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Presentation

Operator

Good morning. My name is Janelle, and I will be your conference operator. At this time, I would like to welcome everyone to the Fourth Quarter Fiscal 2010 Year-End Conference Call. — ***Operator Instructions*** — Thank you. Mr. Marmor, please begin your conference.

Ben Marmor

Thank you. Good morning, everyone, and thank you for joining us for Brown-Forman's Fiscal 2010 Earnings Call. This is Ben Marmor, the Director of Investor Relations at Brown-Forman. Joining me today are Paul Varga, our President and Chief Executive Officer; Don Berg, Executive Vice President and Chief Financial Officer; and Jane Morreau, Senior Vice President of Finance. Don will begin our call this morning with a few remarks about recent trends and other factors affecting our performance and guidance. Paul will provide additional strategic commentary about our business.

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

This morning, we issued a press release containing our results for fiscal 2010. The release can be found on our website under the section titled, Investor Relations. We have listed in

the press release a number of the risk factors that you should consider in conjunction with our forward-looking statements. Other significant risk factors are described in our Form 10-K, Form 8-K, and Form 10-Q reports filed with the Securities and Exchange Commission.

During this call, we also will be discussing certain non-GAAP financial measures. These 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 with that, I'll turn the call over to Don.

Donald Berg

Thanks, Ben and good morning, everyone. This morning, we issued our fiscal 2010 earnings release that also included our current expectations for fiscal 2011. Fiscal 2010 was a record year for Brown-Forman with earnings per share up 5% to \$3.02. Given the difficult environment, we're quite proud of this success.

Looking forward, we expect to build on this success with another year of underlying operating income growth in fiscal 2011, which will result from growth through portfolio expansion, innovation, investment in our brands and the capabilities of our strong route-to-market strategy.

During our fiscal 2010, we had a strong total shareholder return of 28%. But importantly, over the two years that encompassed the recession, we were among the top performers in the industry and outpaced the S&P 500 by delivering a 6% compounded annual total shareholder return, while the Index declined 5% for year.

We've long had a theme that Brown-Forman continues to be a great long-term investment for our shareholders, and we believe that both our performance in fiscal 2010 and our expectations for fiscal 2011 continue to uphold that tradition.

Our earnings release was fairly extensive in recapping our record year, so let me spend

some time this morning discussing more recent trends, including pricing, premiumization, innovation, business conditions in the on-premise channel and trends in various regional operating environments. I'll also provide some color around how we think about the BRIC markets, our route-to-market strategy, foreign exchange sensitivities and our tax rate. With these comments on recent trends, and how we think about the business, alongside our earnings release, we believe you'll be confident in the continued health of our business and in our position to realize a significant opportunity for growth that exists in the world today.

Let me start with pricing and premiumization trends. Our fiscal 2010 was a difficult and challenging year for pricing. Consumers trading down and aggressive discounting by our competitors significantly reduced our ability to increase prices. When compared to the prior few years, we were more limited in our ability to take price in fiscal 2010, and we ended the year flat on an underlying pricing basis. While we did continue to seek opportunities to increase price, we also increased discounting in a targeted way during the year as we felt it important for our consumers that were hit hardest by the recession to continue to participate in our brand franchises. We looked at this approach as investing in our consumers, which we felt added to our overall brand building efforts.

We are planning for fiscal 2011 to remain competitive in terms of pricing but are hopeful that discounting in the industry will be less pervasive. For the longer term, pricing will remain a key tool of ours, as we believe consumers will continue to want to enjoy premium products.

On a similar note, fiscal 2010 was marked by consumers trading down to lower-priced brands, particularly earlier in the year. Bucking the prior few years' trend of higher-priced categories growing the fastest, syndicated data throughout much of our fiscal year showed that lower-priced categories experienced the fastest growth rates while brands

with high price points experienced declines.

On a positive note, the NABC data from March and April shows that all price categories have returned to growth and are all growing at somewhat similar rates. We believe this trend is occurring to some extent on a global basis. While many of the industry's super-premium brands have suffered during the downturn, our super-premium line extensions of Jack Daniel's, Gentleman Jack and Jack Daniel's Single Barrel each had an excellent year and significantly outpaced their parent brand. This speaks to the power of the Jack Daniel's franchise, and that premiumization can occur even during the most difficult environments. Most of our other super-premium brands grew nicely as well during this period, suggesting that our portfolio is well-positioned for the consumer's return to premium products, which we believe will accelerate once the on-premise channel begins to recover.

With the on-premise channel depressed this past year, we introduced many innovations in fiscal 2010 to make our products more convenient for consumers. Some examples include our Southern Comfort Hurricane and Sweet Tea extensions released last summer, that were entirely new creations in the ready-to-pour category. We also introduced existing products into new markets such as Jack Daniel's & Cola in Mexico and the U.K. These and other product introductions serve the purpose of allowing consumers to conveniently purchase their favorite cocktails premixed. We plan to continue our innovation efforts into fiscal 2011, and in fact, we are rolling out Southern Comfort and Lime right now. This product will not only be great for home consumption but allow bartenders to easily pour the perfect cocktail for on-premise consumption.

