Brown-Forman Corporation, Q3 2011, Earnings Call 2011-03-08

Presentation

Operator

Good morning. My name is DeShanda, and I will be your conference operator today. At this time, I would like to welcome everyone to the Brown-Forman Third Quarter Fiscal 2011 Conference Call. — ***Operator Instructions*** — Mr. Marmor, Director of Investor Relations, you may begin.

Ben Marmor

Thank you. Good morning, everyone, and thank you for joining us for Brown-Forman's Fiscal 2011 Third Quarter Earnings call. This is Ben Marmor, the Director of Investor Relations at Brown-Forman. Joining me today are Paul Varga, our President and Chief Executive Officer; Don Berg, Executive Vice President, Chief Financial Officer; and Jane Morreau, Senior Vice President, Finance. Don will begin our call this morning with a few remarks about our performance, our recent announcement regarding Fetzer and our guidance. Paul will provide additional commentary.

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

This morning, we issued a press release containing our results for the fiscal 2011 third quarter. The results can be found on our website under the section titled Investor Relations. We have listed in the press release a number of the risks and factors that you should consider in conjunction with our forward-looking statements. Other significant risk factors are described in our Form 10-K, Form 8-K and Form 10-Q reports filed with the Securities and Exchange Commission.

During this call, we also will discuss certain non-GAAP financial measures. These measures and the reasons management believes they provide useful information to investors regarding the company's financial conditions and results of operations are contained in the press release. And with that, I'll turn the call over to Don.

Donald Berg

Thanks, Ben. Good morning, everyone. Today, we issued our fiscal 2011 third quarter earnings release, which included an updated guidance for the year. This morning, I'll focus my comments on three topics: First, I'll talk a bit about the continuation of our strong performance, then I'll address our recent announcement regarding the sale of Fetzer Vineyards and then finally, I'll talk about our updated guidance for the fiscal year and how you should think about our fourth quarter.

As you saw in our press release, both top and bottom line underlying growth trends accelerated during our third quarter on the solid performance of the prior six months. Let's review several important takeaways from our performance to date. The first is that performance in our international markets remained strong and accelerated somewhat during the nine-month period while our U.S. performance improved. Once again, the development of our business internationally continued to drive our growth, with underlying net sales growth of 7% for the nine-month period and improvement over our first half results where our underlying net sales internationally grew 6%. International markets now account for 56% of our total reported net sales compared to 53% at the end of our last fiscal year.

Our international growth remains broad-based, with strong gains in developed markets, including the U.K., Germany, France and Australia, as well as in a number of emerging markets such as Mexico, Turkey, the Middle East and North Africa. We've also grown net sales in Brazil, reflecting the benefits of our route-to-market change made earlier in the fiscal year.

Geographically, we are organized around five regions and Duty Free. For the quarter, both in terms of the company's total depletions as well as for Jack Daniel's depletions, we grew in every region. Year-to-date, Jack Daniel's also grew in every region, while in terms of the company's total depletions, all regions were up except North America, where the total portfolio experienced slight depletion declines.

Looking specifically at the U.S. for a moment, we believe the overall spirits environment has been improving. Syndicated data show three-month trends at or better than 12-month trends. During the same three- and 12-month periods, trading up trends also improved. Using the 750 milliliter size as a guide, brands in price segments above $20 per bottle outperformed the average. The $15 to $20 price range also grew but slower than the total market. Brands in the Value Price segment underperformed.

Looking at the on-premise channel, January NABCA data would suggest that the On-Premise segment continued to be somewhat erratic on a month-to-month basis. However, the 12-month trends appear to be flat. Overall, Spirits appear to be growing about 2% to 3% in volume terms, while Value is up around 3% to 4%. Vodka, rum and tequila have been the best performing categories in terms of case growth over the last 12 months.

When looking at our own performance in the U.S., we have seen some improvement in the Nielsen data for Jack Daniel's while NABCA results have been mixed. During the quarter, U.S. underlying net sales improved when compared to our first half but remained soft. Our depletions in the U.S. outpaced takeaway trends somewhat in the quarter, as some retailer restocking and buy-ins prior to price increases occurred. That said, even adjusting for these factors, Jack Daniel's grew during the quarter and our overall depletion performance has improved.

