Brown-Forman Corporation, Investor Day 2016
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Presentation

Executive

Ladies and gentlemen, please welcome Jay Koval, Vice President, Director, Investor Relations.

Jason Koval

Good afternoon, everyone. Paul, I considered putting up your name slide as my aspiration but thought better of it.

So hey, I want to thank all of you for coming today for Brown-Forman's 2016 Investor Day. Obviously, this is not your typical Corporate Investor Day. It's an Investor Day done Brown-Forman style, paid in homage of Jack Daniel's and its 150th anniversary.

For those of you who are joining [ph] by webcast and couldn't attend today, picture a warehouse with exposed brick and over 100 investors in the room who've just gone through 4 experiential rooms that helped convey some of what makes this brand so special. While we would have preferred to host all of you in Lynchburg, we respect your time and thought it made sense to bring Lynchburg to you in New York.

So with that, let's do a quick walk-through of our safe harbor statements, and then we'll move on to the agenda. Today's investor presentations contain 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 any 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 meeting is being webcast for those investors who weren't able to come in person, and slides are available on our website under the section titled Investor Relations. And on this page, we've listed 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, 8-K and 10-Q reports filed with the Securities and Exchange Commission.

Now moving on to the agenda. Paul will kick off the formal presentations and start with a look at our competitive advantages as well as some perspective on what we think is driving the global interest in American whiskey. Mark will then continue and talk about Jack's global growth potential over the next decade, followed by Lawson who will talk about building Brown-Forman's other great brands as well as the portfolio reshaping that we did in 2016.

We'll have a quick break for you. And after the break, Jane will then come up and pull all the numbers together and discuss our shareholder-friendly approach to capital allocation, followed by Garvin who, will give you some family perspective on the company. And finally, we'll give the floor back to Paul to open it up to Q&A and all of you for the last hour.

And at 5 p.m., you'll all be free to enjoy some of our fine products, including some of the Jack Daniel's 150th commemorative products that we've launched.

So with that, I'm proud to introduce Brown-Forman's Chairman and CEO, Paul Varga.

Paul Varga

Well, thank you, everybody. Thanks for being patient with us there and navigating those 4 just glimpses, really, of Jack Daniel's there.

I was reminded as listening over there to Jeff Arnett as he discussed Jack Daniel's the man. Every business along the way needs some luck. I mean, we would all agree with that. And listening to Jeff talk about Jack Daniel's the man and his reference to his original name, Jasper Newton Daniel, I'm reminded literally that had he never changed his name to Jack, we probably wouldn't be standing here. And because can you imagine the Jasper and Coke being the call around the world today that Jack and Coke is. I mean, it's just one of those things that's just subtle, tiny, little things that happen along the way, just a person changing their name and, I mean, really predisposing it to success in the marketplace.

So in any event, I'm not going to spend a lot of time. I just thought what we might do is just set what you're about to hear from some of my colleagues. And first and foremost, you see this phrase – and let me go ahead and pull together here is this serves a bit as a content I outlined for you. You're going to hear about the Jack Daniel's growth opportunity. I won't to go into it in any detail here. You're going to hear about portfolio growth and development in the work we've been doing over the years. And of course as Jay said, Jane will bring a lot of this together with the numbers but also reference our capital allocation priority. In the middle here, you see this gray phrase [ph]. I just thought I'd explain it a little bit. It says Building Forever, which of course – it is a – slogan-esque. And the way I would like to describe it for you, it means a lot to people throughout Brown-Forman. And it, of course, uses our company's initials, but it intentionally has a double meaning and one of them being a statement of a potential destination, which is foreverness. And we like to think particularly enabled by family control, that this company could strive to be everlasting to endure. And so we try to have that approach to the business every day.

Of course, the other way you could read it is that the company and its employees, its brands are continuously Building Forever. So hopefully you'll see glimpses of how we're constantly trying to improve the performance and attractiveness of the company each and every day. So it's something that means something to us, but you'll see it regularly on our materials, and I thought I'd just explain it.

This is a set of attributes that we sometimes use ourselves or we hear others describe. And of course, this, too, just I think serendipitously, ends up being a bit of the content and I – hopefully some of the takeaways that you have today from not only the prepared remarks that people have but also from the Q&A session we'll do at the end. And so you see it's – obviously, here it's to celebrate Jack Daniel's 150th anniversary but also to talk about global growth opportunity.

You'll hear a lot about looking ahead. You're going to hear about our portfolio and the premium focus of it and the work we've been doing there. You're going to hear aspects of our track record of brand building and things that we think are really important to making these brand grow and thrive. It's not just the responsibility and actually the privilege of owning any of these brands. It's also going out and building them, as we say here Building Forever. The financial attractiveness that we're regularly working to build inside the company, our shareholder-friendly capital allocation, just consistently putting shareholders, what we consider to be objectives first and foremost in that. And then, of course, you'll hear it from Garvin on the Brown family and how this permits [ph] the company's long-term views.

One of the most often asked questions of me and all of my colleagues is why this American whiskey resurgence and how long might it run? In various forms, we get questions about that a lot. And I thought I'd just – I'm not going to go into it in deep detail. But I thought what I would do is if you all had a chance – when you're not here to do it, we don't have copies of them here today. But our last Annual Report – we have been asked that so regularly over the last couple of years, we actually took a stab at documenting a point of view about that. So for those of you who like long verse, which that was, I would direct you to our Annual Report. Because it's probably our most recent articulation of why we think American whiskey has become so appealing today and actually why we believe it might last.

As a summary, I thought I might read an excerpt. And of course, as you would expect, there's really no silver bullet answer to the question of why or why it might continue. But I thought this excerpt from that letter might serve as a useful summary and it says,

"So American whiskey possesses appealing traits, such as authenticity, history, craftsmanship, hospitality, unpretentiousness, humility, great taste and versatility. And most of the world's 7 billion people have never even tried it – yet. Is American whiskey here to stay? I believe it is, and at Brown-Forman, we're certainly going to do our part to ensure it remains. And in doing so, we will strive to prove that these timeless attributes indeed stand the test of time."

And then I feel like that's probably a summary which you could get from more of some of the data references or support points that are articulated there. But some of it is in this room with you today. Some of these references of hospitality and authenticity and the real people who work behind the scenes oftentimes, sometimes they're upfront in terms of the hospitality. But oftentimes, it'll be giving you a glimpse of this real history, real product quality, real people.

Sometimes it really is about real packaging. Sometimes it can be about other things that really engender the category and the brands that lead it to the consumer. So I thought I would just touch on that because we're not going to go deep into — ***indiscernible*** — can and in fact have a direct impact on it.

In fact, when you look outside the shores of the United States, for the last 20 years, the driving force behind why American whiskey has grown has been this trademark. And so it serves then [ph] is the reference point for me to introduce one of my colleagues who leads Jack Daniel's today, who's going to take you through our views on the future of the brand for the category, but I wanted to reference it.

Mark McCallum

Thank you Paul, and let me add my welcome as well. I've got about 30 minutes to share some information regarding Jack Daniel's with you, in particular against that backdrop of our contention or our firm belief that Jack Daniel's is a brand and a business that has a very long-term and continued growth roadway ahead of it. Even though here at 150 years, that's quite some time, we will talk a little bit about – or I'll talk a little bit about that runway for growth. I'll talk about the key areas of opportunity that we would seek to leverage as we anticipate seizing those growth opportunities. And then I'll give you some insights into what makes Jack Daniel's so special.

And so that combination of understanding what those areas of opportunity for the future are and then the contention that we have quite a special brand in this iconic brand called Jack Daniel's, that combination comes together to give us great confidence in the future growth prospects and long-term growth prospects of the Jack Daniel's business.

I will – I'm going to start with a retrospective look, not because we're just enamored of history, mainly though because I look back at some of the history of Jack Daniel's growth as a wonderful way to help us understand what our strategic thinking might be as we consider the future for the brand as well.

So bear with me. I'll explain what you're looking at. This is a 30-year lookback at the Jack Daniel's family of brand volume – case volume, beginning in 1985 because, as you know, that's the – that was the beginning of the IWSR monitoring of volumes around the world and going through to the most recent 2015.

And already on the chart, you'll see a couple of things. This is, as I say, Jack Daniel's volume growth, started around 4 million cases there in 1985, and last year, somewhere around 15.5 million equivalent cases, excluding the presence of ready-to-drink, RTDs, at around 700,000 to 800,000 cases as an RTD equivalent.

At the top are 3 bars showing the growth rates – the compound growth rates for each of those 3 decades. And so one of the observations I would make of that is, is that somewhere between in each of the 2 numbers, you've got the Family of Brands at the top and Tennessee Whiskey Old No. 7, the single brand itself underneath. So the range there is sort of 3% compound growth in the early decade here up to a Family of Brands compound growth of around 6%. So in that 3%, 4%, 5% and 6% continuous compound growth with a 30-year compound number at around 5%.

Now I want to talk – the reason that I thought that this would be of interest to you would be that I'd like to talk about some of the influences over this 3 decades. So you've got 1.5 generations of humanity here. And some of the – our understanding of the external influences that may have been at play here and the internal or management-controlled influences at play here are very helpful for us as we think about the future.

And I would just reference perhaps as you look from '85 to 2015, here's just a few of the external, we'd say somewhat out of the control of management that were at play. Actually in '85 and '91, federal excise tax increases, 2 of them, each of them 17% and 19%, respectively, so long time since that's happened here in the U.S.

Same thing – while this was going on and having a real effect on the beverage alcohol and particularly the spirits industry in the U.S., the whiskey category in the U.S. was in long-term decline. And it started somewhere in the early '80s at somewhere around 70 million cases, and it reached a low point of somewhere around 45 million cases, just a short 5 or 6 years ago before this current renaissance, what we'd call it, of the whiskey category globally and in the U.S. kicked back in, so another one of the external factors.

We call those sort of maybe headwinds. Some of the tailwinds that were with us over this time was things like the invention of the World Wide Web, the ability for us to get much more connected to our consumers around the world. The invention of cell phones and the mobility of cell phones and, again, the ability for us to speak directly to our consumers. The global economic crisis was a headwind in '08/'09. The strengthening of the U.S. dollar recently, we'd call that at least a reported headwind. So external influences at play over those 30 years.

And so how do we think about the next 10 years? And what external influences might we consider as we factor in prospects for growth? Now – and from external to internal, looking at brand stewardship, the way we would – the way we and the current stewards of the brand market and sell this brand around the world and how over this 30 years that discipline has been passed on.

The globalization of Jack Daniel's. When the U.S. was under the pressure of those headwinds in the late '80s and into the '90s, there was a purposeful determination to begin to globalize the Jack Daniel's brand. I mean, really, really quite a good story, and we'll get to that a little later here.

And then another management influence, of course, is the determination around innovation and over that 30 years the role of innovation and its effect on that growth curve there.

So again, in terms of innovation, one of the interesting points here would be that back in '85, there were really just 2 brands. There was Jack Daniel's black and white label Old No. 7, and there was that Green Label offering of Jack Daniel's, which had come out post-prohibition as a way to bring perhaps a not quite as long matured and a slightly lower-priced opportunity to generate some revenue post-prohibition. And so there they were, 2 brands right through those 30 years and a brand defined by anything over 10,000 cases in IWSR language. So just recently in this past year from 2 to 8 brands sitting in the Jack Daniel’s family of brands.

And the point-to-point growth of Jack Daniel’s at 288% ’85 to ’15. Maybe a meaningless number in some ways, but I’m just going to do a quick comparison to 2 of our global whiskey competitors, our key global whiskey competitors: Johnnie Walker and Jim Beam. And here they are same time period and just different stories, same external influences on all 3 brands and quite different internal decisions and influences affected by management.

All 3 brands interestingly starting at the same sort of volume there, somewhere around 0.5 million cases difference in ’85 and then having these different 30-year journeys through to last year. Johnnie Walker, with the scotch industry very globalized, Johnnie Walker able to ride the scotch whiskey wave around the world, and some peaks and troughs, of course, across the Johnnie Walker profile there, expanding their portfolio from 3 to 14 brands over the 30 years. Jim Beam, a different story, same external influences, different influences internally, 2 brands and a much flatter growth rate. And then I guess, recently, under the stewardship of the Suntory business, beginning to expand through innovation, so Jim Beam moving from 2 brands to just lately 16 brands in their portfolio.