Looking at the on-premise channel, which accounts for approximately 25% of total distilled spirits volume globally, this is a very important outlet for the development of brand equity and the trial of more premium-priced brands. This channel struggled around the

globe throughout our fiscal 2010. In fact, only recently has the channel shown some signs of stabilization and while it appears that consumers are returning to restaurants and bars, their spending seems to be greatly reduced. Over time, we believe the on-premise channel will rebound as unemployment decreases and the global economy improves, as we believe consumers want to be social and they want to drink premium.

In terms of the global economy and regional operating environments, based on published economic outlooks, it appears the recovery is not necessarily uniform as certain economies are slower to emerge from the recession than others. For Brown-Forman, the source of our earnings growth for fiscal 2010 has come mainly from developed markets around the world. We saw significant year-over-year gains in net sales in markets such as Australia, Germany and France. Other important markets such as the U.S. and the U.K. saw mixed sales results but benefited from operating cost reductions. Innovation also supported the company's growth around the world as consumers eagerly accepted convenient line extensions such as Jack Daniel's & Cola, Jack and Ginger and our various Southern Comfort ready-to-drink and ready-to-pour offerings.

While our growth came primarily from developed markets, we have not lost focus in our emerging markets, especially three of our largest. The vodka category in Russia and Poland and the tequila category in Mexico experienced some very difficult conditions. However, in spite of this, Finlandia grew double digits in Russia and while depletion's declined in Poland, Finlandia grew market share in both markets.

In Mexico, syndicated take-away data showed that el Jimador volume declined in the low-single digits, trailing the tequila category. However, in value terms, the brand grew take-away in the low-single digits and outperformed the category. In addition, Herradura and Antigua outperformed the overall tequila category in value growth as well. The Jack Daniel's family also did very well in each of these three emerging markets, posting double-

digit gains.

The BRIC markets continue to occupy everyone's minds, particularly since they are among the fastest growing economies. During fiscal 2010, we made recent route-to-market decisions in both Russia and Brazil that we believe will better position us for future growth. In Russia, we plan to work with Coca Cola Hellenic Bottling Company, expanding the geographic reach of our creative distribution model with them beyond the Ukraine, Hungary and a couple other markets. We expect their broad coverage of Russia to help us develop our portfolio throughout the country. In Brazil, we will be developing our own distribution capabilities. We believe we can best drive growth in this growing market through this specific focus on our brands. As for India and China, we will continue to develop our capabilities in these markets. Over time, we believe BRIC, along with other emerging markets, will continue to be an increasingly important part of our long-term growth story as we work to capture the world of opportunity available to us.

Now that I've discussed two markets where we're making distribution changes, let me provide a little color on other route-to-market announcements we have made this year. In Germany, our sixth largest market in terms of net sales, we have elected to build our own distribution capabilities beginning in fiscal 2011. Given the market structure and our position, we believe we can appropriately service the market and continue to grow our current offerings while expanding our portfolio in the country. With the right focus, there is plenty of opportunity to grow both our super-premium brands and our tequila portfolio. While we've recently announced a number of route-to-market changes, we also announced that we are renewing contracts with our distributors in several European markets. We continue to assess our route-to-market strategy on a market-by-market basis. While we have significantly increased our presence and trade in consumer interface in various ways over the years, partnering continues to be a key component of our strategy. We believe this flexibility in how we approach individual markets and our ability to be

strong partners has served us well, and has enabled our growth in international sales to surpass 50% of the company's total.

As we have grown the portion of our sales outside the United States, foreign exchange rates have played an increasingly larger role in our year-to-year results. Fiscal 2010 was a bit of a roller coaster year in terms of exchange rates. The volatility of this past number of weeks would indicate that fiscal 2011 may not be any smoother. Because of that, let me comment briefly on our hedging objectives.

We do not engage in speculative trades with the goal of creating financial gains. Our objective is to mitigate earnings volatility that results from foreign exchange fluctuations. Our hedging only delays the impact of changes and rates, it's not a permanent deferral. During fiscal 2010, we formalized a rolling hedge program in which we plan to hedge approximately 50% of our exposure one year out on a rolling basis, and 20% for the next year. We believe this will serve to better reduce volatility as our hedging will be more regular and spread throughout the year. Based on this program and assuming recent rates, our EPS guidance includes a \$0.15 unfavorable impact from the recent appreciation of the dollar. As you think about how further changes in foreign exchange rates might affect our EPS, a 10% move in overall foreign exchange rates versus the dollar would lead to a \$0.15 impact on our EPS, which would be favorable if the dollar weakens but unfavorable if it strengthens.

Moving on to our tax rates. Our fiscal 2010 effective tax rate was 34.1%. This was higher than our guided range of 33% to 33.5%. A few discrete items recognized during the fourth quarter including the impact of the Healthcare Reform Bill on the medical subsidy benefit increased the rate and effectively reduced our earnings per share by \$0.03. Looking forward, we believe our fiscal 2011 tax rate will be in the range of 32.5% to 33.5%.

In closing, in fiscal 2010, we improved our already strong financial position by delivering

strong results in a difficult environment. Our net sales and gross profit trends improved throughout the year, and we expect their more recent momentum to continue into fiscal 2011. We are confident that over time, more favorable consumer trends will return to the industry and that we are well-positioned to capitalize on the substantial growth opportunities that exist.

