco and Los Angeles. This team is focused on growing our influence in the on-premise channel through relationship building, targeted education and brand advocacy.

I'm also proud to share that our new global campaign for Jack Daniel's entitled – that's what makes Jack launched a few weeks ago in markets around the world. This campaign is bold, iconic and unmistakably Jack. It emphasizes the enduring craftsmanship and authenticity that distinguishes Jack Daniel's from all other whiskeys, stemming from our roots in Lynchburg, Tennessee, our signature charcoal mellowing process and the unwavering standards set by Mr. Jack himself.

Reinforcing Jack Daniel's status as a renowned and iconic brand, we believe the creative work will strengthen our position as a symbol of independence for current consumers and a new generation. Innovation also elevates Jack Daniel's relevance to existing consumers while extending the brand's appeal to new consumers and occasions as evidenced by the growth and success of the launches of Jack Daniel's Tennessee Honey in 2011, Tennessee Fire in 2014 and Jack Daniel's Tennessee Apple in 2019.

Today, I'm excited to announce the launch of Jack Daniel's Tennessee Blackberry later this summer. Blackberry is a globally recognized, well-established flavor trend and naturally complements the flavor of Jack Daniel's Tennessee Whiskey. In consumer testing, Jack Daniel's Tennessee Blackberry had high consumer appeal resonating with a broad audience. We've been strategic and purposeful with our innovation using consumer insights and trends to give consumers the opportunity to explore and discover within the Jack Daniel's family. I look forward to sharing more about the launch of this exciting new innovation in the months ahead.

Before moving to our people, I'll share some comments on a few other brands that had an impact on the company's top line performance. Diplomatico delivered very strong double-digit organic net sales growth led by France and Germany, along with the travel retail channel. Within the super premium and above price tier, Diplomatico is the world's third largest rum by value globally sold in over 100 countries and is known for its rich heritage and rum-making tradition.

In fiscal '25, we benefited from having a full year of growth from this brand, and we continue to expect Diplomatico to be a meaningful growth contributor over the long term. Organic net sales for Gin Mare grew 1% with growth from Spain, Germany and France, partially offset by a decline in Italy, the brand's largest market as we transition to our own distribution.

In the fourth quarter, we recognized a $47 million noncash impairment charge for the Gin Mare brand name and reduced Gin Mare's contingent consideration liability by $43 million. The impairment and liability reduction reflect a decline in our financial forecast assumptions due to the more challenging macroeconomic environment in Europe, where the brand has a strong presence. While the brand had a slower start than we had planned, we continue to expect that Gin Mare will contribute long-term growth to our portfolio of brands.

Korbel and our Tequila brands partially offset our organic net sales growth in fiscal '25. As we shared a few weeks ago, Brown-Forman and Korbel champagne sellers will end our sales, marketing and distribution relationship at the end of the month. We appreciate the years of partnership with Korbel as well as the Brown-Forman employees who played a role in building Korbel into the respected and well-loved brand it is today.

To our Tequila portfolio, organic net sales for el Jimador and Herradura declined double digits as the environment for the Tequila category in the U.S. remained competitive and Mexico's economy continued to face a challenging macro environment, though their performance improved sequentially each quarter. We believe consumers desire brands with heritage, authenticity and craftsmanship. So we remain focused on sharing and celebrating Herradura's 155-year history, including its heritage as the world's first Reposado, which is the fastest-growing expression within the Tequila category.

We also continue to innovate with the successful launch of Herradura crystal in Mexico, which builds upon the accelerating Cristalino trend. El Jimador has also launched a Cristalino expression in the U.S. El Jimador Cristalino is priced above the parent brand and is the first expression within the family of brands to be bottled in its new premium packaging, further supporting the brand's premiumization journey.

IWSR projects the tequila category will reach almost $20 billion in retail value in the next 5 years with almost half the growth coming from outside the U.S. and Mexico. We continue to ensure that El Jimador and Herradura are well positioned to capitalize on the growth.

Before turning the call over to Leanne, I want to take a moment to provide an update on our people. In fiscal '25, we announced and implemented a number of strategic initiatives, which included a workforce reduction and cooperage closing. Collectively, these initiatives should deliver approximately $70 million to $80 million in annualized savings. As a result, we incurred $63 million in aggregate charges, including the separate early retirement benefit offered to qualifying U.S. employees.

Throughout our history, Brown-Forman has continually evolved and adapted over the decades, and we believe these strategic initiatives will ensure the company continues to endure for generations to come. I want to thank all of our employees for their resilience as well as their continued commitment to our brands, our business and most importantly, to each other.

In summary, fiscal 2025 was a year unlike any other that I've seen in the past 3 decades.

I'm often reminded that this great company has existed for more than a century and half and has faced many uncertainties and unknowns. During these times, we remain focused on the long term and leverage our greatest strengths, our people and our brands. This has enabled us to deliver positive organic net sales and operating income growth in fiscal '25, which we believe is at the top of our industry.