Let me comment a bit on the performance of the Jack Daniel's Family of Brands, where performance remains strong and led the company's growth. Year-to-date for the family, sales have grown 9% on a reported and constant currency basis, and we saw a nice growth across the family. We are working to continue the strong momentum of the brand's franchise, and as you read in this morning's press release, we are continuing to enhance the trademark to both market expansion of the current portfolio and through innovation.

In terms of market expansion, we have been expanding ready-to-drink products, along with our higher-priced expressions, into a number of markets around the world. To further capture the consumer's interest in convenience, within the next few weeks, we expect to roll out Jack Daniel's spirit-based RTDs in the U.S. And to take advantage of consumers' growing interest in flavored brown spirits, we expect to launch Jack Daniel's Tennessee Honey next month. We believe both of these launches will build on the momentum of the parent brand. And while immaterial in terms of impact to our financial results this year, we are looking forward to the potential benefits these could play in our portfolio in the future.

While we are very pleased with the performance of Jack Daniel's, one of our strategic aspirations over the next decade is to grow the rest of the portfolio at a faster rate than that of the Jack Daniel's family. Southern Comfort is critical to the success of this objective, and for the first nine months, the family's depletions continue to be down about 2% but this shows some improvement in the quarter when compared to the 3% decline for the first six months.

While we remain disappointed with the performance of Southern Comfort, a number of our other brands have done particularly well, including el Jimador, New Mix, Herradura, Woodford Reserve, Sonoma-Cutrer and Chambord.

Looking at our gross profit performance, the growth rate was in line with our underlying net sales growth at 7% for the quarter and 4% for the nine-month period. Importantly, our cost of goods increased in line with sales. While we have seen some recent cost increases, they have been offset in large part due to our hedging of our foreign purchases, as well as the benefits from increased throughput at the Jack Daniel's Distillery.

For the quarter, our operating expenses on an underlying basis were up 7%, with advertising expenses up 5% and underlying SG&A up 8%. We continue to target our investments and adjust our mix of spending to areas that we believe best position the company for long-term growth. While we increased our advertising, we continue to invest in innovation and in our people, particularly as we build our selling capabilities related to our recent route-to-consumer changes. As I mentioned earlier, we have two new Jack Daniel's line extensions planned for the U.S. market over the next few weeks.

Additionally, as we mentioned in the earnings release, we have more innovation planned for other brands in our portfolio such as Finlandia and Southern Comfort. The increase in SG&A expenses was primarily related to the investments we've made in our route-to-market changes this year and the incremental pension expense that we noted in June and that we expect to see through the rest of this fiscal year.

Now let me move on to the second topic, our recent announcement to sell Fetzer Vineyards to Viña Concha y Toro. As we announced, we have agreed to sell the Fetzer winery, bottling facility and vineyards, as well as other Hopland, California-based wines and a facility in Paso Robles, California for a total of $238 million. As mentioned before, the sale does not include Sonoma-Cutrer or the company's long-term agency relationship with Korbel.

Our decision to sell reflects our commitment to our strategic ambitions for the next decade, our evolving portfolio strategies and a continuation of our efforts to focus the time and resources of the company on what we believe are our best opportunities for growth and shareholder return. We believe Fetzer Vineyards will do well within the Concha y Toro business and we wish them well. The sale is expected to be completed in April of 2011. The effect of the gain on the sale on fiscal 2011 earnings is projected to be $0.20 to $0.30 per share.

At this time, we are not providing guidance as to how the sale of these assets will affect fiscal 2012 earnings. We plan to talk about this in June within the context of our overall expectations for next year. To provide some context on size and what may be expected, in fiscal 2010, these brands contributed $156 million to net sales. Most of this business is in the United States.

As part of the transition of this business, we have agreed to continue to represent the affected brands on an agency basis for up to nine months. In the U.S., we do not have a separate dedicated sales force associated with the Fetzer business. Rather than seeking significant savings in our operating costs, our intention is to refocus our U.S. sales force on higher margin, higher growth opportunities and fully support the innovation planned for the U.S. market.

Moving to our final topic, fiscal 2011 guidance. We believe we are on track to deliver strong results for the year. We are raising and narrowing the range to $3.35 to $3.45 per share, excluding the gain expected from the sale of Fetzer.