Despite recent foreign exchange headwinds, we expect on balance to grow our earnings again in fiscal 2011 through continued innovation, market expansion and brand development, and we project underlying operating income to grow in the mid-single digits for the coming year. At this point, let me turn the call over to Paul for some thoughts on our growth looking beyond fiscal 2011.

Paul Varga

Thank you, Don, and good morning to everyone. We were happy to report this morning what we consider to be strong fiscal year '10 financial results in very tough global conditions, and we are also pleased that our forecast for FY '11 anticipates a continuation of solid underlying growth, assuming we have sufficient cooperation from the global economy. While the implementation of our FY '10 plan and the development of our F '11 plan occupied a considerable amount of our time over the last year, many of us at the company paused to reflect on our longer-range performance, and as part of this, we looked both backward and forward.

As many of you may recall, I reviewed highlights from the company's last 10 years during our third quarter earnings call back in early March. If there was one financial metric I would reference to sum up the past 10 years, it would be Brown-Forman's total shareholder return relative to the S&P 500. Updating that metric to the end of FY '10 reveals that Brown-Forman provided investors with a 13% compound annual growth in total shareholder return, while the S&P 500 actually declined very slightly over the same

time period on the same metric.

During the decade, these excellent returns were accompanied by important strategic progress such as the repositioning of our portfolio and the development of our route-to-market globally. So as we celebrate a successful FY '10, our longer-term strategic progress, our historically strong returns and the excellent condition of our balance sheet, we also acknowledge the very good health of our enterprise today. And despite the challenges of the current global environment, we believe Brown-Forman is a healthy company with a very bright future. It is from this strong position that we have looked ahead to the next 10 years and set some new aspirations for our company.

First and foremost, we believe an enormous opportunity remains within the industry. While we've grown our company steadily over the last 10 years, Brown-Forman still only commands a near 1% of the global spirits market today. And because we are in, in my view, a relative newcomer to the global drinks business, our largest growth opportunities remain in developed and emerging markets outside the United States. This is no slight of the opportunities available to Brown-Forman in the U.S. but rather it is the reality of the upside we still see in many, many countries for our whiskey, vodka, tequila, liqueur and ready-to-drink brands.

We see the BRIC markets continuing to offer huge opportunities and route-to-market investments such as the one Don mentioned in Brazil enabled Brown-Forman to take a significant step forward in these important markets. We envision BRIC becoming increasingly more important to our earnings over time, led by the development of the Jack Daniel's trademark but accompanied by the development of Finlandia and other brands over time. As attractive as the BRIC consumer proposition is, we believe that countries such as Poland, Mexico, Australia, France, Germany, the U.K. and the U.S., to name a few, will continue to hold promise for Brown-Forman. In summary, there is a multi-brand,

multi-country opportunity that we aspire to seize from the strong and healthy position we are fortunate to occupy today.

Looking ahead to Brown-Forman's 150th anniversary in the year 2020, we've organized our highest-level ambitions along four lines. Specifically, we aspire to, first, continue the significant expansion of the Jack Daniel's family and in doing so make Jack Daniel's the fastest-growing brand trademark in retail sales amongst the world's largest premium spirit brands. Second, from their smaller base, we aspire to grow the sales of the rest of Brown-Forman's portfolio at a rate faster than Jack Daniel's. Third, we aspire to continue to grow the important U.S. market, and in doing so, grow our share of dollar sales. And finally, we aspire to continue to grow Brown-Forman's international markets at a faster rate than the United States. You can tell from my use of the word continue that we believe that much of what has worked for Brown-Forman in the past remains very important to our future. And while I've already touched on the huge international expansion opportunity which we believe remains for the company, let me touch on these other three ambitions very briefly, starting with our Jack Daniel's ambitions. Already one of the world's premier trademarks and largest premium distilled spirits in the world, we believe Jack Daniel's continues to have abundant expansion potential across countries, price segments, channels and consumer groups. Today, we see consumers increasingly seeking out brands with genuine quality, heritage, authenticity and down-to-earth values. In our view, few brands in the world offer these attributes as strongly and consistently as the Jack Daniel's brand.

As successful as Jack Daniel's Black Label has been, this single expression occupies a relatively small share of the global whiskey segment today, leaving plenty of opportunity for growth in the years ahead. While we believe that Jack Daniel's Black Label will lead the brand's growth, we also envision other trademark expressions, Gentleman Jack being just one example, playing a meaningful role in growing the overall brand.

Current and future line extensions have the potential to meet more consumer needs than is available to Black Label alone, and when they do, it increases the aggregate growth of the trademark. Our FY '10 performance benefited from this phenomenon, and we will be working to continue this positive outcome over the next 10 years.

As excited as we remain about Jack Daniel's and the Jack Daniel's family of brands, we're also quite enthused about the potential for growing the rest of our portfolio. While brands like Finlandia, Southern Comfort, Herradura, el Jimador, Sonoma-Cutrer, Chambord and Woodford Reserve are each much smaller than Jack Daniel's, their growth potential in many cases is just as great or even greater. And similar to the Jack Daniel's line extension, these brands enable the company to more readily pursue some of the world's most attractive growth segments than would be possible with Jack Daniel's Black Label alone, realizing the potential of our full portfolio will require us to continue to be innovative with packaging, line extensions, product formulations and marketing communications. And where it makes good economic and strategic sense, we believe that new products and targeted brand acquisitions can play a role in both our long-term growth and in the development of our global route-to-market, just as they have in Brown-Forman's past. All of this will be pursued thoughtfully with the intent of making Brown-Forman's brands the most desirable, appealing and responsible offerings in the marketplace.