As Leanne will share, we're entering fiscal '26 with a healthy mix of realism and optimism as we anticipate that the year ahead will continue to be challenging. Despite headwinds, we believe that we have tremendous opportunities for long-term growth. And while we cannot control the external environment, we will focus on what is within our control and on the strategic initiatives that will unlock growth for our business, our brands and our people.

With that, I'll turn the call over to Leanne, and she'll provide more details on our fiscal '25 results.

Leanne Cunningham

Thank you, Lawson, and good morning, everyone. As Lawson mentioned, I will provide additional details on the other two pillars of our corporate strategy, geographies and investment along with other financial highlights and our fiscal 2026 outlook. From a geographic perspective, we shared with you previously that we anticipated a return to growth for organic net sales and organic operating income in fiscal 2025, driven by gains in international markets, along with the benefit of normalizing distributor inventory trends on a year-over-year basis.

Today, the results we are sharing with you reflect those expectations. Our emerging international markets continue to lead our growth and collectively delivered a 9% organic net sales increase in fiscal 2025. This growth was led by continued strong double-digit growth in Türkiye and Brazil, led by Jack Daniel's Tennessee Whiskey. The sustained growth of the premium whiskey category positively impacted our business in these markets, along with Brazil, which benefited from our geographic expansion strategy and the launch of an additional package size for Jack Daniel's Tennessee Whiskey.

In Mexico, organic net sales grew 4% despite the challenging economic environment. While discretionary spending has been negatively impacted and consumers are trading down, our RTDs and the Jack Daniel's family of brands are outperforming competitors and gaining market share.

As Lawson mentioned, New Mix continued to deliver double-digit organic net sales growth driven by increased distribution as well as a steady pricing and promotional strategy. Jack Daniel's RTDs, which include Jack and Coke, outperformed the RTD category and delivered high single-digit organic net sales growth.

As I mentioned last quarter, we are committed to the development and growth of our portfolio of brands in Mexico and further leveraged our own distribution capabilities. In fiscal 2025, we began the distribution of brands within the William Grant & Sons portfolio, including Glenfiddich, Hendricks, Balvenie and Monkey Shoulder. This distribution opportunity not only provided incremental organic net sales, we also believe this complementary portfolio provides us additional strength to achieve greater development of the combined portfolio, particularly in the on-trade and the superpremium segment.

Organic net sales in the travel retail channel declined by 5% in fiscal 2025. Challenging macroeconomics in many markets in Asia more than offset the introduction of new brands and growth in global accounts. Growth of Diplomatico and Woodford Reserve led by the launch of Double Double Oaked were more than offset by the decline of our super premium American whiskeys, such as our exclusive global travel retail offerings, Jack Daniel's Bottled-in-Bond and Jack Daniel's American Single Malt, which compared against its launch in fiscal 2024.

Our developed international markets collectively delivered an organic net sales decline of 3% in fiscal 2025 as growth in Japan was more than offset by declines in Italy, South Korea and the United Kingdom. In Japan, organic net sales growth was driven by our route-to-consumer change to owned distribution on April 1, 2024. The transition to owned distribution enabled us to execute our pricing strategy and provided more clarity on customer and consumer performance.

Similar to Mexico, we are also leveraging our distribution capabilities with the distribution of the William Grant & Sons portfolio of brands such as Glenfiddich, Monkey Shoulder, Grant and Hendricks. By bringing together our iconic spirits portfolio, we are scaling our business in Japan and reinforcing our position with local customers, which further strengthens our position and underscores our commitment to long-term growth and innovation in the third largest whiskey market in the world.

We are excited that we launched our own distribution in Italy on May 1, 2025, signifying our dedication to unlocking the full potential of the dynamic Italian spirits market. While organic net sales declined as we prepared for the transition to our own distribution, takeaway trends improved, and we are gaining market share. We believe owning our distribution will enable us to deepen our collaboration with our trade partners, accelerate growth for key super premium brands like Diplomatico Rum and Gin Mare and further strengthen the presence of our iconic American whiskey portfolio, led by the Jack Daniel's family of brands.

In South Korea, the premium whiskey category continued to grow, leading to an increase in competitive activity, while Jack Daniel's Tennessee Whiskey faced a difficult comparison and Jack Daniel's Tennessee Apple compared against its launch in the prior year period. Consumer confidence in the United Kingdom was negatively impacted by the macroeconomic and geopolitical uncertainty, particularly related to tariffs, resulting in a 6% decline in organic net sales.

Double-digit organic net sales growth of Diplomatico and Gentleman Jack was more than offset by the decline of Jack Daniel's Tennessee Whiskey, although the brand grew in value and gained share in the off-premise takeaway trends.

Turning to the United States. Organic net sales decreased 2% with growth from Woodford Reserve, Old Forester and Jack Daniel's RTDs, more than offset by declines from Jack Daniel's Tennessee Whiskey and Korbel California Champagne. From a takeaway perspective, 3-month rolling value trends for total distilled spirits are down approximately 3%, reflecting the continued macroeconomic and geopolitical uncertainties negatively impacting consumer confidence and spending. The slowdown is widespread across categories and price tiers, yet the higher-priced tiers are continuing to gain market share, particularly in the $40 and above tier within the U.S. whiskey category.