So just – and the growth rates there point to point are different. Make no conclusions from that other than to observe that we’re very confident that, that sort of growth profile, that 3% to 6%-ish growth profile is sustainable for the very long term if the confluence of external and internal influences play out.

So now what I’d like to do is look ahead and begin to talk about the areas of opportunity that we mostly focus on and: earth, birth, girth and worth. Sure, they’re 4 rhyming words, easy to remember, easy to convey and communicate as we work with our teams around the world but I think capture nicely the 4 major opportunities – areas of opportunity that we see.

Earth, of course, self-explanatory. There's – Paul referenced the 7 billion yet perhaps to try Jack Daniel's. But there's a large, large opportunity, very significant opportunity, and we're going to talk a little bit about the markets that we are focusing on around the world.

Birth. I think the number there says 1.6 billion (sic) [1.5 billion] middle-class consumers of legal drinking age will enter – will be added to the population by the year 2025. So demographics playing an important role in our understanding of opportunity for this brand.

Girth. We'll talk about innovation. The girth or the ability for the Jack Daniel's trademark to be able to offer additional and incremental opportunities to connect with consumers around the world.

And lastly, worth. Arguably or third-party suggestions or affirmation that this may be or is the most valuable spirits brand in the world and our ability to continue to leverage pricing and mix and premiumization and portfolio management to focus on the need to continue to be very aware of the effect on this brand's value and worth going forward.

So they're our opportunity areas. And I'm going to now move and talk a little bit about earth.

There are 4 sort of builds here, and I want to show you what in the recent 10 years – approximate 10 years has happened with the Jack Daniel's business around the world as we've purposely invested either through M&A or through operating expense in globalizing this – the Jack Daniel's business. And so the red shaded – there are 4 groupings of markets here. There's 1 million case plus, 2 markets here; there's 0.5 million to 1 million; 200,000 to 0.5 million; and 50,000 to 200,000.

And what we'll show you is this has been in our 100-and-some-almost-50 years history as a company and Jack Daniel's as a brand, a very rapid and purposeful expansion of our footprint and capability globally. So the U.S. and the U.K.; Germany, France, Australia and global travel retail where Jack Daniel's just became the second most valuable by sales brand in the global travel retail channel. Markets like Canada and Poland and Mexico, and I'll talk a little bit about those in a minute. And then these what we'd call nascent markets or emerging or seeded markets. On the page there, in total, there are 32 markets. Not every one of which is a strategic focus for Jack Daniel's, but many of which, depending on circumstances, become strategic if circumstances permit. And I know that you're aware at the moment that we've got some lethargy in our emerging market world, generally speaking as an industry. And so as we understand that and the forces at play, we will shift and allocate resources appropriately. But of these 32 markets or 31 markets that are on here, every single market in some way has moved over the last 10 years.

And I might just quickly reprise the influence and the way we would describe the purposefulness of what we've been doing. Certainly, from an M&A point of view, with the acquisition of Finlandia in the early 2000s and the acquisition of Herradura around 2007 or '08 and the dissolution of the 3-way joint venture in Australia through M&A-type investment, we have opened up for accelerated growth the Mexico market, the Poland market. Finlandia in Eastern Europe gave us a runway for Jack Daniel's to follow into elements of Eastern Europe that we hadn't been as able to penetrate prior.

The Australian one, of course, was a major play for us. Australia is a very important market for us. And having our own ability to control the business there was as a result of a purposeful investment. So that was really the M&A sort of influence on that footprint and the acceleration of our ability to grow.

In terms of operating expense investment, I think you're very aware that over the last just short period of time, say, inside the last 7 years, we established our own organizations in Germany, in France, in Turkey, in Brazil, in Canada and some others. And the results in most of those cases, given the influences at play, have seen an acceleration in the growth rate of the Jack Daniel's business and the ability to not just sell and market Jack Daniel's Old No. 7, but to begin that pioneering work of bringing the other brands within the Jack Daniel's family into markets other than the United States.

We've also – not only do we invest in our own infrastructure, we invest in evolving and changing some of the partnerships that we've been able to foster over this last decade. Examples of that would be the relationships we have with Coca-Cola in many of our – or in a number of our European markets, particularly the relationship we have in Russia and the relationship we have in a cost-sharing arrangement in the second most important market of ours, which is the U.K., and the strengthening of partnerships where that's appropriate. There is no single model for how we do this. It depends. And I think we were – or I know we recently announced the fact that we're going to look at Spain differently to the way we've looked at Spain for a number of years. And we're moving ahead with the investment in our own organization in that key whiskey market.

So that's – we believe that this – the work of the last 10 years in particular has really established, I would call it, a real foothold and the ability for the Brown-Forman companies in many of these markets to be able to claim competitive – at least level competitive playing field and now poised, I think, to leverage the capabilities that we've been developing this last decade in order to drive growth and seize these opportunities in these individual markets. We're very, very excited by this prospect.

So that was earth and birth really. Let's say we've taken the first 2 of the rhyming words, and that reflects our enthusiasm in regard to earth and birth.

The opportunity in regard to girth, let's talk about that for a while. We showed on the – or I showed on the 30-year lookback the portfolio evolution from 2 brands to 8 brands. These were the main contributors to that with Gentleman Jack in the late '80s, launched in many ways as a competitive reaction or a competitive counter to this – to the emergence of the

Crown Royal brand in the U.S. Single Barrel was a very obvious ultra-premium move up the value chain for the Jack Daniel's brand.

The Aussies convinced us in the late '90s that RTDs were actually a true expression of the Jack Daniel's brand and only then in the late '90s did we begin to understand the power of offering Jack Daniel's in a ready-to-drink form. And that business is, of course, in Australia. It's quite unique. And we have down there somewhere between 3 million and 4 million cases of Jack offered in this ready-to-drink form. But our learnings from that market have also enabled us to expand our footprint in regard to Jack Daniel's ready-to-drinks around the world today with somewhere toward 8 million cases of Jack Daniel's ready-to-drink cases just in this last – essentially, in this last decade or 1.5 decades.

And then, of course, you're very aware that just in the last 5 years, we've introduced Jack Daniel's Tennessee Honey and Jack Daniel's Tennessee Fire as 2 new brands added to the Jack Daniel's family of brands. And I'm sure in question-and-answer you may have some questions you'd want to ask of that. I would say that – what I just said is the way we treat these 2 brands. These are 2 distinct brands with distinct positioning and distinct brand architecture. And we're managing them that way with focus on each of them with a belief that we have very long-term growth available if and how we manage these brands as distinct brands and not just line extensions or sometimes called flavor extensions. We have – we're very much in the camp of these are 2 brands, and we will resource them accordingly. It has been our experience that this has been successful and that the Jack Daniel's brand in particular can enable this to be true.

And now I'd like just to give you a lookahead. So I'm going to show you 3 girth opportunities that have – one of which has just entered the market. And this concept of continued and thoughtful innovation is – has been, is and will be a key opportunity that we will be carefully leveraging as we look to the long-term growth.

We talked about Australia. This has been launched just 8 weeks ago in Australia. It's a – it's called Jack Daniel's American Serve. Most of you are Americans, I'm going to figure. In America, there's something called the American pour. If you don't live here, it's called that somewhere else. We always would smile at the size of drink that Americans were able to get at any particular bar, understanding that, that generous pour most often led to a decent tip. And so not the case elsewhere, as you know.

So anyway, here we go, we've launched this half-size – it's really a half-size can, 10% ABV, a whole – or a little bit of mixer and a whole lot of Jack in that can. It really does taste like the way you are served Jack and Coke here in the States. And the early signs, they're quite promising but work in progress. We're watching what happens. Maybe scalable. Who knows. We'll test and learn.

In the spring of 2017 in the U.K., we are test-launching Jack Daniel's Tennessee Cider. There's an exciting new category growing in the U.K., it's called spiders. They're inventive. It's the mix of spirits and ciders: spiders. I didn't make it up. We're very excited by the prospect of Jack Daniel's playing in this category and competing in this category. And we have a high level of confidence that the Jack Daniel's brand will do very well there, but test and learn, test and learn in the spring of 2017. We're already at the point of speaking to retail customers in that market regarding this test launch.

And then lastly, in the fall of 2017, we have – we will introduce Jack Daniel's Tennessee Rye. This is an approximate illustration of what the pack will be. It's not exactly what it will be but just for the purposes of discussing it. As you walked around the room here today, you actually would have seen on most of the stands the Single Barrel Rye – Jack Daniel's Single Barrel Rye that we launched last year. Actually, 5 years ago, we launched unaged rye. And then 2 years after that, we launched Jack Daniel's Rested Rye. And then last year, we launched Jack Daniel's Single Barrel Rye.

Jeff and Chris and the team in Lynchburg have been crafting Jack Daniel's rye whiskey for a number of years now, working on what would be the – what we would call the perfect expression of rye for Jack Daniel's. And as I said, coming to the market here in the U.S. in the fall of 2017 will be a, as you know, Single Barrel, which sits somewhere between $55 and $65 a bottle, so ultra-premium priced. We will be bringing out this Jack Daniel's at a super-premium, somewhere in that range of a price below this ultra-premium. Yet to be determined, but we're very excited by it. And I know that if you talk to Jeff and ask him what he thinks about this product, he will wax lyrical about that work. So that's girth.

So they're the 4 – and we've expressed the idea behind worth and our determination to use this mix of value creators for the brand. So worth is covered in that as well.

Now what I'd like to do is share with you some suggestions or predictions that we might have in regard to the forward 10-year growth for the Jack Daniel's business globally. And so I want to just – I'm going to show you the 30-year historic category growth. And then I'm going to show you what we project to be the category's potential growth for the next 10 years and then 3 scenarios for Jack Daniel's growth over that forward 10 years. So let's have a look at this.

Here's the category growth. This is all information available to you by IWSR. And what the observation here is, is that from '85 to '95, the category globally, so this is global whiskey, all global whiskey IWSR based grew at about 1.5%, as it did again in the 10 years through to 2005. And then in the last 10 years, this sort of 6% surge in global whiskey, about half of those 6 points there are driven through IMFL, Indian-made foreign liquor, in India. And so what I sometimes personally do is I'll sort of go, okay, well, so around a 3% – almost a 3% growth rate of what we'd call global whiskey excluding IMFL.

We'll lay over that. There's the, what we saw earlier, the 30-year lookback for Jack Daniel's. So regardless, really, we don't necessarily see category growth as a 1:1 correlation for Jack

Daniel's growth. In fact, the truth is, is that Jack Daniel's has shown decades of growth at times when the category hasn't been growing. Nevertheless, we take it as a tailwind, not a headwind. We like it when the category grows. It's a help, not a hindrance, of course. But it's not a mandatory in regard to our own aspirations for Jack growth.

And now I'm going to show you 3 scenarios that these are based on. So our calculations done internally, based on population, incidents and usage, and GDP. As I say, we've worked on this ourselves for, as you would imagine, for a long time internally. We've also sought arm's length third-party validation of our assumptions and sought third-party understanding of different ways for us to think about it and the confluence of our own work, and the validation work that we have sought suggests that these 3 scenarios are possible for the Jack Daniel's business.

So they range between a 3% growth in Scenario 1 and a 5% growth in Scenario 3. And it has in there, of course, market share estimations. And the market share delta between the 5% and the 3% is about a 1-point swing. Market share for Jack Daniel's in 2015 was around 4.0%, and so you can do your own thinking in regard to those scenarios. But there it is. We believe – there's an expression of what we believe to be possible if the influences are as we've assumed and we do the work that we would need to do, 3% to 5% next 10 years, depending on what happens. But that's what – in our strategic planning, that's how we're thinking.

So that's really everything in regard to the 4 areas of opportunity and the forward look in terms of trying to quantify for you how we see the coming decade.

I'd like now just to spend some time on that second piece of the equation, Jack Daniel's the brand and what makes Jack Daniel's special and why is this even important. Well, mainly because to project future growth such as we are and the long-term growth that we anticipate, it will need to be a special brand, and it'll have to stay special in order to be able to recognize or seize that.