Lastly, we will continue our pursuit of sales and market share growth in the United States, our most important market in terms of dollar sales. In order to grow our share of the U.S. spirits market, we believe we will need to be more successful in the non-whiskey categories and our tequila, vodka and liqueur acquisitions over the last decade have positioned us to do just that.

Further portfolio development and continued route-to-market creativity will be critical to U.S. success, with an example of this being our U.S. alliance with Bacardi to secure more

focus in distributor sales efforts over the last couple of years.

In implementing the brand and geographic plans in pursuit of these overarching strategies, we will aim over the next 10 years to produce financial performance metrics that are similar in their relative attractiveness to those that have been produced at Brown-Forman over the last 10 years. And we will strive to do this at acceptable levels of investment risk. More specifically, we aspire to continue producing growth rates in underlying operating income and returns on invested capital that are at or near the top of our industry-competitive set over time, while striving to produce total shareholder returns that exceed the performance of the S&P 500 over the long run.

In doing so, we believe we will continue to have the strong support of our long-term shareholders, thereby enabling us to perpetuate Brown-Forman as an independent and thriving enterprise for generations to come. Thank you for listening, and now Don and I will be happy to take your questions.

Question and Answer

Operator

— ***Operator Instructions*** — Your first question comes from the line of Vivien Azer [Citigroup].

Vivien Azer

My first question has to do with your focus, long-term, on the BRIC markets. I think it's terrific growth opportunity for you guys but can you help us think about kind of the flow of investment spending and the margin profiles for those markets, just as you ramp up and try to build up your scale there.

Paul Varga

I can do them in more, I think, broad-brush terms I think than with great specificity or granularity. Oftentimes, what we find when we have great ambitions for a market, some

of the most initial investments that we've placed are behind people to go help us whether they're in route-to-market investments or just initial people to build the base of knowledge in the market. And I think what we referenced here, both Don and I, as it relates to Brazil is a nice example of after many years of trying a wide variety of models down there, we're making some pretty significant, in our view, longer-term investments related to the potential of that market by setting up, basically, our own operation down there. And so I think, the first phase usually in a lot of these BRIC markets but also I think in a lot of markets where you have ambition comes through people. And then I think it varies market-by-market depending upon what portfolio strategy you have for that market and where there may be immediate short-term opportunity for brands that exist in Brown-Forman's portfolio versus some of the longer-term opportunities. I don't mean to give the implication from today that we haven't been in places like Brazil, or Russia, or China or India for some time, it's just that they really are attractive consumer opportunities with all kinds of complexities, and we have been very committed to them. We also continue, though, to have to weigh our investments there relative to these other great markets that have similar great opportunities. So I don't know that I can give you a percentage margin in the first three years and then you would expect to have a different margin in later years. We do, I think, typically, when we have real high ambitions, though, for a market, are willing to invest more of the gross profit back into brand expense and SG&A in the early years and with the hopes that over a longer period of time, they'll produce similar margins to Brown-Forman overall as our consumer appeal grows in the market.

Donald Berg

Yes, I had a comment a little bit on the margin structure. There really isn't a fast rule about how to think about margin in any of the markets outside the United States. There's a number of variables that get factored into it. One certainly is pricing, and while pricing generally outside the United States tends to be higher than in the U.S. – and in particular, Asia tends to be one of our higher-priced areas in the world – the other thing that can

affect it pretty dramatically are exchange rates. And as exchange rates fluctuate, you can see some significant differences in margins as a result of that. The other thing that can change the way that you think about it from a margin standpoint has to do with what our route-to-market strategy would be in a market. In a market like Russia that we were just talking about where we have an agency relationship with Coca Cola Hellenic, there'd be a margin that would come out, their margin would come out of our margin, and so you would tend to see a lower margin in that type of a market compared to a place like China where we pretty much have our own distribution system. And so you end up having a higher margin structure, but you also have a higher SG&A structure. And so, like I said, there's really no hard and fast rule as to how to think about it. You almost have to look at it on a market-by-market basis. But generally, when the dollar is the weakest our margins are the best outside the United States and vice-versa.

Operator

Your next question comes from the line of Lauren Torres with HSBC.

Analyst

To the extent that you kind of, curious if there's any commentary behind quantifying this investment spend. It seems like you are being somewhat more aggressive this year, so how do we think about the increase of spend year-over-year? And also, too, it does seem like there's obviously a lot of international growth opportunities but, once again, for fiscal '11, how do we think about the split, be it from portfolio expansion, things like that, going more into the U.S. market versus international.