Lawson highlighted the growth drivers of Woodford Reserve, so I will share a few comments on Old Forester and the Jack Daniel's RTDs, along with Jack Daniel's Tennessee Whiskey and Korbel. Despite the challenging macroeconomic conditions, our founding brand, Old Forester, continues to resonate with consumers with high-quality and great-tasting bourbon and 155 years of history and storytelling.

Old Forester delivered high single-digit organic net sales growth, led by strong performance of the super premium expressions, particularly our single barrel selection offering, which is bottled at barrel strength. Jack Daniel's RTD delivered double-digit organic net sales growth in fiscal 2025, led by the growth of Jack and Coke and Jack & Coke Zero. Flavor and pack innovation are important in the RTD category. To provide consumers with the flavor and pack innovations they desire, the limited time offering of Jack and Coke Cherry and the Jack & Coke variety pack featuring Jack & Coke, Jack & Coke Cherry and Jack & Coke vanilla was launched in March in time for the seasonally stronger spring and summer months and is off to a good start. While trends in the second half were stronger than the first half, organic net sales declined for Jack Daniel's Tennessee Whiskey.

As Lawson mentioned, we have taken action and are continuing to engage with current and new consumers through sponsorships, on-premise engagement, our new media campaign and innovation to accelerate our trends. We also continue to make purposeful efforts to highlight our whiskey-making craftsmanship and credentials through innovation and specialty launches.

The latest release in the age series, Jack Daniel's 14-year-old Tennessee Whiskey joined Jack Daniel's 10-year-old and 12-year-old Tennessee Whiskey in fiscal 2025. 14-year is the oldest age-stated whiskey from the Jack Daniel's distillery in over a century and sold out at the Jack Daniel's White Rabbit bottle shop in less than 3 hours. The success of these products created a halo for the parent brand with the launch generating 720 million earned media impressions benefiting the entire Jack Daniel's family of brands.

And finally, Korbel organic net sales declined in fiscal 2025 in a difficult environment as the majority of the brands in the sparkling category experienced decreased sales.

Turning to the distributor inventory levels in the U.S. The environment remains unchanged with distributors continuing to target the low end of their normal range. As you may recall, in our last earnings call, we shared the news of our distributor transition in California and that it was part of a broader review of our route to market across the U.S. to ensure our brands are well positioned to win in the highly competitive marketplace.

We have now completed our review, and we announced last week that we have named new distributors for 13 additional markets, a transition that will involve 7 new distributor partners beginning August 1, 2025. This is the company's first significant change to our U.S. route-to-consumer landscape in more than 60 years. These carefully considered decisions underscore our enduring commitment to ensure our brands have the dedication, focus, investment and route-to-market capabilities needed to succeed in the increasingly dynamic U.S. beverage alcohol industry. Just as one example, as a result of these changes, we will gain incremental dedicated headcount focused on our brands. While these transitions will likely cause some disruption and volatility in the first half of this fiscal year, we believe they will unlock future growth. These decisions were taken with great thought and care, and we believe they will bring tremendous opportunity for growth in the years and decades to come.

We would like to recognize and thank all of our distributors whose dedication and expertise over the years have been foundational to establishing Brown-Forman's strong presence across the U.S. Their dedication and hard work have been instrumental in building the strong foundation upon which this next chapter of growth will be built.

Moving on to the rest of the P&L. In fiscal 2025, our reported and organic gross profit decreased 7% and 2%, respectively. This resulted in 150 basis points of gross margin contraction to 58.9%. We continue to benefit from favorable price/mix, the Jack Daniel's Country Cocktail business model change and the positive impact from our portfolio evolution, which had been obscured by the transition services agreements related to Finlandia and Sonoma-Cutrer. These benefits were more than offset by higher costs and the negative impact of foreign exchange. As we shared in our outlook, we expected higher costs in the fiscal year due to the impact of inflation on our input costs and lower production levels as we work to return our finished goods inventories to more normal levels.

Operating expenses in fiscal 2025 were lower compared to fiscal 2024, largely due to a 6% decrease in organic advertising expense, particularly for Jack Daniel's Tennessee Whiskey and Jack Daniel's Tennessee Apple as well as the comparison against the launch of the Jack Daniel's and Coca-Cola RTD in the United States in the year ago period. This largely reflects our advertising philosophy of aligning brand investment with depletion-based top line trends and a 5% decrease in organic SG&A investment led by lower compensation and benefits expense.

In total, including the restructuring and other charges that Lawson shared, reported operating income decreased 22%, largely driven by the divestitures of Finlandia and Sonoma-Cutrer in the prior year period. Organic operating income grew 3% in fiscal 2025. In addition, we received cash of $350 million in exchange for our 21.4% ownership interest in Duckhorn and recognized a $78 million gain on the sale of our investment in Duckhorn. In summary, the above results collectively led to a 14% diluted earnings per share decrease to $1.84.