Let's talk a minute about foreign exchange and its impact on our earnings. We began our fiscal 2011 with exchange rates at the time were expected to negatively affect our earnings forecast by $0.15 per share. Rates have been fairly volatile throughout the year and we expect they may remain so. With our hedged positions for the rest of the year, recent rates would now indicate that the foreign currency impact to our full year EPS outlook compared to our fiscal 2010 results is currently projected to be about a $0.04 benefit. Excluding foreign exchange, the increase in guidance is primarily related to our continued international success and strong performances of the Jack Daniel's Family of Brands as well as el Jimador.

Let's talk for a minute about the implication of this guidance on our fourth quarter. We expect our fourth quarter to benefit from our continued year-to-date trends and underlying net sales. In addition, we expect to see easier comparables to a year ago due to SG&A expenses related to some compensation programs incurred in last year's fourth quarter that are not anticipated to recur this year. Because of this, on both the reported and an underlying operating income basis, we expect to show a significant growth rate for the fourth quarter. In determining our EPS guidance for the rest of the year, we have maintained our full year guidance for our underlying operating income at the mid-single digit growth. With that, I will now turn the call over to Paul.

Paul Varga

Thanks, Don, and good morning, everyone. The results we reported this morning, in our view, were very strong. And year-to-date, the company is being led by Jack Daniel's family's continued expansion around the world. For those of you who've been following us for some time, you'll notice this is not a new phenomenon.

A particularly impressive statistic in our results that I feel, at least that's caught my attention, was the Jack Daniel's family's constant currency sales rate which advanced 9%

year-to-date. This was led by Jack Daniel's Tennessee Whiskey at 7%, but the rest of the family was growing even faster, thereby lifting the overall growth rate to the 9%. We consider this to be, through the first nine months of our year, one of the more impressive performance statistics.

As Don referenced, Brown-Forman sales growth outside the U.S. continues to be very broad-based, encompassing both developed and emerging markets. Countries such as Australia, France, Germany and the U.K. are all driving the year-to-date underlying sales growth. But they're also – that rate of growth is also being helped by Mexico, Brazil, Turkey and the Middle East and North Africa.

I continue to be impressed by the geographic breadth of our company's growth today, both on an absolute and relative basis. And we also continue to believe that we have a large remaining opportunity for Jack Daniel's and the rest of our portfolio.

The improving environment is certainly one contributing factor to the kind of advances that we're seeing on Jack Daniel's, but so too do we feel the quality and quantity of the comprehensive investment we placed behind the Jack Daniel's family. This of course includes a – we calculated a 5% increase in advertising and promotion investment, which would cover traditional areas such as promotion and sponsorships and advertising. But as importantly, we consider the aggregate investment level to be much higher when we take into account investments behind packaging, pricing, very importantly, the top-of-mind awareness and mixability message generated from the branded RTDs, and of course, the people we invest behind who make all of this happen.

We believe this more comprehensive view of brand building investment has helped Brown-Forman to elevate its underlying growth in gross profit from a 1% rate last fiscal year to 4% year-to-date in fiscal year '11. We believe we still have lots of work to do across the portfolio, most notably on Southern Comfort and our popular price whiskeys. But nonetheless, I'm really pleased with the year-to-date results both quantitatively and qualitatively. And we continue to expect strong bottom line Q4 results, driven by a continuation of our top line growth and the expectation of favorable SG&A comparisons. As a result, as Don said, we've raised our guidance again.

I wanted to comment just a minute on Fetzer. Last week, we announced the sale of Fetzer and our Hopland-based wines. Don referenced the rationale and other details so I won't go into that. But I wanted to share a few other thoughts and if you'll permit me, there's a few passages from our internal announcement we sent to our employees last week that I thought I'd share with you, which basically references some of the work Brown-Forman did on behalf of these brands over the last couple of decades and I'll just read it to you.

We've done some great work over the last 20 years on these wine brands both in the market place and at the winery. When we acquired Fetzer Vineyards in 1992, the Fetzer brand was just over 1 million cases, with much of that derived from lower-priced white and red table wine expressions. Although it's been struggling a bit of late, the brand grew in our hands to over 2.6 million cases while also achieving a more premium price position.

In the first half of our ownership of the brand, we significantly upgraded the winery and production facilities and our production colleagues leveraged this to consistently make high quality wines. This, along with our attention to cost containment over the last many years, was critical to the profit growth that Brown-Forman enjoyed over the course of the last decade. Importantly, Fetzer provided an innovation platform for new brands such as Bonterra, Five Rivers and Little Black Dress. As a result of our work, these brands have grown to over 500,000 cases, with Bonterra and Little Black Dress adding excellent multiyear growth profiles.