Donald Berg

Yes. On the investment posture side, we are looking at taking our A&P investment up next year. We traditionally have not disclosed, when we've done our guidance, the specific line items within the P&L but we are looking to increase it modestly next year. I think

as you think about the split of that investment, there will be more of it going into the international markets than there would be in the U.S. markets. We also tend to look at, in addition to A&P, as Paul was talking about earlier, the kinds of investments that we're making in terms of people investments. And certainly as we think about that next year with some of these distribution changes that we've talked about, when you think about our SG&A line, most of that increase can be attributed to the investments we're going to be making in a lot of these markets where we're setting up our own distribution.

Paul Varga

Lauren, I might add to it as well. One of the complicating factors in it is that one of the most, in my view, important incremental bits of activity that will influence F '11 are primary packaging changes, which actually show up in costs of sales. And then, therefore, because it affects a brand on a global level that any investment you make in primary packaging, basically, have an impact across the whole globe because we tend to have global packages. So it's hard to pinpoint what will be the actual dedicated influences when you do some of these things like packaging. But I think, just drawing back to my longer-range ambitions that I talked about, because we see so much of the incremental opportunity being in markets where Brown-Forman's still relatively new or haven't reached anywhere near what we consider to be a developed stage for our brands and our company, we would anticipate having more investment outside the United States going forward in general versus the U.S. market where we've been established for so long.

Analyst

Last year, fiscal '10, your sales and cost of goods sold were impacted by price promotions and value-added packaging. You made a comment in your remarks that, obviously, you'll kind of see what the competitive environment is like but as you start to plan out this year and you think about how to work your pricing, I mean do you have certain price objectives in place or is it truly just following what some of the bigger competitors are doing?

Paul Varga

I think it varies by brand. We're obviously in a very different circumstance with a brand like Jack Daniel's, which is, occupies such a leadership position compared to one of our smaller brands or a brand like Finlandia. So it does vary by brand. It also varies by, of course, by location around the world. I think when we talk about it, a good way I think for those of you who get institutional data is to look at it over longer periods of time and look at – in the end, all of the ways that any of the brands or Brown-Forman and the competition ultimately are trying to have the best net sales performance you can have. And I think what we tend to, after a fiscal year ends, is sit back and look at what happened over the last year or so and our balancing act of pricing and how it affected volume and how did it all roll up into the net sales figure. And when we look at the syndicated data in the United States, we get really encouraged that we're doing that balancing act amongst the top five companies, I'd say very well. And I mean, it doesn't mean that the conditions are always great because of, whether it's discounting or the ability to take price increases. But if you all were to look at the same data, and usually this is just Nielsen dollar sales or NABCA dollar sales, you'll see a consistent picture where Brown-Forman is continuing to get moderate pricing usually and doing it without a significant sacrifice in volume.

Analyst

Okay, great.

Operator

— ***Operator Instructions*** — Your next question comes from the line of Ann Gurkin with Davenport & Company.

Ann Gurkin

I think in your comments, you talked about growing your portfolio worldwide at a faster rate than Jack Daniel's, if that was correct? If you look out 10 years, can you comment

at all what you see the mix to be between Jack Daniel's and the rest of the portfolio, any comments on that?

Paul Varga

No, I mean we don't typically disclose that. But I mean I don't call what we're aspiring to do on one level to really – we don't want to certainly confuse you that we would be taking our focus off of the great potential for Jack Daniel's, would be one point I'd want to make. I think the second one is, is that the other brands that I referenced, many of them are just so much smaller than Jack Daniel's and earlier in their stage of development that it would be natural to assume that building distribution and initial trial, building the process of consumer adoption, Jack Daniel's in parts of the world has already been through some of those stages and some of our other brands just haven't. So you would expect to have, from those lower bases and the earlier stage of development, many of these brands to have higher growth rate expectations and that's all we're really recognizing there. And it's also just the recognition that, I mean I don't want to always use, it's such a basic common sense one I think, is that we could go after the great many vodka occasions that exist around the world with Jack Daniel's, or you could have Finlandia do it. And there are just increasingly so many superb growth opportunities and segments around the world related to non-whiskey occasions that we feel like Brown-Forman needs to participate in those. And some of our past acquisitions, some of our marketing, a number of our activities over the last many, many years have actually, I think, positioned us well to do some of that in the next decade. So that's really what that ambition's about.

Ann Gurkin

Great, that helps a lot. And then can you just remind me, in developed markets outside of the U.S., kind of how do operating margins stack up for on- versus off-premise sales?

Paul Varga

I mean actually we'd have to sort of look at that.

Ann Gurkin

Does it vary market by market?

Paul Varga

Yes, of course it will. I mean all the individual margins by brand will vary somewhat. I mean, from the standpoint of – clearly, there are higher prices paid by the consumer oftentimes in the on-premise versus their off-premise retail price. Brown-Forman's wouldn't have that degree of variability for sure, but I would say that because of the important, the greater reliance and dependence and importance of price in the off-premise retail environment, many companies, I think, experience that their on-premise sizes have some of their best margins. I mean, and we've experienced that in many of the countries around the world as well.

Ann Gurkin

Switching back to the fourth quarter, was the increase in SG&A spending in line with what you all were targeting internally? It was higher than what we were looking for in our model, that was our issue, but I was just curious if that came in line with your target?

Donald Berg

It was pretty much right in line with what we were expecting, yes.

Operator

Your next question comes from the line of Thomas Russo with Gardner, Russo & Gardner.