Before moving to our fiscal 2026 outlook, I will share a few comments about our fiscal 2025 capital deployment actions. Our capital deployment philosophy balances ongoing investment in the business, including organic investments and acquisitions alongside shareholder returns such as regular dividends, share repurchases and special dividends. We approach capital allocation decisions with the core objective of sustainable long-term value creation. An important aspect of this philosophy is to maintain flexibility and the strength of our balance sheet.

In fiscal 2025, we continue to maintain our strong financial position. We increased our quarterly dividend for calendar year 2025 and paid quarterly dividends totaling $420 million to stockholders in the fiscal year. We also repaid $300 million of long-term notes at their maturity date of April 15, 2025.

Now turning to our fiscal 2026 outlook. We believe the operating environment will remain volatile and visibility low due to geopolitical uncertainties and global macroeconomic conditions, particularly with regard to the tariff environment. This environment will create sustained levels of consumer uncertainty, which we believe will lead to another year of below historical total distilled spirits trends. We continue to expect that the behavior of the consumer and the level of trade inventories will not change meaningfully during the 2026 fiscal year.

We believe that the strength of our portfolio, the benefits of our route-to-consumer transitions and our evolved workforce structure as well as strategic innovation will help us to navigate the short-term cyclical disruptions. From a geographic perspective, we have now moved beyond the unusual comparisons of the past several years and expect the depletion-based trends in the U.S. and developed international markets to remain similar to fiscal 2025 with the exception of Canada, where American Spirit products largely remain off the shelf, partially offset by continued growth in our emerging markets.

In addition, while we are working towards a smooth transition, we do expect some level of phasing disruption in the U.S. as we move to new distributors. Another cyclical driver of our fiscal 2026 outlook is the year-over-year change in our used barrel sales, which was a key contributor to our fiscal 2025 growth. We expect our used barrel sales will return to levels that are more typical in challenging and uncertain operating environments for our industry, which is approximately more than half of the fiscal 2025 level, making it a significant year-over-year headwind. We will continue to execute our long-term pricing strategy and expect to benefit from our revenue growth management activities and strategic innovation while anticipating product mix headwinds due to faster growth of our RTD portfolio and agency brands.

Based on the currently known factors, we expect a low single-digit decline in organic net sales. In this challenging environment, we will carefully manage our cost and operating expenses. Our outlook for organic operating expenses continues to reflect investment behind our brands, utilizing our long-term brand expense philosophy. Due to the strategic initiatives implemented in fiscal 2025, we expect a reduction in SG&A related to our recently announced strategic workforce initiatives. Based off the above, we forecast organic operating income to decline in the low single-digit range.

Our organic net sales and organic operating income outlook ranges are based on numerous scenarios with the greatest influence from weaker to stronger consumer demand in key markets such as the United States, changes in distributor inventory levels and currently known tariffs. We will continue to monitor, adjust and update if conditions or trends evolve. We expect our estimated capital expenditure outlook to be in the range of $125 million to $135 million. We believe our fiscal 2026 effective tax rate will be in the range of approximately 21% to 23%.

In summary, we delivered organic net sales and organic operating income growth in an uncertain and volatile operating environment in fiscal 2025, largely in line with our expectations. Despite the challenging short-term conditions, we remain focused on building our business for the long term while navigating the current environment at pace by strengthening our portfolio of brands for the long term and introducing strategic innovation, benefiting from our streamlined and simplified workforce structure, which will increase our agility in responding to this dynamic operating environment and taking greater control of our brands in international markets through own distribution as recently demonstrated in Japan and Italy, while ensuring in our largest and home market, the United States, that our brands are well positioned to win with highly focused and engaged partners in an increasingly competitive environment.

We anticipate these strategic initiatives will have short-term impacts on our business as we transition to new partners and ways of working, yet we believe they will unlock future growth and continue to build Brown-Forman and our brand for decades and generations to come. This concludes our prepared remarks. Please open the line for questions.

Question and Answer

Operator

— Operator Instructions —

And the first question is going to come from Bryan Spillane with Bank of America.

Bryan Spillane

Lawson, just stepping back, and I appreciate the commentary about just how volatile and difficult, I guess, the consumer environment is. And one thing we're trying to square here is how it's not uniform across all other consumer categories. Like if we look at, I don't know, lodging, gaming, leisure, I mean, there's a lot of other consumer categories that when we go through the transcripts or we listen to the companies describe the consumer, it's kind of normal, if not even a little bit better than normal. And yet if I take the commentary today, you would think we were in a recession, right?

So can you just kind of – a, is that your observation as you're kind of looking at the consumer and trying to understand what's happening specifically to Brown-Forman and the spirits? And any insight you can give us to help square that circle? Because I think, right, part of the reason why the stock is kind of erased over 10 years' worth of appreciation is simply because I think people are seeing it more structural than cyclical. So any insight there would be helpful.

Lawson Whiting

Yes, Bryan, it's a good question, a difficult one. I mean the – look, there are certainly a lot of consumer categories that are very weak. You're right. You cited a few that have done better than others. I know some big consumer products companies in the last couple of days have released earnings and they've gotten hammered with weaker consumer demand. So there's certainly an element to that in a lot of what we've been saying. The whole structural versus cyclical argument, which we've been talking about for 6 quarters now, I think, something like that. I mean I don't think there's a lot of newness to necessarily add to that conversation.