Beyond their volumetric success in the marketplace, the brands became strategically symbolic to us and our many partners and stakeholders. For example, the wines produced in

Hopland, most notably Bonterra and Fetzer, helped advance Brown-Forman's reputation as an environmentally responsible and sustainable company. Because of this experience, we learned about more cyclical, agricultural-based production planning. Fetzer significantly advanced our understanding of selling to the grocery channel in the U.S. and U.K. Additionally, Bonterra and Little Black Dress reminded us all of the importance of relevant brand differentiation. And further, Little Black Dress exemplified our ability to build a brand to the critically important Female Consumer segment.

While we'll ultimately cease our production, selling and marketing of the brands, the capabilities we developed while building them will remain with us, and I know we'll put this learning to great use on the many growth initiatives that await us. I wanted to share that with you because when you go forward with a disposition while you might sell the brands, we feel like we learned an incredible amount over the last two decades that will serve us very, very well. And I know people across Brown-Forman are very proud of the work that was accomplished on behalf of Fetzer over those last two decades. For that work, we're estimating that the work over the years on behalf of the Fetzer Vineyard brand that we're selling will yield Brown-Forman shareholders a gain of between $0.20 and $0.30 per share, so there's a real quantitative reward as well. Contrasting this expected gain against some of the news we've seen from the world of wine over the last many years, we are quite pleased with the outcome.

So considering the quarter and year-to-date results and accomplishments as well as the announced Fetzer sale, I'd summarize our company's current position as follows: Our underlying top line and bottom line results are improving, and we estimate our year-to-date growth rates to be at or above the industry average. This is being driven by a broad scale international momentum and in recent months, we're starting to see improvement in the important U.S. market. Led by Jack Daniel's, we believe our portfolio continues to evolve positively with recent acquisitions and line extensions performing well and positioning us for future growth.

Our route-to-market continues to strengthen around the world, which we believe improves the prospects for Brown-Forman's full portfolio. Our balance sheet remains very healthy and continues to provide us great investment flexibility. The combination of our income statement growth and balance sheet strength yields an improving and what we estimate to be industry-leading return on invested capital. So as the global economy continues to gradually improve, we feel we're positioned well to take advantage of it. That concludes our prepared remarks this morning so I will open it up now to questions.

Question and Answer

Operator

— ***Operator Instructions*** — Your first question comes from the line of Judy Hong with Goldman Sachs.

Judy Hong

Just couple of questions from my end. First, just in terms of the industry pricing environment, I think you've talked about maybe some of the retail inventory that was boosted as price increases were going into effect. So can you just quantify some of the price increases that have been announced so far? And then when you talk about the industry volume being up 2% to 4%, and then you've got I guess the dollar sales up 3% to 4%, it just still doesn't seem like there's a lot of price or mix improvement going on with the industry as a whole. So just talk about how you think that, that will play out over the course of the next six to 12 months?

Donald Berg

In terms of – on the price mix part of your question, we've basically been seeing somewhere around ½% or a percentage point in the whole price mix arena. So that's what's driving the difference in terms – at least what we've seen and what we're seeing in the syndicated data is fairly consistent there. In terms of what we're seeing as far as pricing goes, we've talked a lot about being very targeted and very specific on our price increases or how we're approaching pricing overall and that continues to be true. And so it's really very much on market-by-market, size-by-size. Look at the marketplace and where we have the opportunity to take some price increases we've been doing it. There are – just as one example, there are a couple of markets in the United States that have taken price increases on the 175 size, which drove some buy-ins, particularly in some of the large chain accounts. And that's a lot of what we saw in terms of the difference that we noted in the earnings release, in terms of what happened to Jack Daniel's in the U.S., in terms of our reported depletions versus kind of what we anticipate the real takeaway growth rate was around 2%.

Paul Varga

Judy, I'd add as well that Don cited some of the statistics, I think just to be real specific on what those improvements were, I'll just use the data that was reported through Nielsen, through February 5 is the data we have that's most recent in front of us. Where the 12-month volumetrics for distilled spirits were plus 2.9 and the dollars were 3.2 so you had a subtle, maybe 3/10 improvement associated with price or mix. And then when you get to the three months, however, it was 3.7 on volume so an improvement versus the 12-month and the dollars were 4.4, so a 7/10 improvement. So you're starting to see a little bit more price mix on top of slightly higher volumes in these last 90 days. So we expect those would point to I think improvement in the United States on both fronts.