I'll start just by saying we know what makes Jack Daniel's special. We don't say that we made it special. We say we know what makes Jack Daniel's special. So here they are. It's an iconic name and package. Paul, actually, nicely, I thought, talked about Jasper or Jack. The name itself, the black-and-white label, the square bottle. It's an iconic package. We know because we've worked with Professor Doug Holt, who is one of the world-renowned writers and academics on the question of what makes a brand iconic. He and Jack Daniel's have worked together, and Professor Holt suggests that sometime in the '50s with the confluence of television and film and the gunfighter myth here in America, Jack Daniel's began to be assigned iconic status. So we've marked the '50s as when Jack Daniel's became iconic in the world of the cultural backgrounds of America and countries around the world. And there's a lot, of course, written on that. And if anybody's interested, we can certainly provide you with ways to understand how Jack Daniel's became iconic. But here's what makes it special.

It is a special product. Paul talked about American whiskey. Everything to do with American whiskey is actually heavily influenced by the brand Jack Daniel's. It is an informal product, less formal than Scotch. It is a product that is very accessible, just psychographically very accessible. We use the term bikers to bankers, fine establishments and questionable joints everywhere available to sample this product, real stories. I mean, you've met real people from a real place, and the real stories of Jack Daniel's have been told for generations. And as stewards of the brand, our understanding is, is that these stories need to be told in contemporary ways for generations yet to come.

It has a distinct voice. Eileen [ph], I hope you don't mind me, or Kevin [ph], that – not just accent but humility and lack of pretension that you felt, that's real, so the authenticity and then the independent side of the Jack Daniel's brand and brand values market – there's a very distinct voice that connects with global consumers.

Humanity, as a race, I guess, is enamored of authenticity matched with independence. It's not a U.S. set of values. It's a global humankind set of values that this brand connects with. And in the ways that it connects, we find – because of its iconic nature and status, these consumers often become ambassadors and disciples or zealots for the Jack Daniel's brand. We say we've got the largest unpaid sales team in the entire beverage alcohol world, and we love them for it. The trademark girth we've talked about, opportunity, what makes it special is that it has girth. It has the ability to add brands to its family with minimal cannibalization and always extending the ability for the brand to reach and connect with new consumers and new occasions.

Our focus – we talked about that map of the world, a focused and dedicated route to the consumer, RTC, route to consumer. In a number of those 31 countries you saw on the map, Jack Daniel's Tennessee Whiskey is the only brand that the Brown-Forman organization markets themselves. Not all of them but – and we will continue to expand it. But we say that within our competitive set, we have the most dedicated and focused sales and marketing and commercial team within the industry around the world. We think it's what makes Jack special. It's a brand that comes easily to those who connect to it, either inside the company or outside the company.

And then lastly, you know of the rates or the return on invested capital and the margin quality of the Brown-Forman company, which, because of the Jack Daniel's brand in particular, is able to be industry leading in return on capital and operating margin. And so that's what makes Jack special.

It's a very quick reprise, but we know that our job as the brand owners has guardrails. A brand owner cannot be the author of everything necessary for an iconic brand such as Jack Daniel's. In many ways, that iconic status was offered to Jack Daniel's, not by the brand owner necessarily, more so by the cultural industries and commentators at the time or the celebrities and musicians who adopted the brand. But our role as brand stewards, as we look to the future and determine the long-term growth prospects for this brand are very well defined.

And I'm going to finish with just – there's 2 TV spots here. And I really – I'm using them just to say to you that the first one you'll see is about 10 years old, but it's a great example of the look and the feel and the voice that we, as the brand owner – we have permission to be able to offer this to markets around the world. And the second one is quite new. It was launched in the late summer of this year or the early fall and, again, is a contemporary voice of Jack Daniel's and just one example of our stewardship of this brand and the way we steward this brand so carefully to ensure that Jack Daniel's remains as special as it needs to be in order to continue to drive the sort of future growth prospects that we are strategically planning for it.

So just two 1-minute spots here to give you a sense of…

[Presentation]

Mark McCallum

And so with that, I will finish and just perhaps – sometimes we'll ask the question of an audience, and it'll be rhetoric, but you might want to think about it. We ask our audiences when we speak about how we need to steward this brand in ways that keep it as special as it is, we sometimes ask the question, what needs to be true to ensure that Jack Daniel's remains special. And it leads to wonderful conversations internally around the world as we expand our footprint and expand our business. And so at the break or after the cocktail, I'd love to know your thoughts of what must be true in order to ensure that Jack Daniel's stay special enough to deliver the very long-term growth prospects that we plan for this business.

So thank you, and I'll hand the podium over to Lawson Whiting, who will talk to you about the Brown-Forman brands.

Lawson Whiting

All right. Thank you, Mark, and good afternoon, everyone. It's good to see you all. It has been a while since we've been up here, but it's always enjoyable to come back in New York and speak to you all about our brands and everything that we're trying to get done.

I'm going to take a little bit of a different angle than what you've heard for the last couple of hours. We're going to talk about the rest of the portfolio at Brown-Forman and how we're very proud of that also. But I want to talk a little bit about not only the brands themselves – and we'll go through some examples of some of the things that we're doing, but also a bit about the philosophy for how we think about the rest of the portfolio, what's important to us, what are some of the things that we measure ourselves by and want you to have a better understanding of what it is that we expect out of the rest of the portfolio to make it a good business for Brown-Forman and, indeed, deliver great shareholder value growth.

And I think particularly for those of you that follow the broader consumer products world, there's a lot of companies out there – a number of companies out there that have a strong, dominant brand that lead the portfolio. That means for the rest of portfolio, you better make sure that it's a really good business and you better make sure that it can actually lead to growth and, certainly, not be a detraction or a laggard within the portfolio. And to be honest, there were a number of years over the last decade where it was a detraction. And so we put a lot of effort into raising the bar on the rest of the portfolio to make it a better business for our shareholders and to really raise the growth rates on it. So we're quite proud of that.

So how do we do it or what is the way that we approach creating value or what we call disciplined approach to value creation for our shareholders? First of all, it's just active portfolio management. We want to be and we have continued to be, over – literally, over decades, Brown-Forman, I think has been a fairly active portfolio manager of the brands of this portfolio, and we're going to talk a little bit more about some of the things we've done recently.

It's important to keep the premium side of our brands. So you should expect that we will maintain – as we expand the portfolio, we want it to be able to lift the company's margins, not be a – not drag it down the other way. And so we want to remain very focused. We're not looking to have 100 brands in our portfolio. We want to maintain a focused premium portfolio.

We believe – or I think we feel pretty good that we have a history of excellent brand building. And when I say that, I don't just mean delivering excellent commercials like that Lynchburg one that you just saw, which I absolutely love, but it's more than that. It is actually a business review of what we have and what it is behind the scenes that we do with these brands to make them into better businesses, and I'll show a number of examples there.

And then also seeding for the future. One thing with Brown-Forman and the benefit of having a long-term shareholder basis, we're able to think in longer terms than many other companies that are out there. We have been planting a lot of seeds in the last few years, and I'm going to walk you through some of the things that we're doing there. So 10 years of active – this is just a review of the last 10 years. We've certainly had a lot longer view on portfolio management than that. But for those of you that have been around for a little while, you remember the days when we were into Lenox and Hartmann and the plates business and fine china and all that. When we got out of that, it was about 10 years ago now. The wine business. I mean, I've been at Brown-Forman for 20 years, and we've since gotten in and then gotten out again of what would be the more popular-priced wine businesses. We didn't feel like we brought enough to the table to make that a competitive advantage and make a great business out of the wine business, and so we got out of that maybe 5 years ago.

Southern Comfort and Tuaca more recently, that was – particularly inside of the company, was a pretty big deal to sell Southern Comfort, a brand that had been around for like 30-plus years in our portfolio, but we couldn't figure out a way to make that brand really make the high standards that we have for the rest of the portfolio, and so the decision was made to sell it. But – so as we have taken a number of things out of the portfolio, we brought a number of things in, too. And some of it organic, for instance, the Fire and Honey under Jack Daniel's. We bought Casa Herradura. Actually, it was 10 years ago next month. So it has been an up-and-down 10-year ride for us, and I'm going to walk – you're going to see some of that later on. But we've really got that business now, I think, in a much better place and we feel pretty good about that.

Just recently, the BenRiach Distillery Company, which is GlenDronach and the BenRiach brands, we bought last summer, early last summer. Chambord, which was more like 8 or 9 years ago. Slane Irish whiskey. I'm going to show you some things on Slane, but that's one we'll begin selling it in 4, 5 months. And then Coopers' Craft, which is our version of craft in the United States, the craft whiskey explosion that you've seen on so many brands, and I'll talk you through some of that, too.

As I mentioned, we have a very focused portfolio. I mean, if you look across there, I mean, obviously, Diageo and Pernod are going to be much bigger than us, but even Bacardi and Campari and Beam and these other brands, they have a lot more brands than we have. I say focused and premium portfolio, we're also more – we have a more premium portfolio than most. Obviously, Rémy is sort of the extreme example in a very premium portfolio and a very focused, very small number of brands. But I think Brown-Forman feels pretty good that, that's a good spot. It's a bit of a sweet spot in the $20s and $30s price points that are something that brings a nice combination of both value growth, margin growth, good returns. It's a good place to be these days, and so we're going to keep our portfolio up in that area.

So with that, I'm going to walk you – I'm going to take you through a couple of examples of things that we've been doing with our portfolio. But I thought I'd first start out with a short video on Woodford Reserve.

[Presentation]

Lawson Whiting

That last video of Owsley Brown there, that was taken at the launching of the Woodford Reserve brand, which was 20 years ago this fall. And I – it's interesting because now the brand is over 500,000 cases. And I think Mark referred a little bit to the IWSR magazine that just came out. I think it was only a few weeks ago that had Woodford named the 38th most valuable brand in the world. So over that period of time, we have really developed this brand into its probably — ***indiscernible*** — the most important brand within the rest of the portfolio, but it's certainly one that is going very, very well.

So why? With some of these, you've heard a little bit of this on Jack Daniel's and Paul referred to a couple of these points, too. What is it that's making this thing tick and really go so well. I mean, quality is obviously part of it, quality and award-winning whiskey. You almost have to start there before you can really get to be a great brand. And authenticity you've heard about.

That sense of hospitality and I'll call realness a little bit, so the consumers – we're putting 150,000 people a year through the homeplace and distillery just outside of Lexington, Kentucky. 150,000 people a year going through a 500,000-case brand is a really high ratio. There is not much of a better way to connect with consumers than there is, whether they go to Lynchburg and they learn about the Jack Daniel's brand or they go to – for Sales Kentucky. That is what we call it – to go learn about the Woodford Reserve brand. It is a deep dip where they can see it. They can touch it. They can smell it. And they can taste it and hopefully buy a little bit on their way out the door. But it is really a fantastic way to immerse a consumer in the brand. And it works. I mean, that is something we have learned at Jack Daniel's and we are using in a big way. And I think many would say we probably have the best homeplace in Kentucky, so it's getting a lot of visitors there. And we feel pretty good that, that bodes well for the long term.

We've also had some really good innovation. We've got a Woodford Reserve Rye also. We've got a Woodford Reserve Double Oaked, which is a great brand and it's priced above $50. And it's over 30,000 cases and growing at a really strong clip, so we've got a number of things in innovation that are doing very well for the brand, too. And you add it all together, and well, this is the type of results we've had over the last 4 or 5 years. This sort of a high 20s kind of growth rate is something that we're quite excited about. That's a nice balance between international and the U.S. It's about 80% U.S., 20% international right now, but both of them are growing at very strong rates and bodes well for the future.

Old Forester. Old Forester is a brand that we didn't talk about for a long, long time at this company. And it has absolutely caught fire in the last few years. It has caught fire largely with millennials. This is a brand – the word old in Old Forester, for most of my career, was a deathblow. There weren't any brands that were growing if you had the word old in front of it because millennials just didn't want to touch it. Old and early were not good adjectives to have for a brand name.

Yet that sort of retro thing has come back a little bit. And this has been the brand probably within the entire bourbon industry that has caught it – caught it the best and really relates to some of these consumers. They think of this as real. They do think of it as retro. It's a great product at a reasonable price. It's not as expensive as Woodford, and so it has done a nice job of developing a younger group of consumers.