I mean I've seen more and more people, but it's the same big 3, the GLP-1s, the cannabis and Gen Z, and we've been saying that for 1.5 years now. And I know on the sell side that the world seems to be a little bit split on the extent of the pressure that it's putting on our category. We'd be naive if we didn't say that there isn't some pressure coming from those. But I still would argue that it is the consumer and their wallet just doesn't have as much money in it. You're right, they're spending money on things like vacations and lodging, as you said, and other things like that. But then when it trickles down and they go to the grocery store, I think in some cases, spirits has fallen out of the basket a little bit. And that isn't obviously great.

But on the tailwind side of things, there are some things that are doing well. Spirits continues to take share from beer and wine. So that dynamic hasn't changed. Premiumization is not at the same rate it was, but it's kind of stagnant a little bit, but I think that is good news for the most part. I think the consumers – they haven't traded down necessarily. And you know our portfolio stays up at the much more on the premium side of things.

So I don't think there's a lot of new news that I can add to that conversation other than that we continue to pull the levers that we can pull, and you are seeing a bit of a global slowdown. The other thing, which I didn't mention on the structural cyclical thing, that we haven't talked about in a little while. But I do think when we look at Europe compared to the United States, Europe, although some green shoots maybe in some big markets over there, but Europe has largely been seeing trends that are really the same as the United States, yet they don't have the cannabis issue. The GLP-1s are not nearly as big.

Healthy lifestyle, the other one is Gen Z, I think anecdotally, everybody is seeing that out there and everybody is commenting on that. But the factors that are affecting the world really to me, still sound a whole lot more cyclical than they do structural. That was a long answer.

Bryan Spillane

All right. If we learn more, I'll share with you. But it is – we're perplexed by it.

Lawson Whiting

Yes.

Operator

And our next question will come from Nadine Sarwat with Bernstein.

Nadine Sarwat

I have two, one on the guidance and one longer term. So first one on the guidance, can you flesh out a little bit what's included in that top line guidance for fiscal '26, both in terms of distributor inventories and/or underlying consumer demand? Are you assuming some improvement in the back half or simply more of the same? And similarly, on the profit guide, just clarifying what does that imply tariffs, is that status quo? Are you baking in any form of tariff assumption in there? So that's the sort of tariff question.

And then the longer-term question is your fiscal '26 guidance is now obviously quite far off. The medium-term growth algorithm that you've communicated at your last Investor Day. And I think if we reflect on what's going on with the stock today, that's probably a big portion of that growth being at least for the moment, pushed into the future. So for those who are listening in who are concerned about that and reaching that medium-term growth algorithm that you communicated previously, has that algo changed? How are you thinking of the potential for the business to grow in the long term?

Leanne Cunningham

Nadine, thanks for your questions. I'll start with guidance, and I'll turn it over to Lawson for our longer-term algorithm. So kind of stepping back a bit, as we think about F '25, largely in line with our expectations, we had sequential improvement through each of the first 3 quarters. And then in the fourth quarter, we had planned for that trend to continue. But then that's where we got into more geopolitical volatility around the tariff environment. We saw the drop in the consumer confidence. And that's on top of that kind of stretched consumer we've been talking about for several quarters.

And when we think about our fourth quarter and then how that leads into F '26, that impacted the U.S. and a lot of our key developed markets, particularly Europe. But for our performance in the fourth quarter is kind of largely in line with the softening trends of TDS. So that's how we enter our fiscal '26. And so from an environment perspective, we do think it's going to remain volatile and the visibility is going to continue to be low around the tariff environment. That's a big piece of that.

We believe that through all of that continued kind of uncertainty that the consumer is going to remain at that sustained level that it is now. And so we're just really thinking about the behavior of the consumer and the level of trade inventories as we're thinking about the environment that we'll be operating in, in fiscal 2026 is kind of largely the same as we entered into this fiscal year. But we have a lot going on, as we talked about as it relates to our outlook because, again, during Lawson's prepared remarks, we are really investing and strengthening the portfolio of the brands, and he mentioned what those were. We're introducing strategic innovation of Jack Daniel's Blackberry, which we think is going to resonate well with consumers worldwide. We're going to continue to benefit from our recent route to consumers with Japan and Italy and then also our streamlined organization, which can be highly agile in this environment.

We talked about too on our call for us, one of the – we expect kind of mostly developed markets to remain the same. But for American products off the shelf in Canada and that being about 1 point of our top line growth for F ’24 and F ’25, we’re continuing to assume that our products largely remain off the shelf in Canada and that our growth is going to continue to come from emerging markets again for F ’26.

So to your comment on tariffs, as we kind of said in our last call, we know it’s highly volatile. None of us can predict what’s going on. What we have included in our guide is what we do know as of this date. Largely, that’s coming through as the indirect impact from Canada, but then also the direct impact on some of our cost of goods, and that’s built into our guide. We talked about the disruption that we do expect for 14 distributor transitions in key markets in the United States. We are all working hard to make sure that goes seamlessly. But with that number of changes, we’ve just got to plan for some level of disruption.