Judy Hong

Okay. And then just from your brand portfolio perspective, certainly, it's encouraging to see Jack growing again in the U.S. market. But your total portfolio, I think you said was down slightly from a depletion perspective when the industry is growing that 3% to

4%. So certainly, Southern Comfort has been an issue. Do you think you have the right advertising spending level or innovation pipeline on SoCo [Southern Comfort] and the rest of your portfolio to really get your overall portfolio on par with the industry growth rate going forward?

Paul Varga

In terms of the full composition of the way you asked that, I think the answer is not quite yet. We definitely have been working on the innovation front. I think on the marketing communication side of it, we're continuing to try to find the right messaging at the right weight. So you'll go back to the, I think, some just basic messaging and also really continuing to re-evaluate the marketing mix. And as we're sitting here preparing for FY '12, you can imagine the kinds of conversations we're having about how to get Southern Comfort going. I will say there continues to be a lot of competition in this flavored brown spirits arena. And so I don't know how easy it will be but we clearly intend through innovation, investment and through alterations in our marketing communications to try to take another step forward on Southern Comfort. We're also being hampered a little bit by our performance of our popular priced whiskeys as well, the Canadian Mist early attempt. So when you look at it volumetrically, they can pull the portfolio down as well because they're not performing up to where we want them to be and they're fairly good-sized volumetric brands. So I think it's a combination of Southern Comfort and maybe examples like I'm giving in popular priced spirits that are holding us back relative to the overall spirits market. But I will say the one thing we saw in the quarter that was a real, I feel, boost for a company like Brown-Forman which is – is whiskey skewed is the three-month dollar growth trend on bourbon was noticeably higher. So over the – basically, the mirroring Brown-Forman's quarter, the November, December and January period, actually bourbon outgrew vodka, which is a rarity over these last many years. And so that's an impressive thing in terms of – for a company such as us, so we just got to participate in that more fully is the way I would view that. But I think versus what we were seeing back last summer where the brown spirits were not growing near as much as vodka and some of the white spirits, that was maybe an improvement on that front over the holiday period.

Operator

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

Lauren Torres

Question on the impact of the retail inventory increase in the quarter, just curious if you could quantify that in any respect, if that was attributable to just the environment getting stronger or is there a buy-in that we think is basically going to borrow from your fourth quarter? And secondly, too, as you talk about improvement in the U.S., you talked about price points. Curious about channel trends. You're seeing frequency of off-premise trends picking up similarly is traffic improving on the on-premise at this point?

Donald Berg

Lauren, on the buy-in, the retail – the distributor buy-ins, we end up taking out as part of going to our underlying figures and so what we're really talking about here is at the retail. And when you to look at the retail buy-in for the quarter, it was primarily in the U.S. or a couple of other markets where we saw some buy-in, it was primarily in the U.S. And it was, as I mentioned before, pretty much all around some chain buy-in activities around price increases. And so history would suggest that you could expect to give back in the next quarter as a result of that, if they end up taking their inventory levels back to kind of a normal rate. So at this juncture, we're anticipating that, that might happen. Tell me what the rest of your other question.

Paul Varga

The channel.

Donald Berg

Yes. When we look at the on-premise versus the off-premise, the on-premise has been pretty much up and down throughout the whole fiscal year. There are certain months where you start to get hopeful that the on-premise is starting to turn around, and then you'll give it back over the next couple of months and it's been pretty much that way. When you step back and you look at it over the course of a 12-month period, the trend at this juncture looks like it's about flat, which would be an improvement from where it was a year ago but it's certainly not getting back to the kind of robust growth that you're looking for. And so basically, the growth that we're seeing within the spirits environment is really being driven by the off-premise still at this juncture.

Paul Varga

And as I said, that's been accelerating here in more recent months.

Lauren Torres

Okay. And I'm not sure if this is a fair comparison, but the beer companies seem a bit more cautious compared to some of the comments you're making today with respect to the remainder of this year and maybe even looking into early next year. Talking about with unemployment rates still being high, maybe getting flat volumes at best. I guess this could be a long discussion but comparing what we're seeing in spirits versus the year, do you think there's very notable differences in the spirits category that we should expect this 2% to 3% growth being that much more easily achievable than what we're seeing in beer, which is more flattish?