Thomas Russo

Thank you for the increased disclosure especially as it relates to the ready-to-drink category. And I'd love it if you could just spend a second talking about how you see that category evolving and how you sized it up as you roll it out. I was a bit surprised by

the New Mix softness and then just very impressed with the early numbers for Jack and Southern Comfort. Talk about that category.

Paul Varga

Yes, I'll do it a little and maybe, Don, you add some color as well. The way we've increasingly been thinking about it, I've referenced it before, is that it plays a dual role, we think, when these ready-to-drinks are expressions of a parent trademark. And they, in one form, may be some of the most efficient promotions of mixability you can actually find, and in the same way, you then study the economics of actually selling these in single-serve in many instances or, no matter what the form, in ready-to-drink format. And over the last 10 years we've just found that – we're actually becoming much more targeted – where those opportunities might be. Most people that follow the industry know about the major success of ready-to-drinks in Australia, but there are other countries around the world where we've found that Jack Daniel's expressed either, mostly with Cola but also with ginger ale, and then some of our other trademarks, Mexico being a prominent one, you mentioned the New Mix down there but also Jack Daniel's & Cola and Jack Daniel's & Ginger are doing very well down there with only just a year or so under the belt. The U.K. has been a market we've focused on here in the last 12 months for both Jack Daniel's and Southern Comfort. And we see other ready-to-drink markets playing an important role for both of those trademarks. New Mix, we, in the past year, just did what I consider to be a soft launch in the United States, giving us the opportunity to expose to U.S. consumers, particularly Mexican-American consumers, the New Mix brand. And it was one of the original thoughts we had going back was to be able to take some of the strong Mexican business that existed under the Casa Herradura company and bring some of those in a more assertive way into the United States. And in fact the introduction of Antigua tequila, the ready-to-drinks and then the significant expansion that's going on, on el Jimador and here more recently the good work that's going on, on Herradura are really encouraging for the company. So did that help you with how we're thinking about some

of these around the world?

Thomas Russo

They could quite scale, couldn't it? I mean certainly, watching the Jack franchise go through Mexico early on is quite exciting. And I suspect you're planning for it to scale over time.

Paul Varga

Yes, I think we want to be pretty targeted versus just – we don't expect to go out and just put any of these expressions in every market around the world, just to fill up the pipeline. We really want it to play a nice consumer role there, whether it be a combination of marketing and good profits for the company or weighted one way or the other to those two primary objectives. But where we've been placing it, we've been getting very nice acceptance and reception so, so far our rollout plans are working and we're going to continue to explore new arenas for them.

Thomas Russo

Paul, you mentioned, Paul, in North America, that tequila efforts extend not only to the initial rollout of ready-to-drink but also Antigua, el Jimador volumes moving well. And then lastly, good work on Herradura brand. Can you talk a bit about brand health and where it's moving and how it's moving.

Paul Varga

Sure, I mean it's under a broader umbrella, I actually think, of – I've mentioned earlier on – all this packaging. Herradura in the last year went through a label change back probably, we started to ship some of it in late summer, early fall, back in last fiscal year. And we saw an improvement, a pretty noticeable improvement in the trend through the second half of the year as consumers had a chance to experience that end market on the shelves. And so when I make reference to the good work that's going on there – and then that

creates momentum and interest in the brand, and then you can fuel it with incremental investment, which we've done. And so we've been preparing Herradura and el Jimador at different stages over the last couple of years, and inside the company we have been talking about this being a really important and potentially really strong year for the tequila brands because of all the work that's been going on over the last three years. And so everybody, I think, across the company's pretty excited about tequila right now and it's taken us a while because we were trying to be very, I think correctly thoughtful about what kinds of changes we wanted to make, but with those changes, you could become in a better position to go build distribution and build trial with the consumer. And we need a little cooperation, of course, from the economy but if that's there, I think these brands will do very well.

Thomas Russo

Last question, thank you, is for Don, who mentioned that the discounting in North America was in part to allow your loyal customers to participate in the franchise. And Don, I'm wondering, how much do you find the discounting is a function of net price realization as premium Jack Daniel's drinkers drop back in terms of the category within the family, or is it really discounts round the neck of the bottle for each category that drives the consumer, or is the price reduction in effect dropped from Gentleman Jack back to Jack back to something else within the brand family.

Paul Varga

Tom, I'll let Don answer one part of it. We always have that sort of, I call it implicit discount. If you just – I'll give you one example, which is, when you have a 1.75-liter size in a market and a 750, I mean every day on the shelf, there's a quantity discount per ounce available to the consumer for buying the larger size. And so some of that trading around and within the size mix and within the actual other expressions within the Jack Daniel's family goes on as well. And I, for one, I'll just say this, as wonderfully as Gentleman Jack

and Single Barrel have done over the last couple of years, I'm really pleased with how well Jack Daniel's has held up because you have the potential to cannibalize there and Jack Daniel's has done very – in my view, in a tough environment – has done very well while, at the same time, we've seen Gentleman Jack and Single Barrel grow. So I think it's a real testament to the brand health of Jack Daniel's and, I'll let Don comment on it but, we really believe that at times a price reduction in a difficult economy to a loyal consumer is a really important brand-building investment. When you have a franchise that spans a broad demography including socioeconomic class, I mean you really, really want to make sure you pay attention to the whole franchise. And we think it can be done in a quality manner and without, I think, some of the harmful side effects that go on with just haphazard discounting, but through these last couple of years, I've been pretty proud of the way that our people around the world have done that balancing act and I think it's shown up in the net sales progress that Jack Daniel's relative to many major competitors.