And then one thing I’d really like to touch on a bit more that’s in that guide is our used barrels. So we know that there’s been an increasing global demand for whiskey over the last number of years, and that’s created strong demand for our once used American White Oaked barrels. If you kind of look back over the last 15 years, in a challenging operating environment such as 2010 with economic recession and with the global pandemic, our used barrel sales typically come step down during environments like that and then in the following years, kind of return to more normal buying patterns.

So being in the environment that we’re in as an industry, we would expect in F ’26 that to step down more than half. And just so to help you all a bit, in F ’24 10-K, we said that our branded and non-bulk was about $87 million. And in our press release, we said for F ’25 on Schedule B, it grew 18%. And then we’ve just shared with you that in our guide, we think that’s more than half.

Now another thing to take into consideration, and it’s to your point on leverage, the used barrels are – have a gross margin well above the company average. So as we see this short-term cyclical kind of softening of demand for that – for the used barrels as it flows down through the P&L, we just – it just has a greater impact, an outsized impact on our operating income.

So with that, I'll turn it over to Lawson for the make of the – for the long term.

Lawson Whiting

Long term, the growth algorithm. So just to remind everyone sort of what that was or what we said in our last investor conference was sort of mid-single-digit growth in the United States, growing around the TDS number, which historically been in that 4% to 5% range. A little bit higher on the developed international and a little bit better than that on emerging markets. When we get to there, that sort of makes all the math work. And we had literally achieved that for the most part over the last 20, 30 years kind of time frame. Obviously, the last few years have been a whole lot more volatile than that.

So having said that, when we talked about that kind of algorithm. If you remember, if you go back 2 years ago, TDS in the U.S. was growing 5% or 6% even 2 years ago. Long term, we have always said kind of a 4% to 5% grower market. Well, right now, it's declining at 4% to 5%. So that algorithm doesn't work when the market is declining at that kind of rate. So when we're going to return to our old growth algorithm, I do think has a lot to do with not only the U.S., but in Europe starting to see some improved industry trends. I mean – and I think that's true across the whole industry. I mean we are obviously not the only ones that are not delivering against that long-term algorithm.

But if you're a believer in the cyclical nature of so many of the problems here, it's tough to predict when that's going to come back, but it will. And look, the fourth quarter had some weakness in it a little bit. TDS weakened a point or 2 more. So that contributed to sort of a little bit of a surprise, I think, that everybody is seeing right now. But we still feel like we are pulling the right levers that we've got the right brands in the right categories. All that kind of stuff hasn't changed. It's just the environment continues to be really difficult.

Operator

Our next question will come from Kevin Grundy with BNP.

Kevin Grundy

Two strategic ones for me, if we could. So Lawson, a key competitor here has a new CFO comes from the Coke system. There's been great progress on the soft drink side from a mix perspective, from a package mix perspective. And it seems like that may be something that a key competitor is intent on pursuing as a way not just to drive profits but also to reach a more value-oriented consumer and to drive improvement. And I was just curious to kind of get your thoughts on that.

And then just unrelatedly, just on the pricing outlook here, if you could just comment, you guys have heard this before, just in terms of the amount of supply that's out there in U.S. whiskey, coupled with the fact that demand is slowing, which is now reflected in your outlook. And the worry among the investment community is what that may – mean for industry pricing and then ostensibly margins. So maybe just your updated thoughts on those two things would be appreciated?

Lawson Whiting

All right. Leanne, let me take the pricing question first, and then we'll come back into the RTDs. Pricing, look, what we have said before and we are still seeing today is low single digit on a regular basis is the pricing that we want to see out of Brown-Forman. We're always talking about the U.S., but come back to the U.S. pricing for a second. Over the last 13 weeks, TDS was down 1 point. We were down less than that. So that's not great, but not – it's not like the bottom is falling out. And you get some mixed things in there, too, as RTDs have been strong.

But importantly, though, I think an interesting part of that is U.S. whiskey, suburbans for the most part, or Tennessee Whiskey, is basically flat. So for those that have expressed concern, I know over the last few calls, we've had conversations around industry supply and things like that. At least so far, it has not flowed through to more promotional lower pricing. And so – and I think and what we said last time, and I just I'll say it again, the big players in American whiskey control or we have very large market share of the American whiskey category, and it's the big players. It's the Diageo's Brown-Forman and Sazerac and Beam. And they seem to be professional in their pricing, whatever the word really wants to be rational. I guess that's a better word for it, that they're being rational in their pricing environment.

Tequila is the other category that everybody wants to talk about. It's down 2% once again, it's not like the bottom is falling out, but I think we all accepted that you were going to see some pressure on tequila pricing given the direction of the cost of agave. So – but it's – I don't want to say pleasantly surprised, but I guess I am a little bit that the pricing environment has stayed where it is.