You can see that Old Forester distillery. They're opening in 2018. Similar to what I talked about with Woodford and we've used at Jack, we're going to do the same thing in downtown Louisville with Old Forester. So we're building an urban distillery that we think will be the best one out there. It's under construction right now, so we've got a bit of time before it's going to be ready. But we think by the time this is all said and done, when you want to get to a rural distillery, you've got Woodford Reserve. When you want to say in the urban one, which is where, honestly, most people stay when they go on this tour anyway, wood – or Old Forester will be the first one that they go to.

This is brand news that we'd all love to have. I wish every brand has this type of growth – or growth profile. This is – starts in 2012. If you went back 30 years before that, every year was a negative. This was a 1 million case brand in the early '70s that went on a very long-term decline and has really caught in the last few years. And I can tell you, last fiscal year, if you take the 30 largest bourbons in the United States and rank them by growth, Old Forester is #1, so the fastest-growing bourbon in the U.S. last year, so it was – this has been a good story for us.

Moving on to our other – or a couple other brands. I'm going to talk about our tequila business for a little bit. This is a business that I mentioned that we bought 10 years ago now – 10 years ago in 2007. And it took us a while, to be honest, to get this business – to get our feet underneath it and to develop what we think is a good business model going forward. I think if we were honest with ourselves, it did not meet our early expectations, and it was a bit of a struggle. And there was a lot of internal intense pressure to figure out how to fix the business and then how to really make it grow.

And so I'm going to walk through Herradura really quickly first, and then we'll actually talk a little bit about el Jimador, too, because they are different. The U.S. situation is very different than in Mexico. The U.S. for Herradura, it's just all basic blocking and tackling, awareness, distribution and get it going. And we – finally, we've been investing pretty heavily in this brand for a number of years, so we've – it's not – not a lot has dropped to the bottom line, but now it's going. And now we've got our margins at a place where we want – we're happy with that and the growth is there. And so we feel pretty good about that.

I think tequila people often ask why is it that tequila seems to be doing so well. Particularly in the last 2, 3, 4 years, the tequila business, which has had its sort of fits and starts over long periods of time, are really accelerating right now, particularly at the premium price points. It's – and I actually would cite it similar to bourbon. It's some of that same sort of authenticity a little bit. It's flavor. It's the product itself. You've got a lot of experimentation with consumers, and it tends to be experimentation at very high price points and so you've got some premiumization happening within the category. There's still a lot of things that are coming together to make it a decent business. And the barriers to entry in tequila are – have some similarities to where they are in bourbon, which tends to result in a better business over a long period of time, and so we're feeling pretty good about that.

Mexico's a little more difficult. The price points in Mexico for tequila are much lower, and so – although, it took us a few years to get there, we have been aggressively taking price up on Herradura in the last couple of years, double-digit price increases every year. Purposely – actually, on Herradura, we've maintained the volume pretty well but purposely taking these businesses up, these margins up and trying to get them to a place where now the growth, we think, can really deliver on shareholder value.

Herradura's been a little bit more volatile, particularly – this is a global chart, and the volatility has been more in Mexico. The U.S. has been pretty good sustaining double-digit growth for a little while now, but still, a pretty nice chart.

El Jimador is a different example, but it's – this is a business where I think it's less – it doesn't deliver as much profit to Brown-Forman, but I think it's important that you understand our philosophy and how we've manage a business. El Jimador – once again, similar to the U.S. and the U.S. business and Mexico business are very different, Mexico, when we bought this thing, was 800,000, 900,000, depending on what year you'd look at, was close to 1 million case brand. We have driven that down purposely to 400,000 cases in Mexico today, and it makes more money. The margins – once again, we have been aggressive on price increases. It was – we could have continued to grow the brand at the prices that we were at, but I think we would have looked at it and said, "We're destroying shareholder value every day because the returns are just not there." And so before we want to start growing again, we better fix the underlying business, and so we have done that. So we've cut the business in half down there to grow better for the future.

U.S. is a different example. The margins actually are fairly decent here. We've more than tripled that business. It's gone from 150,000 cases to over 500,000. So the big business, which was 80% or 90% Mexico when we bought, it is now less than half is Mexico. The rest of it's the U.S., and we've got a couple hundred thousand cases outside of the U.S. So a very good story where the margins now are better, and we think the business can now profitably be growing from here to deliver some good shareholder values.

So wrapping all up or moving more into what I call seeding for the future a little bit, we're looking to create the next Woodford-like growth drivers. Woodford is now a real growth driver for Brown-Forman, and we feel pretty good about that. Those other 3 that I just mentioned are well on their way to being real good growth drivers for Brown-Forman.

We've been reshaping this portfolio more recently to create what we would call the next generation of growth drivers. So what this is, just to sort of ground you, this is actually the Woodford Reserve long-term volume chart. And as you can sort of eyeball it, it took 10 years to get it to 100,000 cases, which is not atypical in the whiskey business, particularly at the premium price points. It takes a while to get these things going. You just can't turn on the spigot and the whiskey's not there, and some of it is supply driven. But it's taken a while to seed it in the right way, but that's the way we believe is the right way to build these brands, and it hits that proverbial tipping point. It has really accelerated, and that's almost straight up in the last few years. So it's now a sizable brand, and we're feeling pretty good about that.

So what are we going to do to sort of seed the future? Well, this is Coopers', which we launched – it's only in 5 cities. It's very small right now, but this is our response to – one of the things we get asked about all the time is why don't you go develop a whiskey for Texas, Oregon, California and Rhode Island? Well, that really – we don't have assets in any of those places. I'm not saying we'll never do that, but the priority is not to approach or not to go that route. A lot of others have because they don't have any other option. There's nothing for the big guys to buy in Kentucky for the most part, and so they're finding to go to these other states, admittedly, which are growing nicely, some of these things right now, but that's not our strategy.

Our strategy is to take the existing assets we have in Kentucky and create some new innovation there. At the end of the day, 95% of the world's bourbon is still coming out of Kentucky anyway. We believe in big opportunities, things that we can scale up and make big so that they can be meaningful inside a company the size of Brown-Forman. Coopers' is off to a great start. We feel pretty good about that, and this is what I call our version of playing the craft whiskey space.

Slane, though – Slane's different. The Irish whiskey that we announced – it was about 18 months ago, I guess now, that we announced this sort of part acquisition, part, really, more innovation. Slane whiskey will be available in the U.S. by next summer. And it's going to be a fantastic whiskey. That is one thing I can promise. We did not – we wanted – we looked – a lot of people have looked at the Irish whiskey category and seen what's happened really largely by Jameson, a great business. We didn't have any assets to be able to get in. And so we went ahead, and we're taking – making a long-term play. And in a lot of ways, we call it taking the Woodford Reserve model to Ireland. We're going to come in at a higher price point than Jameson and – what we think is a great product, and really, we'll make this a good go. And we think we can do something here.

Lastly, GlenDronach, which is the core brand within the BenRiach Distillery Company. Sometimes it gets a little bit confusing. It is interesting, and it was a bit coincidental, to be honest, that we sold Southern Comfort net proceeds of about $400 million, and turned around about 60 days later, announced the acquisition of this company for about $400 million. So in a way, we traded one out for the other. Now that was trading out near-term profitability, we know it. This has been – those 2 in tandem were very dilutive to our earnings, but at the end of the day, it's trading up near-term profitability for a long-term opportunity that we believe is real.

We love the single malt space, very premium, can be really good returns when you're getting prices that are as high as they are. This thing, GlenDronach, in particular, we call it the little Macallan. It is what Macallan was a decade ago or a little bit more. We're coming in at a price point above them, and I think that we can do something. And so we're quite excited about that, too. And when you put this company, which is really managed by almost a single guy out of Scotland, a very small operation with no RTC ability anywhere in the world, we're bringing our entire global franchise to the table with this brand in such a global category, and we think we can really make something of it.

So I hope that gives you a better understanding of what we've been doing from a brand value creation perspective, active portfolio management, keep it premium, keep it in the spirits world, keep doing good brand-building work and continue seeding for the future. So that's what we are about, that's what we've been trying to get done.

So with that, I'm finished. I think we're going to take a 15-minute break for a little bit, so if we can get the lights back on, take 15 minutes and then I'm sure they'll gong a bell or whatever they'll do to get you back in here again. Thank you.

[Break]

Executive
Ladies and gentlemen, our program will commence with Jane Morreau, Executive Vice President, Chief Financial Officer.

Jane Morreau
Welcome back, everyone. It's always hard to follow the brand presentation because they have videos and lots of pictures. But this is the one that matters, right. It's finance. And you're going to hear a Kentucky accent through this one, too. So here's what I'm going to do with you, I'm going to talk a couple of – about a couple of things with you over the next 15 or 20 minutes. First, I'm going to talk about what you also heard both Lawson and Mark allude to with our business model, how we look at our business model. So I'm going to talk to you about why we believe we have a uniquely great business model and why in turn, it's enabled us to deliver and return nice — ***indiscernible*** — pass to our shareholders.

The second thing I'm going to do is take and kind of get — ***indiscernible*** — what you heard from both Lawson and Mark and look forward a bit and talk about the aspirations we have, the assumptions we have to continue to create shareholder value into the future.

And so with that, let me start by talking about this excellent business model we believe we have. Again, Lawson alluded to this, how he's been looking at this and how we've been looking at this with our rest of the portfolio. Mark talked about it as it relates to Jack Daniel's. And we think of it in 3 component pieces. We think of it in growth. We think of it in operating margins. And we think about it in return on invested capital. The first – fourth component piece of it is really the meaningfulness of it. But I'm going to focus – this is what we also look at not only on a brand basis but as a company. And as you know, we've had consistent balanced growth. We've got industry-leading margins. And we've been very capital efficient business with high returns on invested capital.

All that, in turn, has generated significant cash flows for us over the years, and they have been growing. And that, in turn, has allowed us to deliver and return cash to our shareholder in a very friendly way.

What I'm going to do now is take you through – I'm going to look back historically and take you through these metrics that we look at to look at the financial attractiveness of our business and how we look, how we perform and compare ourselves to some benchmarks.

So with that, we'll start off with revenue growth. First part, we got to have the revenue growth. We start with the top of P&L. And as you know, we've had consistent revenue growth over long periods of time. You can see over 35-, 25-, 10-year periods of time, we've grown consistently in the 5% to 6% range.

Now you see a slight slowdown – and these are reported results, by the way. You see a slight slowdown in the last 5 years, 4% growth, and that's been largely impacted by dispositions. Disposition that happened primarily in F '11, which was the sale of our low-priced wine business out in California.

So if we put it on and look at our underlying growth rate over the last 5 years, it's been quite nice at 7%. So how's that compare to benchmarks? You see on this chart to your right, we've quite favorably – again, if I'm just looking at our reported results, the 4%, you see we compare quite favorably compared to our competitive set on a reported basis and we're consistent with our other benchmarks, the Staples and the S&P, but again adjusting and looking at our underlying growth, which far outpace the benchmarks.

So one more thing I want to point out is looking at the last 5 years and looking at where our growth has come from, from a geographic mix perspective. It's been very balanced as you can see by our 3 broad geographic clusters that we're showing here, which is the U.S. business, the international developed business and the emerging markets business. Very balanced.

Notwithstanding, we have had some slowdown more recently in the emerging markets. We see that as a temporary slowdown, hasn't lessened our confidence that we see in the future, particularly where our brands are, how early they are under development. So that's our first metric, which is our revenue growth.

Second metric I would like to point out is our operating margins. We've got very high operating margins, and these high operating margins have been driven by where we play at the premium price point and above. This chart here illustrates how these margins have been improving over the last 10 years quite nicely. In fact, they've accelerated quite a bit more recently, and the acceleration has been due to a number of things. First again, the sale of the wine business, which was a low-margin business. Two, pricing that we've enjoyed over the period of time. Three, the mixed benefit that we've got from some of the faster growth that we've seen from the rest of our portfolio that Lawson was showing, the Herradura and the Woodford brands. They've grown nicely over this period of time and start to accelerate, now starting to be meaningful to our growth contribution. And fourth, the successful innovation that you saw Mark show earlier of Jack Daniel's Tennessee Honey and Jack Daniel's Tennessee Fire. They both have added nice mixed benefits to our results.

You take and combine those with leveraging our investments we've done and route to consumers, these resulted in this acceleration that you see here in our operating margins.

So we look at our operating margins compared to benchmarks and we've got a 2 by 2 chart here showing our operating margins and return on invested capital, which is the third metric that we look at for a good business. And you can see that Brown-Forman is on your upper right-hand quadrant, illustrating that it has the highest operating margins compared to benchmarks and industry leading as well as the top-tier ROIC.