Donald Berg

When we talk about price, it does have mix factors in there. So to the extent that Paul's talking about things like trading from a 750 up to a 1.75, you'll have some of that mix factor in these numbers. But what I was referring to more specifically was, if you looked at the activity throughout 2010, given the broad consumer base that Jack Daniel's has, where there were areas of the country that were particularly harder hit and where consumers were having a hard time staying within the franchise as much as they would like, we did do more discounting in the course of the past year than what we had historically done over a long period of time.

Operator

Your next question comes from the line of Kevin Dreyer with Gabelli & Company Inc.

Kevin Dreyer

Just another question, kind of around the pricing environment in the U.S. I guess a couple weeks ago, Diageo pretty publicly said that they are going to be taking pricing selectively through the U.S. It sounds like you're a bit more positive on the pricing environment as well. Does that give you a better umbrella to raise prices on Jack and other brands?

Donald Berg

Yes, I mean, to the extent that we see competitive moves that are either staying stable or taking prices up, we'll continue to keep our eye on opportunities where we can take price going forward in the future.

Kevin Dreyer

Okay. Are you seeing that in the marketplace yet?

Donald Berg

We haven't seen a lot of it. We think we're starting to see a little bit of less discounting, but it's just too early to really tell yet what's really going on out there.

Paul Varga

I think it varies, too, so much from promotional period to promotional period. It's hard to get a feel on a short-term basis, because you don't get the sense of consistency. And so I think all of our brands are well-served to go out and do what they think is the appropriate thing for the environment, of course, having an eye on the competition but also thinking about their consumer franchise. And then if we can measure it over a slightly extended period of time, you can see what the net effect of it is. And I just, I mean I haven't seen anything yet in the consumer environment that tells me, it's really wise to go back to, I'll call FY '05, FY '06 levels of planned price increases, if that's what your question was. I think continuing to be real smart about how we price, both with appropriate discounts but also price increases, is going to still prevail during FY '11. And if the environment improves sufficiently to permit more, we'll take an opportunity to do that. But people

are going to, I think, be very well rewarded for staying I mean very on top of their pricing right now.

Kevin Dreyer

Okay, great. And just on Finlandia, you mentioned that Poland, I think you said it declined but grew share, if I remember right, that's the largest market for the brand or one of the largest. What's kind of prospects for that market turning around? It had been at very strong growth a couple years ago.

Donald Berg

Yes, we're seeing some positive signs there. I mean, we think that one of the biggest impacts to the brand in Poland over the course of last year had a lot to do with destocking. And so on a year-over-year basis, we should be seeing some improvement just from that standpoint. It does appear within the market that things are getting slightly better. But how all that's going to translate still remains to be seen. But like I say, Finlandia has done an excellent job in terms of holding its own within that environment and gaining share during this time frame.

Paul Varga

I might add one thing. The estimates we have of consumer take-away actually have been better generally than the depletions. And so we find that encouraging at sort of the consumer level. The other thing is that the second half of our year there was better than the first half. So a lot of us think that destocking and sensitivity to that occurred mostly in the first half of the last year. The second half saw better overall depletions. But underneath it all, the consumer take-away has held up, I mean, pretty good for as tough and as competitive as that environment.

Kevin Dreyer

Just final question on the tequila brands, in Mexico specifically, that's been a pretty diffi-

cult market ever since the acquisition really and, just curious, your thoughts on the market there this coming year.

Paul Varga

I'll start. It was a very tough market this past year for a variety of environmental reasons, I think. But having said that, I mean I think our performance down there over the last 12 months against that backdrop was pretty good. And looking ahead, a lot of the new initiatives that we've been talking about related to packaging and innovation, people would have it in their head that that may only apply to the United States or other places, but it very much applies to Mexico as well. So to the extent that some of the new activity and innovations in packaging and all that have an impact in Mexico, I mean it bodes well for that country. So it's been a place where we have, I think rightfully, because the size of the business there has been the largest for us around the world in terms of the tequila business. We've treaded lightly with dramatic change, and so a lot of the work we've been doing has been preparing us I think somewhat for FY '11 and beyond. And so we'll see how it goes but if the innovation and creativity we've been applying to the tequila sticks and has a nice impact in Mexico, it would really bode well for that country this year.

Operator

Your final question comes from the line of Lindsay Drucker Mann with Goldman Sachs.

Lindsay Mann

First, this quarter was the second consecutive quarter where you had a nice little boost from distributor inventories, and as I recall, it comes against last year where you really didn't have any drag or it was pretty flattish. So does this indicate perhaps that distributors are feeling a bit more confident about consumer take-away and are sort of rebuilding inventories in anticipation of it, or is this kind of just a general balancing out after all the reductions we went through for the past year or so.