Leanne Cunningham

And then I would say to the RTD comment that you were referring to, we've been in this business for over 30-plus years. We have over kind of 30 million cases of RTDs already in our portfolio. But you would have heard in Lawson's prepared comments, it's something we continue to very much believe in. New mix, which is one of our key drivers of growth in Mexico, we've been able to take pricing. We have been expanding our distribution. And through innovation, we've been launching new flavors. For the – in F '26, we're also going to take New Mix and extend it beyond Mexico and launch it into the U.S. targeted specifically to some areas as we begin the launch to give it good footing.

As we go forward, we think it will continue to resonate well with a lot of consumers.

And then also for our Jack & Coke, it's about geographic expansion in F '26 and working through and launching new innovations in that space. You would have seen us do that in F '25 with the variety pack, which we had Jack and Coke, Jack and Coke Cherry and Jack and Coke vanilla. And it's just a space where we continue to innovate and grow. So we agree the consumer right now in many places around the world is preferring convenience and flavor, and this is a good format to be able to deliver that to them.

Lawson Whiting

One thing I'll add to that, too, on the comment earlier about package and sizing and things like that, that quite honestly is a little bit easier in the nonalcoholic space, there's more flexibility than there is in ours. But just as one stat, I found it interesting. I have not heard this before. 80% – this is in Nielsen, U.S. last 12 months, 80% of the dollar growth in spirits has been through the 375 and the 50 mL, so the small sizes. That's unusual to say the least. And I think it just – it goes further to talk about cyclical challenges of a consumer who's pinched and just goes to the store with a $10 bill instead of $20, and then they get the smaller size.

But we don't necessarily consider that a bad thing, and that came up a couple of calls ago, maybe for some folks. It means they still want your brand. They just can't afford the whole – they can't afford a leader or whatever it might be, and so they're taking a smaller size. So I think that is a sign, and it's call it an opportunity, too, that we need to get better at getting our small sizes out there and everyone, particularly in the U.S., is very aware of that, and they're going for it. So…

Leanne Cunningham

And one small data point about the consumer in the U.S., while our coupons are a small tool in our promotional toolkit and have the same consistent level on F '24, F '25 of coupons offered, we are seeing redemption rates increase. So again, looking at that consumer who's looking for the value and be able to afford the luxury they can while remaining brand loyal.

Lawson Whiting

And one, if I can, to Nadine's question from 5 minutes ago, I wanted to add one other point, I think, that's important that I forgot to say. And it's basically despite what's happened over the last 12 months and a bit of the volatility and the challenges and the slowdown in the business, our 3-year, our 5-year and our 10-year CAGR for top line growth is the same number. It's all in the mid-single digits. So the 3-year and the 10-year are the same number. It doesn't feel that way right now because of what's happened really in the last 12 months, but it's coming off those elevated years post-COVID. But I just find that interesting that 3, 5 and 10 would all be the same.

Operator

And the next question is going to come from Lauren Lieberman with Barclays.

Lauren Lieberman

So Lawson, just following on the heels of that and looking at those sort of average growth rates over a multiyear period, obviously, like by nature of the math, there's smoothing inherent in that. But the trend line is less than encouraging. And notwithstanding everything you've already offered on view as cyclical versus structural, what about the what if? Like what if it is more structural? What if the category, let's say, TDS rather than being down 4% to 5%, we reach a new level and it's kind of like – it's more like beer. So let's call it down — ***indiscernible*** —

But let's just for the sake of argument, say it's a down low single digit. What does that mean? What's the business planning? What's the break glass in case of emergency plan if there is one. But just to what degree are you guys having these conversations about what is the future business model if it's not cyclical?

Lawson Whiting

Well, look, I mean, that's a tough question, and we certainly talk about it, although I'd still argue I think we've – we still believe in the cyclical side of the argument. But to try to answer your question a little bit as to what will we do differently. I mean, look, you take a page out of carbonated beverages and sodas, you take a page out of beer, some of those means you're doing more pricing. If the volume is not there and they still deliver – I mean, both beer and carbonated beverages have obviously lived on pricing for the last decade really.

So I think there's some changes there. I mean I think there's some resource reallocation. We're not seeing these headwinds in much of our emerging markets, and they continue to grow. They continue to be the source of strength for our company, and there's a long way to go in the world of emerging markets. As we've said many, many times, we kind of barely scratched it. So I think that where the growth comes from is going to be a little bit different, too. And then we look at our portfolio, I mean, I still – we are – as everyone knows, we are a premium-based spirits company. Premium consumers, I do believe, are going to continue to be – they're going to want brands like the ones that we have. And so I think we're relatively underexposed compared to some others that have a bigger, longer tail and a lower-priced portfolio.

Leanne Cunningham

And just to build on that a bit, like with the U.S. RFP that we just did, it was all about making sure that the brands that we have in a competitive market are with partners that have proven track records, strong capabilities and a shared commitment to make sure they're going to continue to grow our brands they have ensured we are going to have dedication, focus, investment and building our brands. We continue to do that in other markets such as UAE, where we are expanding our distribution and Turkiye, where we have new distributors that will cover more geographies to Lawson's point, emerging international.