Now when we look at this and look at the industry-leading margins and industry-leading ROIC, we've done that while investing behind the business, so it's been quality bottom line earnings when we get there. So we've invested consistently over long periods of time. This is a 5-year look, but if you pull it back and look further, you'll see a consistent investment behind our business, both in the form of brands spending as well as our investment behind our people in the mid-single-digit range.

So when we combine our top line growth with our high margins, we have delivered very consistent long-term operating income growth. Again, similar to the revenue chart you saw, you see long-term operating income growth on a reported basis in the 6% to 7% range, a little bit lower in the last 5 years. Again, similar to the revenues, pulled down a bit from the dispositions of the business. So if you look at the 5-year period on a underlying basis, it's double the reported numbers quite nicely at 10% growth, compounded annually each year over the last 5 years, which is quite impressive.

Comparing that to benchmarks, just looking at our reported results, we outstripped all the benchmarks that you could see, the growth rate is stronger than any other one there and then significantly outperformance when you look at it on an underlying basis.

So the combination of our strong and solid growth over the past 10 years at the top line coupled with our strong operating margins has generated really significant cash flow. In fact, we've generated $8 billion of cash flow over the past 10 years, the majority of which just came from what I just talked about, which was from our business, so our cash flow from operations. We had a little bit more that was added on there from the sale – proceeds from the sale of some of the businesses, and then the remaining map was a little bit from debt – net debt that we incurred at very, very attractive interest rates.

So what did we do with that cash over this long period of time? Well, we invested 1/3 of it back in our business in the form of CapEx and working capital and acquisitions, and 2/3 of it went back to our shareholders in the form of dividends and share repurchases.

What I thought I might do is just look a little bit more at the CapEx and working capital investments we've been making over the last 10 years because those investments are important for the future. So let's look at what we've been doing over the past decade. And this chart illustrates what our net – gross PP&E investment was in 2006, 2011 and 2016, and it looks at our working capital change as well. So the PP&E bar is the dark gray, and the working capital is the copper color, if you will.

If you look at the first part of the decade, the 5 years, '06 through '11, you can see that our investment behind our business was approaching about $400 million, most of that was coming from investing behind our working capital, behind the inventory as our capital was pretty close to the same. Our PP&E levels were pretty close to that – same on that basis. What you see though over the last 5 years is an acceleration in the investment in our business behind both CapEx and working capital.

Now you've heard us talk about the once-in-a-generation spending that we've been doing behind our business in the form of capital. You see some of the pictures on there. You see the new distillery at Jack Daniel's. You see some cooperage. Lawson was referring to investments we're making in Old Forester and Slane, so those are ongoing. But these were what we're calling once-in-a-generation investments, and you can see the CapEx stepped up during that period of time.

You'll also note that the orange bar – the copper part of the bar also went up quite a bit, and that's our investment, primarily – it's working capital, but its primarily in inventory. Our business, as you know, is heavily skewed toward inventory – toward American whiskey right now, and you've got to be laying down what you think your demand's going to be 3, 4, 5, 6 years from now. We get – layer in Scotch, at some point, it'll be even longer.

So my takeaway from this is, or your takeaway should be that we really see a bright future for ourselves. We've been investing behind our business in the form of working capital. So we've been laying down whiskey so we can meet the demand that we see coming down the road. We've been expanding our facilities to meet the capacity to make sure that we have the ability to build and make the whiskey that we see, so expanding our capacity for those long-term plans.

One final thing I wanted to make note on here, too, is we're almost past our once-in-a-generation spending, so what I've referred to here is our free cash flow yield. We expect – should begin to improve ever – so we move past F '18, and we've returned more to levels that we're used to, not necessarily [ph] dollar levels but as a percentage of revenues.

So looking at our – this chart illustrates the past decade of how we return cash to our shareholders. And you can see that we returned it in 3 forms: in regular dividends, which is denoted by the brown bar; special dividends, which is the gray portion of the bars; and yellow, which is the share repurchases. By the way, I should be looking back here because I noticed there was different colors when Mark was showing this, but they look like they're the same. And so you can see that there's been spikes along the way, so again, regular dividends, if I think about that, they've been – we've been steadily growing our regular dividends over the past decade. Where you see some spikes on the chart here, that's driven by, again, gray part of the bar being special dividends, where we had event-driven – events that happened where we returned cash to our shareholders – or paid dividends to our shareholders – could be when we sold the Lenox business, as an example. We wanted to get cash back to our shareholders.

And then the yellow bar, which where we've been doing opportunistic share repurchases. So you can see peaks and valleys or troughs, if you will, over the past 10 years. But what we have done is we've averaged an annual yield of 4% to 5% back to our shareholder over this past decade, which is quite remarkable.

So when I pool all these stuff that we've done over the past decade together, our P&L, our growth, our returns, our margins, our investments behind our business, what we've done to return cash to our shareholders, we've been able to deliver top-tier long-term shareholders over the past – to our shareholders over the past decade.

In other words, if you invested in Brown-Forman 10 years ago, you would have been that top bar or top line, if you will. It would've been worth – $100 would have been worth $319 today. So while the smoothness of that total shareholder return is not smooth, in fact, you see over the last couple years, it's been fairly steady, if you will. And we've taken that opportunity over the past couple years to actually be opportunistic looking at our – looking at interest rates as low as they are, looking at our debt capacity to really invest in ourselves when we think our share value has been of value.

Aspirations that we have. So the first thing is I would remind you of what Mark showed you. Mark showed that 3 scenarios for Jack Daniel's volume – Jack Daniel's family of brands volume growing between 3% and 5% over – up through 2025. So using that information, combined with pricing, let's say in 1% to 2% range, we believe the Jack Daniel's single – family of brands can grow in the mid-single digits. And coupled with what Lawson showed, which he has spent a lot of time – he and his team and company have spent a lot of time reshaping our portfolio, getting it to be a better business as we described here. And we believe that we're positioned now to grow faster than Jack Daniel's brand, so add that onto your sales forecast.

So where will that growth come from? When we look at the growth over the next several years, we expect that the U.S. business will continue to grow. It's an important business for us but will grow faster outside the U.S. In fact, we see that the emerging markets will become a bigger contribution to our business than it is today, approaching 30%. That's the confidence we have that, while we're in a trough now, we have optimistic views on the growth prospects of that part of the world. We'll continue to invest in our brands and our people. We'll leverage the route-to-consumer investments we've done over the past decade, but we'll have opportunities, too, as we grow the business for future route to consumers.

Mark alluded to the Spain one we have coming up next summer. There'll be others. They don't always come in the form of owning your own business, but the important thing is for us is to be able to have the focus. And we found when we find our focus and we can focus on our brands, we actually can accelerate the growth of our brands, and so that's what we're looking for and will be looking for as we go ahead.

We expect to continue to have strong margins. We talked about the operating margins – the industry-leading operating margins we have and consistently high return on invested capital. We do not see that stopping.

And that should all, in turn, lead into high single-digit operating income growth. And with a strong conversion to free cash flow, we think that we'll be able to continue to – we will be able to continue to invest behind our business fully, and we'll have ample cash to return to our shareholders in a thoughtful way like we've done over the previous decades.

And that will, in turn, lead to what we believe will be to superior TSR for our shareholders.

So one topic we haven't talked a lot about here today – well, Paul alluded to it in his opening remarks, is the family. And we are a family-controlled company. And we've always felt like it's been a competitive advantage for us because this allows us the long-term perspective. It allows us to develop strategies for the long term, some of which we've been sharing with you today.

And so with that, I have the privilege to introduce a member of the Brown family to you. Some of you may know him, some may not, and that is George Garvin Brown IV, who's going to come talk about the family's perspective on the company.

George Brown

Thanks, Jane. Good afternoon. I'm Garvin Brown. I'm the Chairman of the Board of Brown-Forman Corporation. It's a pleasure to be here with you in New York today.

I got to come present 4 years ago at this similar event. Just out of – how many people were there? Okay. Thank you. Because I went into detail that day, and I'm just going to hit on some headlines today on a couple of points. But it's a pleasure to be here.

I joined Brown-Forman 20 years ago in New York, actually. I was in our wine division. We're talking about divestitures. I was – my first day on the job, working out of our Hauppauge, Long Island, office. I was tasked to fill distribution gaps in the critical Bolla — ***indiscernible*** — ratio 1 86 unit [ph] in Nassau County. — ***indiscernible*** — Queens, Staten Island, Nassau. Eventually, I made it into Staten Island. They let me leave [ph] Brooklyn, and by the time I finished the blind group, I was even allowed to sell something in Manhattan. I was also responsible for Fontana Candida Frascati. Frascati? Frascati drinkers? Okay, there aren't any 27-year-old Brown-Forman employees in New York City working at [ph] Frascati today, I can guarantee you, which is another example of – the Fontana brand didn't even make Lawson's slide. I'm very upset by that.

But in any event, I've been on their board now for 10 years. And when we did a fifth generation change over that, I was the Brown second [ph] was in the Woodford Reserve video, my first cousin wants to move. He was our Chairman and CEO and, under his leadership, we did that switchover 10 years ago. His daughter, Brooke [ph], was in the photo of Slane. As Slane is doing [ph] there, the second woman from the left. Her husband is the current — ***indiscernible*** — So been able to – a joy to have her to appear at some events like that.

And there's one other – actually, there's a family in the room here today, 4-generation shareholder of Brown-Forman. But there's someone else, Jennifer Powell. So you've met great, great, I think, grand-niece of Jack Daniel. We've got a dependent of Frank Bobo here that you met earlier. Now Jennifer Powell is a great, great, I think, granddaughter of Lem Motlow. And so it was Lem's name that was on the bottle of Jack Daniel's for so long who is Jack's nephew and the Brown family 1966 purchased Jack Daniel's from Motlows [ph], which Jennifer, actually I think, organized — ***indiscernible*** —

So I guess we noticed in the video, myself and those in the room, yes, it's a competitive advantage, I would argue. Also, certainly, a barrier of entry. I mean, it takes 5 generations to claim that you're the great, great grandson of somebody. And that's – I mean, Nokia – they've got lower barriers to entry. And so I think that it's an example of just of in the room of some of the uniqueness that I think helps Brown-Forman.

Oh and I'm the one with the Canadian accent, by the way. I was raised in Montréal for reasons we can talk about over drinks. But – so I regret I don't have the lovely Louisville accent my dad did, but I've got basically a Canadian accent.

My family and I would like to make something really clear. We see this community, you all, as partners in 2 ways: you're analytical partners of ours. We're shareholders. We read your work. Every Friday, Ernie Patterson, the Director of Family & Shareholder Relations, sends out an e-mail with articles on the company to everyone in our family. And we read your work and, obviously, so does the management team.

But for us, to have that third-party objectivity in the world of analysis is a critical part of our governance mix. And so my family wanted me to be sure to thank you for that. Thank you.

And you're our partners, some of you as investors. We've been partners together, the public and us, for 83 years. We went public on the New York Stock Exchange in 1933, and that's a big deal. We've been partners for 83 years. And so for those 2 – your partners in 2 ways, and for those 2 reasons, we also think that, out of respect to you, we owe you a degree of transparency as to how we organize ourselves. We're your partner. Who are they? What are they thinking? How do they organize themselves? Boy, I read something about a family business the other day. I wonder if that applies to the Browns.

And so that's why 4 years ago, I went into quite a lot of detail on the governance initiatives that Paul and I kicked off in 2007. We created this thing called the Brown-Forman Brown Family Shareholders Committee as a formalization of the way that we talk to the family, as a way to engage fifth-generation family members and actually moving now to sixth generation and also to better regulate the way that the family interacts with the company, with the board.

Engagement's great, give or take. And so we like – we call it balanced engagement when it's done right. And so we don't want – I mean, even as tepid as I've been in days [ph] to call Paul about the Chambord package, I mean, that's just not appropriate. And – but nor is it appropriate to be totally unengaged. I mean, we're you're partners, and I think you'd even expect us to be engaged.

This is a big investment for us, not just the value of the company and our stake in it but actually the percent of our assets that are in this investment. It's a big deal. We're not a diversified fund. This is our investment. It's an – we're still an operating family with an operating business.