Paul Varga

I wouldn't read too much into it, Lindsay. What you're looking at there is somewhere between probably one to two days' worth of inventory in general. And I mean it's not unusual to see those kinds of changes year-over-year. There are a couple of markets, France in particular, that had a promotion change in terms of timing year-over-year where they've put some inventory in there in anticipation of it. And so some of it had to do with timing of programming changes and what have you, and so I just wouldn't build too much in there in terms of thinking about what it means in terms of trends and confidence levels and what have you.

Paul Varga

We certainly hope the first thing you said is correct, that they like. Actually if you think about a lot of the things we've referenced is – whether it relates to the on-premise environment or some of these other things, where there's been some moderation of declining trends or a slight improvement in expectations, to the extent that carries forward, it can show up in advance inventories. Of course it can, and I hope that's some of what it is. But I think there's probably a little of everything you said going on in the number that you were referencing.

Lindsay Mann

So are we exiting the year generally in balance or, Don, to your point, is there a bit of a reduction that we should expect in the early part of next year, of fiscal '11?

Donald Berg

It's a little bit difficult to ask. I think what you're asking for is on a relative basis because typically, the inventories will fluctuate throughout the course of the calendar year, a lot of it having to do with the seasonality of the brand, and they'll fluctuate like what I was talking about before where if you have some of these programming moves, they'll move

in and out. I mean I think generally speaking, we feel that most of the restocking is behind us at this stage. And so I would anticipate the kind of fluctuations that you would see going forward would be kind of a more normal level that goes with the seasonality of the business.

Paul Varga

With a few exceptions, where you might actually – I mean, with something that'll go on probably in one market versus another could be some of these route-to-market changes where you get either – invariably, you'll see fluctuations particularly on a short-term basis. But from year-to-year, I mean I think that what you're commenting on is year end-to-year end, I think we're pretty close.

Lindsay Mann

And then, just sort of sticking with the distributors theme, we have seen some changes whether it be Buffett's foray into the liquor distribution business, some big competitors on the wine side trying to allocate more attention from their distributors, and then the partnership you have with Bacardi and Remy to gain some heft with your distributors. Can you just give us an update on the state of where you see the U.S. distributors at, and as it relates to your business in particular.

Paul Varga

I mean I think the most important thing we've been with some regularity commenting on in the U.S. has been the partnership with Bacardi, which is intended to help us get some consistency of focus and presence around a more limited number of SKUs within a distributor, the markets where we've done that. I mean it is still very early but we're pretty encouraged by the work that's going on between our two companies in those local markets. I think the lessons from working in the U.S. business over the years is there's always something going on as it relates to things that impact our U.S. distributors.

I mean it's without fail, something's going on between line changes or companies moving, changing ownership between one state and another. So you just learn to work with it, and actually because of all that expectation of constant changes, one of the reasons that Brown-Forman and Bacardi decided that it would be nice to work together and get some stability in a particular division where you could get real focused since that's one of the reasons we've implemented what we have. But as it relates to where that goes and everything, we'll keep you apprised as we have new information to share on it.

Lindsay Mann

Can you just give us a bit more color on what you, you've said it was early days but what you've actually been able to achieve with your partnership with Bacardi, and what you hope to achieve and also what markets you're in together.

Donald Berg

We've been coming at it – we've been introducing this concept into a number of different markets over the course of the last couple of years as we've looked at our performance through 2010 in the United States with a couple of exceptions and those exceptions would be ones that we've been at the later end of moving towards this Bacardi / Brown-Forman alliance. The performance that we've seen on our brands in the markets with the Bacardi alliance have generally been better than those markets where we haven't. And again, it really speaks to what Paul was talking about in terms of the focus that we're getting in a dedicated selling division in those accounts that we feel are the most important to our business. And so when you've got a salesman who's got less than a hundred SKUs when he's walking into an account, it allows him to just put a whole lot more focus on your brands. And as well, it allows you to spend more dedicated time with fewer people training them on what your brands are all about and what your objectives are in the marketplace. And so I think that's where we've been seeing a lot of these benefits.

Paul Varga

Lindsay, if I could connect that to one of the strategies I talked about for the longer term. A salesperson who was selling Bacardi and Brown-Forman brands before was probably going to pay a lot of attention to brands like Jack Daniel's or Grey Goose or Bacardi, the biggest and most important brands in the marketplace. Where this could have a real benefit over a longer period of time is actually in building the brands beyond the most premiere trademarks that our two companies have, because they can dedicate a little bit more focus to some of the developing brands or brands that were otherwise down the list in a prioritization when they were part of a portfolio that had many, many more SKUs. So it, one long range thing, we're going to keep an eye on is to see if it helps some of our brands that maybe were deficient in terms of the amount of attention we were able to get behind them.

Donald Berg

And then Lindsay, just to finalize, as the last part of your question, we are in a number of markets, I don't know the exact number right off the top of my head, but I can tell you when you look at the five largest markets in the U.S., the alliance is in four out of those five. So that would include New York, Florida, California and Texas. And there is a host of others out there in addition to that.

Operator

There are no additional questions at this time. Are there any closing remarks?

Paul Varga

No, we do not have any closing remarks today. Thank you everyone for joining us.

Paul Varga

Thank you all.

Operator

That concludes today's conference. You may now disconnect.

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