We're doing it with Italy and Japan and taking those brands into our hands, especially with Gin Mare and Diplomatico, where we have a lot of opportunity to continue to grow those brands. So it's that and it's continued to find synergies where it's available. And I hope through all of the work that we have been doing over the last 2 fiscal years, F '25 and what we have planned for F '26, we are demonstrating that we are moving at pace with many strategic initiatives, and we are being incredibly agile to make sure we're capturing synergies and opportunities.

Operator

And the next question will come from Robert Moskow with TD Cohen.

Robert Moskow

I was hoping you could comment on a couple of things. One is this is a very volatile global environment. And in a lot of markets, there's discontent about American brands. Have you done any like testing of how your Jack Daniel's brand is perceived in these international markets, if anything has changed? And then secondly, can you talk about your philosophy on A&P? A&P is down 6% in fiscal '25. Would you expect it to be down again in fiscal '26 given the expectation for sales to be down?

Lawson Whiting

Yes. Well, let me take on the Jack one first. And we've had this quite literally over my career. It's come through numerous different times when there's a bit of anti-American sentiment moving around the world. Historically, they've never "taken it out on the brand." And we've got numerous examples of that back in the days of when Russia – when we were still selling in Russia that we didn't lose any momentum there with that. France is another one where over the years, we've had different – there have been different anti-American sentiments and it didn't really affect the brand.

And so – and then in terms of how do we measure it, are we testing it and those kind of things, I mean, it's one thing. I mean, almost if I could find one very positive thing to say today after everything that we're doing is we have made so many changes to the Jack Daniel's communications and consumer touching, all those plans have changed quite a bit, highlighted by the new advertising campaign, which has only been out for a few weeks. So you're not going to see anything in the data yet. But we are seeing now meaningful improvement in the brand health measures. And there's probably nothing more important over the long term for Brown-Forman than that. And so we think we've made some smart moves there and the different programs that we're running right now. And so when we do our consumer testing, we are not seeing anything flow through in terms of a knock to brand health so far. So we feel pretty good about that.

Leanne Cunningham

And then from an A&P philosophy, there's really no change in philosophy. There's just been volatility in that philosophy because we plan our A&P in line with our depletion-based expectations. And starting with COVID, as you've been following our story, depletions and shipments that there have been a gap between those for a lot of reasons that we've discussed over many years. Those gaps have now closed. So we will continue to plan in line with depletion based growth. And over the last – and I think it's important to mention that over the last 5 years, we've increased our brand investment by nearly $100 million.

So we believe the level of investment that we're making in our portfolios is adequate. And that also, we have to remember for our portfolio of premium plus brands that are also supported by our people, which are coming through SG&A.

Operator

And the next question will come from for Filippo Falorni with Citi.

Filippo Falorni

So first, I wanted to ask about the developed international business. Clearly, a material deceleration in Q4. I get the Canada component of it, but can you expand a little bit more in kind of the European weakness? You talked a bit about the U.K., but just general, the weakness that you see in other developed markets there?

And then the second question, just a follow-up on the guidance. I know you guide on an organic basis. Just clarifying, does that include the Korbel exit? And if not, like just give us a sense of how much that should be an incremental headwind to top line and profit?

Lawson Whiting

Yes. Well, I'll take the international question first. I mean we – the international markets continue to grow – drive a lot of the growth for our company. I think you all know that. Europe has been weaker for quite a while. And there, if you go to takeaway trends in Europe, you just look at spirits takeaway, they're kind of similar to what you're seeing in the United States. And so still very difficult markets. They're kind of down in that low to mid-single-digit range. And so we will see how that plays out. We continue to take share in many, many markets across Europe, and they continue to be an important part of our company and a big part of our company.

But as we said earlier, I mean, the emerging markets of, I'll call it, Latin America and Mexico, in particular, are very strong for Brown-Forman and continue to be highlight markets. We've been – particularly Brazil, we've been talking about that for a long time. And we're seeing pockets of growth in other parts of Asia and other emerging markets. And so it's Europe that we need to get turned around. We've made a lot of changes and some around consumer changes there and expectations are that, that will improve over the next year.

Leanne Cunningham

And then from a Korbel perspective – or from our guidance perspective related to Korbel, in our organic results, our organic P&L, we will have May and June included in that from

– then excluded from that point forward. And then from a reported perspective, it will exclude Korbel from May, June – sorry, July 1 forward. And that's a $94 million on our S&S top line and then about $12 million in operating income on the bottom line that will come out of the reported P&L.

Operator

Due to time, this will conclude the Q&A session. I would now like to turn the call back over to Sue for closing remarks.

Susanne Perram

Thank you. And thank you, Lawson and Leanne, and thank you to everyone for joining us today for Brown-Forman's Fourth Quarter and Fiscal Year 2025 Earnings Call. If you have any additional questions, please contact us.

As we close National Bourbon Day, it's June 14. It's the day to recognize the official spirit of the United States. And on this day, wherever you are, we hope that you will responsibly enjoy a glass of Old Forester or Woodford Reserve with us.

With that, this concludes today's call.

Operator

Thank you. This does conclude today's conference call. Thank you for participating, and you may now disconnect.