So it's important for us to govern things properly. We've got this family committee. We've written a family constitution. We have an employment protocol to govern how people apply for jobs and what happens to them if and when they do get a job. I can assure you, we lean towards meritocracy in those debates.

When it all comes together, I like to call it thoughtful ownership. I know we all talk about shareholders. I prefer the word owner. I think it's more holistic. And on the family side, I think it sends the right message because it reminds all the family members that with ownership comes responsibilities. And shareholding feels too easy. Ownership feels like it comes with a couple of duties and some responsibilities, a couple of strings attached, and I think that's okay in a multigenerational family ownership base.

So is that what gets us out of bed in the morning, a day of thoughtful ownership, right. Look, for some of us, yes. For me, look, I mean, that does excite me in the morning, actually. It does get me out of bed. But there are some other things, too, more honestly, that get the family out of bed in the morning about Brown-Forman.

Two things I'd like to touch on. One is culture. Look, on the corporate culture side, Brown-Forman's won awards, human rights awards for its diversity initiatives with its employee base. And the family is proud of that. It makes them feel good. They get out of bed for meetings when that's a topic. Sustainability awards from the environmental community for our ability to control, to shrink our carbon footprint. So that's exciting. And those are some things, just examples of culture on the corporate side.

But for our family, I mean, I can't say it – I don't know how to say it anymore, honestly, but Lynchburg, Tennessee, this brand that is surrounding us today is something that we get. We get the place. It reminds us where we're from. We might live all over the country, got different accents. We live even outside the United States. But at some level, we all believe that we're just – we're distillers, and we're from Kentucky. And so our brand like Jack Daniel's in our hands, we feel, is a good fit. We feel that a family's time line, multigenerational, is the sort that works in this industry.

Look, it takes 4-some-odd years depending on the weather, tightness of the barrel, to make a single bottle of Jack Daniel's. I think I went from Motorola to Nokia to Apple in 4 years. And so we think that those time lines work well in the hands of a family.

Culture is important, but we also like to win. We're investors. We consider ourselves a business family, and we like winning. And actually, we've been winning with Brown-Forman for decades, and that matters.

And we think that the family time lines also help very well ground the 3 bits of strategy that I heard today in my words: the capital allocation that Jane described, investing in the business at the right time, expanding distilleries, new distilleries, a cooperage, a mill. All those capital investments that are generational that the team has reset the table for the next generation on, we think, are good use of capital.

But we also believe – I think it's 5 48, not that I'm counting – that the returns to shareholders are significant. And it's that balance between the return to shareholders and the investment in the business that really strikes us as a family – as being a well business – a well-balanced capital strategy.

Looking at Lawson's work with the changes to the portfolio, Bolla, Fetzer, Fontana Candida, Lenox, Hartmann. And then finally, you get to Tuaca and Southern Comfort, which made such press. And those are tough decisions. You're walking away from real revenue. I can't remember who, someone wrote 2 or 3 sentences. They sort of nailed it. One of you all – that so many companies should make those decisions. But they don't because of the pressures that they're under for quarterly revenue performance. And walking away from the revenue on Southern Comfort in order to make a long-term bet in Scotland, in Ireland, I mean, we feel that those are appropriate long-term decisions that we can help with our own time lines.

And then finally, Jack Daniel's. I mean, this iconic global brand, the one that we feel we get so well, we feel that the values, not just the taste profile, the product and all that wonderful stuff that you would have seen today, but the values of Lynchburg and the patient way that they've been slowly told around the world, we think that those – that story works well in the hands of a very long-term investor. Some people call it globalization. When it comes to this brand, for me, it's localization of the world to the values of Lynchburg, Tennessee. And it's a good business.

That's it for me. So of a short version of what we discussed 4 years ago, but I hope it gives you a sense of what your partner, the Brown family, feels about this business and how we think we can help it. Thank you for your partnership. Thank you.

Paul Varga

There you have it. There's just – this is what you heard today, and I hope – it was a pleasure to sort of provide the emcee support for what you heard from everybody here today. But this is what we believed have been critical aspects of the historical success. And sometimes, we worry it's boring, that we believe these to be critical aspects of our forthcoming success. You know this to be true from Jane's references.

These were – when you put it all together and think about long-term returns, this is – it wasn't 10 years ago or 20 years ago that we set out to have the highest absolute or even relative TSRs versus these benchmarks. They were just to keep it going to build forever. And in fact, I think that's with some good fortune of some great brands and very important to this has been the privilege of all of us and then those around here today to basically tell you the story on behalf of 4,000 plus of our colleagues who frankly have produced this and are very, very excited in the same way as you heard it from every one of my management partners here and Garvin about what's ahead of us.

So we remain optimistic. And I will say that probably the thing that – when I reflect on what we try to do in order to do this, there's no measure of risk associated with these returns. Oftentimes, the returns associated with 12% and 14%, 20-year returns or 10-year returns, also you incur the greatest risk.

And when you have a company with a family behind it that wants it to go on forever, one of the things you do is you try to pursue outsized rewards for lower levels of risk. And when you can find that – it's not easy, but when you can find that in the business we have and the way we manage it, you can actually build forever. And so in many ways, the summary of what you've heard here today is our continuing pursuit of that, to try to create great outsized rewards for what we would consider to be very acceptable levels of risk associated with those pursuits.

We're going to do a Q&A now, but one thing we didn't cover that's in your book as you go away, I did want to recognize, really, the prior generation that preceded us. You'll see on the back of this a phrase we love a lot. It was actually – it's attributable here to an Owsley Brown II quote he saw in a film, which is planting trees so that others may enjoy their shade. The work you saw here today were us – we're planting some seeds for people who are probably making this presentation, we hope, in 20 years with the same story, but we've got to plant them today.

The people who were doing this 20 years ago at Brown-Forman, they gave us Woodford Reserve. They give us Jack Daniel's globalization. They gave us excellent capital deployment. And a lot of us here today, while we've done a lot of good work, done the great brand building, et cetera, I mean, we really are enjoying their shade. So we put this on here purposefully because we think it's something worth replicating, and we hope that we'll be giving these types of presentations for literally decades to come.

That concludes our prepared remarks, and permitting your all's continued interest in all this, we thought we'd open it up to questions. I'm going to bring everybody up, and so just give us a second to bring a couple of chairs up. We'll start to answer your questions. I think the way it's going to work is we're going to have a microphone out here in the audience, so if there's something you want to say – and because the thing is webcast, it'd be great if you could say it into the microphone versus sort of yelling it across the hall even though we might be able to hear you, okay. Thank you.

Question and Answer

Paul Varga

You all read about – right about 4:00, so we've allocated as much as up to an hour to listen to your questions and have some conversation about what you heard. And as we said earlier, we'll have really a fun part at the end, a chance to sample some of the product with some of our great guests that we've brought up here – or friends we've brought up here, too. They'll be happy to describe elements of what you're tasting as well. So why don't we open it up here and see who might first have a question. Let's proceed – yes?

Vivien Azer

So I think, Mark, you well articulated the 3% to 5% outlook on Jack Daniel's. I was hoping to talk about the other part of that algorithm, the 1 to 2 points of price and mix, given the current context of the pricing environment today. So it's a 2-part question. First, in the near term, I read in the trade press that Booker's is doubling their pricing. So I'm curious how you think about price gap management across the different expressions of Jack Daniel's. And even though the pricing environment is tough for maybe the master brand or the mainline brand, is there an opportunity to stretch your price gaps? And then for the longer term, 1 to 2 points, how are you thinking about the balance between pricing and mix?

Mark McCallum

I'll start, and I'm sure Jane will have a view on that as well. I think – let me think of pricing only first before mix. So I think our experience right now on pricing is it's a mixed bag. It depends. For instance, in the one market, the world's most valuable spirits market, the U.S., pricing is available to us and has been available to us. And we're quite confident that what we've experienced in the past, we can continue to experience for the time being. So – and that accounts for a large part of our business. And around the world again, it depends. There's a number of markets around the world where we're very successful in our ability to take pricing, either stimulated by excise tax increases that a number of countries will do on an annual or biannual basis, but I think I'm confident that what Jane was representing in her remarks remains available to us as we get better and better and better in the international markets at managing our direct-to-customer infrastructures that we've established.

Jane Morreau

I think, Vivien – oh, okay. **— *indiscernible* —** I'll use this. So Vivien, I would say also, you're right. You're looking at the time period right in front of you, which is short term, and so you see things that have happened. And as Mike alluded, we've got healthier markets that are able to take some pricing, U.S. being one of them right now. But what I'm trying to look at is over the long term. And so we believe that over the long term, we've got that pricing opportunity available to us. And so I was primarily talking about pricing at that point. We will get mixed benefits, as I [ph] was referring to, particularly as I look at the rest of the portfolio that Lawson was describing and the premiumization of that and the high price of Scotch and so forth come in, and as they become more meaningful, that will have a mixed benefit, we believe.

Paul Varga

Vivien, let me just add something, too, to it. I think that there's 2 things that have – I'm actually mic-ed, yes. I think that if you pull back 4 years ago, because of the success that we were seeing with Jack Daniel's Tennessee Honey, Jack Daniel's Tennessee Whiskey as well as Gentleman Jack and other expressions, several of us were sitting back, saying we've grown pretty rapidly here. We want to continue to emphasize specialization, just really how special Jack Daniel's is. And also, we always have this benefit of — ***indiscernible*** — inflation. If we don't we'll probably run into some — ***indiscernible*** — You have these challenges that are – that will be difficult to manage. We believe we've been pretty aggressive with pricing because of low rates in 24 months [ph], and that's a conscious decision because — ***indiscernible*** — low inflation environment that was settling in around the world, low interest rates, low inflation. We — ***indiscernible*** — we're seeing others, people not being as aggressive. So we sort of hit the pause button. It's obviously – that topic is a huge planning topic as we look out to sort of FY '18 to '20. We know we'll have — ***indiscernible*** — So as we look ahead, I think it will be on us. I think it will give a good perspective as we get closer to maybe the summer about how we deal about the sort of coming price base presentation. I will say one thing. Particularly our Jack Daniel's brand, we're confident in Comfort that we can take pricing up. — ***indiscernible*** — keeping yourself best in class and highest quality and special. But it also, I think, presents the opportunity to take prices against different premium reference points. Right now, the most-developed super-premium and ultra-premium American whiskey category in the world is in the United States. So we think we have better opportunity there. As you move around, **— *indiscernible* —** we think it's a very long-term perspective. As people premiumize in a lot of the other countries around the world and more volumetrics are delivered at those higher price points, it opens up the door for Jack Daniel's to take more regular pricing. It's never easy, this balancing act of high volume and super premium price, you're always working both aspects of it, which you're seeing in some of our more near-term results for conscious decisions after a couple of years of pretty aggressive Jack Daniel's Black Label. We've even complicated, in my view, ourselves. Five years ago, we didn't have to worry about – we largely line priced on our flavors. So effectively, if you want to keep doing that, you have to think about raising the price on a number of items, not just one. Hard to do, right. And so there's a lot of things to think about when you go into make those Jack Daniel's decisions. We're actively thinking about them but really continue to believe there's opportunity for us. That's that worth element that Mark was talking about.

Lawson Whiting

I'll add a quick point to it. It's much smaller in the grand scheme of things within Brown-Forman, but the tequila category itself, and I talked about some of the really aggressive pricing we're doing in Mexico, which is a bit unique to Brown-Forman and not indicative of the market necessarily. But the agave market, the spot market for agave has started tightened significantly to a point of almost doubling now over the last couple of years. And so that has better – right now, we can, for the most part, control most of our supply. And so it's really not a factor for us, but there are some big brands that you will know that rely heavily, heavily on that spot market. And so we hope – it's not seeing in the numbers yet, but that, that will put some upward pressure on that market. And that's something we all look forward to.

Paul Varga

Thank you for the question. There's somebody here that we – back here. Christy [ph], I think? He was in the queue first because we took the microphone from him, so then we'll go next here. We'll have time for everybody.

Attendee

Question is on the new product launches you talked about, in particular rye and on Slane. Just – you might not give me the full marketing plans for next year, but can maybe, from a supply standpoint, are these things that can go nationwide when they're launched, be they're adding Slane was in the summer and rye was in the fall. Or is this going to have to be, from a supply standpoint, more state by state and we have a bigger push kind of in calendar '18?

Lawson Whiting

I'll take the easier – not the easier one necessarily on Slane, but the first one. Yes, no, it's going to – it won't be nationwide immediately. We do not have enough supply to do that out of the box. I would expect within 2 or 3 years, it will be nationwide. It will not be global, either. We're going to focus on the United States, Ireland and the U.K. and Global Travel Retail. It'll probably be more like 5 years before have enough supply to be truly global on that brand. So it'll be a slow build. But you know what, that's not the worst thing in the world. It creates a bit of consumer demand when you do that, allows us to keep pricing at a healthy level and build it in what we think is the right way, which will be a lot of on-premise and sort of key account management. It's not going to be going into the Costcos in the first couple years. It's going to be managed, we think, in the right way.

Paul Varga

With little expectation for profitability during that time frame, a lot of new product like that, which is very different than a line extension.

Jane Morreau

Let me address the rye question because everybody knows this is a very fast-growing category. There's a lot of consumer interest in it. We actually started laying down rye about 5 years ago. So we've been planning for this. Now we don't have – we're initially looking to introduce it in the U.S. So it's a U.S. focus initially. And so what we think about this product is, of course, we're going to take advantage of the charcoal mellowing from Jack Daniel's system there and make a really special rye. We think it's going to have a lot of legs as time goes on.

Paul Varga

But again, I think we would – it would be my view — ***indiscernible*** — and looked at F'18 and '19 sort of sales levels on it. We'll have more supply in, I think, increasing years, '18, '19, et cetera. I would expect us to be able to — ***indiscernible*** — that we would be more profitable sooner just because it comes from – through the line extension activity in the Jack Daniel's — ***indiscernible*** — building of the Irish whiskey expectations — ***indiscernible*** — trade partners but not to the levels that we've seen from the initial reception.

Attendee

Have you guys ever looked at the impact of legal cannabis on spirits consumption? Because I haven't sort of seen anything that's been that worthwhile, but some of the distributors are kind of freaking out about it.

Paul Varga

We defer to Vivien on that. Yes, we have – we're obviously – we're monitoring it and have been now for a while. And it's one of the most often asked questions, is how is this going to unfold? And we're seeing some of the same analytics and data. My conclusion so far, I think is the correct one, is it's way too soon, although, it's not way too soon to be looking at it, monitoring it, thinking about it. I think last week on our investor call, I made this reference. I think the most immediate consequence of the growing legalization across the United States on our business, the first and foremost, is that if you think about the way it will be consumed in the states where it's legal, it will largely and exclusively be off-premise. So to the extent that there's cross-usage or the occasions are shared between marijuana and distilled spirits, it's very likely to be – have the same dynamics that would influence the way we think about the off-promise, and the way we think about the on-premise and off-premise, there's some similarities, but there's often differences. So to the extent it drives more consumption overall to the off-premise, I think suppliers and brand owners are going to have to adjust accordingly. But what it means for direct competition and the like, we are in what I'll call observational and study mode more than we are in conclusion mode. Yes?

Attendee

Okay. That's — ***indiscernible*** — Garvin, can I just ask you a question about the spirit of the dual-class shareholder structure and if you ever thought about collapsing it?

George Brown

— ***indiscernible*** — When we went public in 1933, we only had 1 class of shares. And then in the '50s, I think that – yes, I think it was the '50s that – of course the tax treatment of dividends was different, and so it was more tax appropriate to return value to shareholders through the creation of another class of shares. And so at that point, every shareholder was given one A and one B. And since then, the float of A and B has changed over time because of buybacks. But otherwise, we don't spend a lot of time looking at that. We did have preferred shares. Actually, when I joined the company, we had a third class preferred shares. I think they were retired. I remember I was in the wine group, probably '99 or something, yes. But from the family perspective, we frankly have had – over years, if there's been a liquidity need for estate planning purposes or whatever it might be, having 2 classes of shares has been able to facilitate liquidity without shaking the family's position with regards to the voting shares.

Paul Varga

The other thing that arises on those typically circumstances where there can be misalignment between A and B is when you have the ownership concentrated but very little economic investment by the controlling owners. And that is just not the case with the Brown family and hasn't been that way at any point.

George Brown

We've had a rule of thumb, and I – just a rule of thumb, okay, but it's been a rule of thumb, which is that it's probably not a bad thing if the family's stake in the business is more than 50% of the economic value. And so that spread between voting stake and economic stake is a governance spread that can attract attention from the ISS and from other appropriate advisory firms. And so we do keep an eye on that on the family side. I mean, for what it's worth, I'm giving you the family point of view, and I'm not speaking so much for the company.

Paul Varga

We agree with it. Yes, Judy [ph]? Sorry, we got these lights so sometimes we can't see your hand. We can – Judy [ph], we can see here, but if you guys just – yes, sort of make your hands harder for us to see out there.

Attendee

So a couple of questions related to the global expansion strategy. So first is when you think about the 3% to 5% Jack growth target, how much of that is geographic expansion or just emerging market gains? And then obviously, emerging markets have been pretty tough for everyone. And Jane, you've characterized this as a temporary slowdown so – and you've got aspiration to obviously get bigger. So when you think about the 32 markets that you've listed, how has the focus of those markets changed in the last few years? And is this – would you think about this as also once-in-a-generation opportunity where you can actually make more sizable investments in a tough time to get bigger?

Mark McCallum

I'll start. Recently, we – I think I mentioned that we have been in slightly or in some ways sometimes significantly reallocating resources as a result of our market focus, for instance. I mean, we were all very aware of the vitality of the U.S. market right now. And just compared to 2 to 3 years ago or 3 to 5 years ago where the vitality for us was in a number of those emerging markets, Russia being a classic example, we are making adjustments, particularly in regard to what we call our brand expense. So also, the infrastructure investments we made in some of the core markets like Australia and Germany and France, we're really leaning into those investments and seeing good growth now as a result of that. So depending on circumstances, either external or internal factors, we're able to look across those 32 markets and, appropriately, I think, redirect resources where we see near-term or mid-term opportunity more so than in some of the other markets. So that's one way of saying we make adjustments reasonably frequently as we see different circumstances affecting our ability to grow the business in any particular market.

Paul Varga

Yes. And Judy [ph], to your reference on – I think it was Page 15 in here, on where we might expect growth to be differential between – and in Mark's segments here when he shared them was 1 million, and 500,000 to 1 million, 200,000 to 500,000 and then below – or 50,000 to 200,000. I almost feel like, from top to bottom, you would expect an accelerated growth rate going down the page. Not every market for every period will have it. But as a general thought, our plans are predicated on a lot of these markets being very early-stage developments still, in some cases, building out distribution and awareness. And so I would say there is a correlation. And then where the investments follow will depend a bit. I'll just give you the example of this year. I feel like one of the most significant incremental investments we made this year. We do not dollar for dollar make a cut in

Brown-Forman SG&A — ***indiscernible*** — associated with the sale of Southern Comfort — ***indiscernible*** — The brand that was coming in does not even hit close to matching the profitability of those businesses. The idea of taking our people — ***indiscernible*** — developed markets internationally at that state at a time when we felt like it was a really good time for to invest in those emerging markets, that whole investment, those people committed to work on with the — ***indiscernible*** — can work on the start of – they work on Jack Daniel's Black Label, and so they take some of that cost of overhead and reallocate it to more highly value-added items. So in that case, the investment doesn't match up with the long-term view of where we think the volumes are going to come from, but it does match up with the current year or so. We're making these decisions that might have taken developed markets — ***indiscernible*** — Does that help a little bit on your question? Yes, we have one here and then maybe one back here.

Laurent Grandet

Laurent Grandet from Credit Suisse. Actually, a follow-up from Judy's [ph] question about, I mean, the geographic and that famous map you just show. I mean, it seems like, I mean, Latin America is kind of white almost apart from Brazil. And it's usually the playground of American companies. And especially, you mentioned the association's in some part of the world with Coke. Any plans to go in that geography, specifically in Latin America, in any of those countries? So that's my first question. My second question, actually, it's more about the production [ph] risk. You decided not to go to, I mean, beyond the 2 flavors you already launched – I mean, in 2 flavoring. But some of your competitors are aggressively, I mean, looking for market share expansion. Do you see that as a risk of potentially commoditizing the category a bit like, I mean, it has been done in the vodka category? And what do you do about it?

Paul Varga

Two very different and good questions. Who wants to tackle – you want to do flavor or geography first? Doesn't matter. Anybody?

Mark McCallum

I'll do – can I take your second question first, flavor?

Paul Varga

Do that. Yes.

Mark McCallum

Yes. I spoke a little bit about our belief, our portfolio strategy belief that these individual brands that we add to the portfolio deserve a long-term stewardship outlook or a long-term strategic outlook. And so we are – and we have said that, right now, we're not planning an additional flavor in that range, and I guess we mean that. What I have noticed that the commentary in the public press is that the flavored whiskey category is beginning to – and the commentary around it is beginning to use terms such as you used. And the care that I've noticed other brand owners using in regard to being too aggressive in terms of flavor extensions actually believe fundamentally that that's how we should be looking at it. And so again, we don't have any plans for third flavor. What we do have plans for is to continue to grow Jack Daniel's Tennessee Honey. And I believe if I look at the numbers today, we're having some good success not only in the U.S. in but beyond the U.S. as we focus on that multigenerational brand and the same with Tennessee Fire, which is very early in its life – actually really early in its second year. So we owe the Jack Daniel's Tennessee Fire multiple years of focus before you can even look out to consider whether or not there's opportunity. So our first 2 flavors are going to be more **— *indiscernible* —** You heard it correctly that just how happy it is that we are about being in South America a few years ago, I think if you do the math, our biggest emerging market would be actually Mexico. So we'll be following all that **— *indiscernible* —**, the 2 biggest markets in that part of the world now. And it's, yes, I mean, I think if you rank order our priorities in the world of emerging markets, South America taken as a whole is going to be right up near the top. Colombia, in particular, is a huge whiskey market, a very, very premium whiskey market. And so that's one where there's at least short-term expansion plans because, right now, we're very, very small in those markets. You have to start adding up a bunch of them together to get to be meaningful when you get outside of Brazil. But I also thought Brazil itself, we are so tiny there in terms of where geographically within that country where we go, we're only really in the 2 big cities. And so there is a big effort also in there to say why can't we put more people out into these sort of – I don't know if they really call them Tier 2 cities, but in these broader and these bigger cities out there. And so yes, I think it'll be a big growth market.

Paul Varga

And I'll tell you there, from time to time, we have conversations about Chile, Venezuela, Argentina, all of them having different risk-reward profiles, frankly. And every time we talk about them, given what we would call maybe scarcity of resources to go to all these markets at the same pace at the same time, we end up going back to what Lawson referenced, which is we just think there's so much opportunity behind the company we've invested in down in Brazil that it offers better sort of 3- to 5-year results. By the way, it doesn't – we still have an emerging brand franchise in a place like Chile. I mean, it's not like we're not existent, not doing well, et cetera. It's just what are your priorities. And we call it PUB – Paraguay, Uruguay, Brazil, that triumvirate there. One thing we did not talk about today that goes to this topic of flavors. It's been very frequently and it's a good – frequently asked and it's a good question about how we're going to manage that. If you all – if some of you have seen our talks in the past, have seen us say that the American whiskey business and, predominantly, and we think, this is afforded to Jack Daniel's, is this intersection between the most attractive attributes of both Scotch and vodka, the 2 largest categories in the world. So when we do this balancing act of figuring out what we call sometimes the vertical scale and the horizontal scale, one being flavor, which is often associated with vodka, the ability to horizontally extend into flavoring your category or your brands, and a vertical, which the Scotch business has done an exceptional job from sort of standard price point up to very high price points, we think that opportunity is available uniquely today to American whiskey because of its mixability and the high-quality associations with its liquid, the aspirational value of Americana, et cetera. But you can't seize all those opportunities at one time. And so I don't feel like pausing and really dedicating our efforts to Jack Daniel's Tennessee Honey and Jack Daniel's Tennessee Fire as a statement against flavor, generally. I actually really believe, as is evidenced by Mark's comments on the RTDs, that the mixability of American whiskey is one of the reasons that it has, in fact, expanded at the rate it is. You want to do it thoughtfully, and so what you're seeing from us is a more measured pace related to focus and the opportunity afforded by what we have introduced. It is never a guarantee that we would not innovate in some way, even solve the cider being a kind of a hybrid. We had a Jack Daniel's Winter Jack, very successful in Germany and in parts of the United States that had flavor elements. It's more like an RTP, we call that. So I think that'll continue to be an area ripe for us. It's just the pacing and the focus and wanting to develop this trademark as responsibly as we can. And so part of it is you do this phrase I love that Mark was using, which is test and learn, test and learn. And then as you go along, make sure, Mark's phrase, the beating heart, Jack Daniel's Tennessee Whiskey, remains invested behind and is the primary focus. So it'll be a dynamic exercise for it. We try not to say we will never do this or we will only do that. But we think it's responsible based on the pace of the innovation we've done to just really focus on those 2 expressions. Now by the way, I consider rye to be a flavor. It's a full-strength flavor off of the traditional bourbon flavor. And one of the things people appreciate it for is its spiciness and robustness, and it's why it's such a popular element today in U.S. cocktails. Yes? I can't see who it is. Is it – Robert. Hey. I saw a hand and a tie.

Robert Ottenstein

Robert Ottenstein, Evercore. You've had a very consistent long-term message today. And in the spirit of that, I want to ask a very long-term question to the family. And that is the portfolio now is much more focused on brown spirits. There has historically been a cyclicality to brown spirits, white spirits. And just want to get a sense of your comfort long term in terms of the firm's positioning and focus on brown spirits and how you would think about it 5 years from now. Category growth were to slow appreciably, do you think your – have the diversification, the capabilities to deal with that? Would you go back and look into other sorts of diversification that you did in the past? Just those sorts of questions in the respective kind of the long-term partnership that you discussed.

George Brown

Okay. That's a great question. When I started in '96, the whiskey category, I think, was in its maybe 15th year of decline. And we used to show a great chart that would sort of – a decline in whiskey and a growth in Jack Daniel's to kind of try and get the sales force riled up, and it worked. And so we're lucky, and Mark can be more articulate on this than I am, that Jack Daniel's, we believe and we've seen the evidence, just transcends the whiskey category. So when Paul started on the brand, the competitive set was Jim Beam and Crown Royal. In the United Kingdom, the competitive set was Bacardi and Smirnoff. And now suddenly, Bulleit's back on the scene. Another American whiskey has emerged. So we've had a history of being able to transcend the category because of our focus on values and the brand. It's not a whiskey. It's Jack Daniel's. All those true clichés that are very valuable ones with regards to getting in Woodford, the new Old Forester, Coopers' Craft, Ireland, Scotland, even tequila, brown spirit – actually, silver's doing quite well now, but let's argue it's a brown spirit because it's aged in barrels. I think your points – well, your point of caution's well made with regards to the United States, what if trends turn, so on and so forth. But when you step back and look at the global trends, actually, the world is a place of brown spirits. And IMFL in India and their palette, that is already there for flavored spirits. The amount of brandy that none of us think of, that is out in Africa and in

Asia. So there is – the flavored spirits is what the world drinks other than Eastern Europe. In Eastern Europe, of course, the vodka category has sprung a leak. And they're excited about imported brown goods, something with flavor, something different. So we do – so for 2 reasons, we feel good about this move towards aged brown spirits. We feel that it's a – if need be, we can transcend the category. And then outside the U.S., we feel that the category trends are with us. And the third point is just as a family investor, we do like high barriers to entry. And so if things are aged, if we're out there promoting aged goods that, really, people need – one of you described it, I think, as the ability to – I'm looking over to him to get the quote, the ability to withstand loss or something like that. Not the average investor can build a distillery in aged goods for 5 to 12 years. And so if we're out promoting that end of our industry, we think that it's a place that works for families who have a longer-term investment. And so on the flavors, I'm sorry, just to come back to that, one of the strategic conundrums of a flavored whiskey is that it opens the door a little bit to non-aged brown spirit characteristics. Easier to drink. There's a company that even uses younger Canadian whiskey in theirs, shall remain unmentioned. And so – in their cinnamon-flavored popular brand. So they've– the flavored whiskey category just opens a little crack in the door, and we do observe that. And that's the type of thing we'll debate in the world of flavors. But look, we fought Jack and Coke in the family for 20 years. And I remember it sort of took an act of God to finally let a glass of Jack mixed with Coca-Cola appear in an ad for Jack Daniel's, even though 60% of the population was mixing it with Coca-Cola. So anyway, I say all that to say that we do – we're trying to be thoughtful about this. There are a number of considerations, including this barriers-to-entry factor kind of back to strategy 101 – was it Porter's Forces or something – to think about. And that's one of the appeals for us of the stance that we've taken. But it's a really good question, good flag.

Paul Varga

Yes?

Attendee

I suppose you could describe this as a follow-up, but it is specific to the United States. And the data clearly shows how the discipline around Jack Daniel's has allowed you to grow in any type of environment for the larger alcohol segment. But the question is this. As millennials age, I presume you expect the larger spirits category to slow down. So is that a fair assumption is question number one? And then question number two, if it is a fair assumption, how do you think it will affect behavior in the larger spirits category?

Paul Varga

Well, my view, I mean, for I guess now over 30 years, we've been watching the first one was that the category of spirits in the United States was going to go into oblivion because the boomers were going to move through and not drink spirits or even in – with the trends back in those days, it was even brown spirits. I think the thing is, is that we're so focused on millennials today. Remember, there's another generation behind them for the next 20 years that will be making their choices about whether to drink spirits or bourbon. And I mean, you've heard us, of course, talk today about why we believe American whiskey is attractive within spirits. I mean, I think, generally, the trends related to society at large, people wanting greater levels of customization, peopling appreciating variety, et cetera, that I think are populating the trends of many categories, and you see it in beer, wine and spirits today that the ability of the spirits category from the standpoint of accessibility and the variety of cocktails and drinks with which you can enjoy so that from each day to the next or each occasion to the next or even within the same evening from drink 1 to drink 2, you can have that variability and experimentation. And frankly, that has not been the case with categories from which spirits have been sourcing most notably popular-priced beer. And so I really do think as long as the manufacturers and brand builders within the spirits industry continue to promote these most desirable attributes associated with the category, some of which relate to premiumness and quality and history and heritage but also variety and mixability, I actually think it bodes really,

really well for spirits consumption generally, I mean, very much. What will happen with other megatrends as they come along, there's trends we've observed over the years, but it's really the convenience, which – remember, it's not just mixability when you provide an RTD or a flavored whiskey. You're also providing convenience. The way I'd like to say it is that when – we were having a little talk earlier, when the smoking ban occurred in the United States, which in my view, made a large contribution to the movement of consumption from on-premise to off-premise, it also then matched up well with people who provided more convenient formats because the average consumer was not going to replicate what they could access in a bar. So guess what took off at that time: flavored whiskeys. So the ability to vary the product, in that case, in a format people put it in their freezer, et cetera, I mean, that just matched up beautifully with the consumer trend. And then when people – the technology came along and you could crowd source and have 12 people over to your apartment, who needed the bar, right. So I mean, these are trends that are going on. So if you listened to bars and restaurants, they are reinventing some ways that they can bring people back in for traffic. And some of them are doing a very, very nice job at it. But there are macro trends that occur from which we have to adjust and adapt in our promotions and marketing, and those are just a couple of the examples of it. Yes, Sharon [ph], somebody back here.

Attendee

— ***indiscernible*** — Question has to do with premise, off-premise. Can you share with us your thoughts on what you think your takeaway is percentage-d premise to off-premise for your leading brand, your next leading brands and generally your product line; second, geographically; and third, versus your competition.

Paul Varga

Well, I think literally, we're going to have to get back to you on it because the way that the businesses are set up around the world, you'll see, like – I mean, our largest country, the

United States – I'm going to make a general statement because we have several brands – you're going to see something like a 75% to 80% off-premise, 20% to 25% on-premise. If you move to the U.K. where the Jack Daniel's brand, for example, first was built in the pub channel and the on-trade has now over the last generation moved more to the off-trade – I don't know where we stand today, say…

Jane Morreau
30%.

Paul Varga
30% on, 70% off. You go into some markets, particularly emerging markets where the brands are sold by bottle in the on-premise, we have some markets where we're going to be 80% on-premise. You'll have brands – there is Jack Daniel's Tennessee Fire, for example, is far more developed in the on-premise in the United States even relative to Jack Daniel's Tennessee Honey, which is more developed in the off-premise. So we'd have to literally – I mean, your question probably would be a 75-page presentation. I mean, it really would because it varies so much. There's just not – the markets are so differently developed. So maybe Jay can help with some follow-up to that when we can publish some stuff or something. It could be useful for people on the distribution between the 2 channels. Sorry to defer, but that's – we're going to have to.

Attendee
As a family-controlled business with a long-term time horizon, how do you think about the intrinsic value of your company – of our company and when to buy out your fellow partners?

Paul Varga
Well, we've never made that move, so that partnership has lasted a long time.

George Brown

We like our partners, yes. You guys are just great. So the intrinsic – on the intrinsic value, I was – at the end of our Annual Stockholders Meeting, we'll typically get our board together with the family shareholders. We record this stuff, by the way, those meetings, just to make it really clear to all the participants that everything is happening Reg FD kosher. And so that we've got the tapes in the event that we were ever accused of something. But the – so in those recorded meetings, this came up. And we were all just chatting about geopolitics a little bit. How are we all feeling? What does the environment looked like? FX headwinds, share price, what is the family metric? Is it the share price? And I made the point to everyone around just to remember that we've got – this is a – these are slow-moving consumer goods. It takes us a few years to make a single bottle. There are high barriers to entry to come into this industry. And in the world of Jane Morreau, the cash flows are so healthy. And with all those healthy cash flows and yet our dividend yield – I mean, it's not one of the highest, I mean, I know that's because the denominator does so well. But it's not one of the highest, and even the payout ratio is not one of the highest.

Paul Varga

Excluding specials.

George Brown

Okay. He's talking about regular dividends now. And so in our – if we're together sitting around the breakfast table, and we're thinking about it's the health of the brands and it's the cash flows. And those are the 2 things we want to keep an eye on. And knowing that the – how healthy the cash flows are, it gives us a sense of comfort if the sky fell in the world of the share price. That's from the family point of view. Look, I'm Chairman of the Board. I have a fiduciary duty to all shareholders. And the board does obviously care about the share price. And so that is something like the management team that we've got to look out for because you all enjoy capital growth also. So do we. We just don't sell the shares. But look, it's nice to know that it's there. And so on the board side, of course, we've got a fiduciary duty to worry about share price.

Paul Varga

And just to add to that, I think that on Page 51 in your book, you'll see Jane's yield slide on shareholder-friendly capital allocation. One of the things that – obviously we wouldn't have talked about this – but underpins these decisions is what I call a risk-adjusted NPV assessment on a regular basement – basis. And for example, even the authorizations we seek or the decision to act on a share repurchase program is influenced by our view of the intrinsic value of the company. And we, at times, will risk-adjust that as well. One of the things we've found has been beneficial for all shareholders over a very, very long period of time. And this is where the money matters, I think, on this long-term view thing, which is if you think where most people will do discounted cash flow assessments over 10 years, we're in year 146. If you think you can go 15 and keep the growth going, you'll have a higher intrinsic value. So some of it is patience, and it's that view of the long term and what the influencing conditions are at that time, what are the factors influencing. For us today, for example, we've been posting what we consider to be very solid underlying results, which have caught the very strong headwinds of currency. So as we sit here today, I mean, you look at F '15 and F '16, this – very strong years of share repurchase. Prior years had very strong years of special dividends at times. Some of those were rewards to long-term shareholders for their patience in liquidity while allowing them to hold their shares. The share repurchase program takes, I'll just say, sometimes those less-committed shareholdings and allows people to get those liquidity moments. But I think this was a beautiful slide, I thought, in the presentation to remind us we don't make these decisions without looking at the intrinsic value of Brown-Forman. And actually, I thought it closed that section really well because it was indicative of our confidence in the long-term future. Very good question though. Another hand? You all may be getting ready for...

George Brown

No, I think that they're…

Paul Varga

How about this, you all, let's conclude. Thank you all for your interest in this. And we're going to be available with you guys here to enter first [ph] and mingle and talk some more.

George Brown

Thank you very much. Thank you so much.