Paul Varga

I don't know if it will be easy, but we certainly would observe the same thing that – it sounds like you've been hearing or in some of the statistics you may been looking at which is that wine and spirits from a consumption standpoint have been leading the last couple of years the beverage alcohol business in the United States. I can't speak – I haven't seen the global figures on that. But if you were using the U.S. as a surrogate, wine actually, from a consumer takeaway standpoint, is slightly ahead of spirits and both of them noticeably ahead of beer. Those were trends, of course, we saw from '97 through to about '07. There was a period where I think those leveled out but it looks like it's, for a variety of reasons, maybe continued back on that path where beer's losing share beverage alcohol in the U.S.

Operator

The next question comes from the line of Ian Shackleton with Nomura.

Ian Shackleton

Two questions really. I wanted to make sure I understood fully what you were seeing around the wine sale. And it sounds like you would expect to keep some of the profit from the Wine business in 2012 as you distribute the product for part of the year under an agency situation. But by 2013, the effect of that will all have gone. And the second question was really sort of looking at your year-end balance sheet, it looks to us that you're going to be pretty ungeared despite the special dividend and despite the buyback you've done this year. What are your thoughts about cash utilization going forward?

Donald Berg

Sure. On the second part, Ian, we're basically at this juncture at the cash, so we're just looking at this stage at using it for just general business purposes. We haven't announced anything in terms of any kind of capital structure changes at this juncture. In terms of the transition, we – the agreement that we have with Concha y Toro, we will assist them on agency basis over the course of the next – of the first nine months. We're assuming an April close. It could be less than that, but that's the maximum that we've agreed to at this juncture. And so you're right, you'll see some transition into what the full effect will be as a result of taking these brands out of our portfolio. But by fiscal 2013, we'll be at a position where everything will be behind us.

Ian Shackleton

And just going back to the first point there. I know historically you said you wouldn't rule out acquisitions if you could find the right asset at the right price. But clearly, there's a lot more availability particularly of local spirit assets at the moment. Is that something that you would look more closely at?

Donald Berg

I don't know about more closely. We've talked quite a bit about just how we approach the whole capital structure in terms of looking first at investing behind our current business and then also keeping an eye towards dividends and what we're able to get back to our shareholders through dividends. And then acquisitions is a very key component that we look at, and we're constantly on the lookout for those kinds of things that we think would do very well in our hands, whether they be local market opportunities or brands that might have multi-market opportunities in them. So I don't really see any change in terms of how we think about acquisitions or how much we're looking for acquisitions. We have a couple of – we will have hopefully a couple of million more dollars in our bank that we'd be able to use. But in the scheme of things, it's really a relatively small amount when you think about our debt capacity and what we would have available for any future acquisitions that we think would work well for us.

Paul Varga

Ian, I might add on the local acquisition. I mean, oftentimes, when we go to consider those, it really will be a reflection on what our ambitions are for the particular country oftentimes and how critical is that country to Brown-Forman's future success. And in our recent past, we've actually seen when we've gone it would be, for example, the Herradura acquisition, it was of course an important acquisition for Brown-Forman to enter that category but it also helped us to develop a platform in Mexico and the Finlandia acquisition was similar for Eastern Europe, most notably for Poland before. So there are a lot of factors you'll consider when thinking about local acquisitions. In most cases, there was real attractiveness as well because the brands we were buying we thought had real potential outside those countries as well but there are some very attractive local businesses, particularly at that premium development around the world that I think a lot of people are starting to pay a lot more attention to.

Operator

— ***Operator Instructions*** — Your next question comes from Thomas Russo with Gardner.

Thomas Russo

Paul, on the comments around Jack Daniel's, it's intriguing what you had said that the Jack Daniel's Tennessee is up 7%, but the rest must have grown considerably faster to get the overall up 9%. And then within Jack Daniel's Tennessee, the difference between the domestic volume growth versus international might suggest that international grew far more vigorously than the 7%, given domestic. Can you just play around with the rest of the portfolio's growth rate and then the difference between domestic and international on Jack Daniel's Tennessee?

Paul Varga

Sure. You're correct on both assumptions. I think in prior calls, we would have been highlighting and it would be evident in some of the exhibits in our release how well the other expressions are doing, notably the ready-to-drink brands that is offered in a variety of different ways around the world. But also, the super premium expressions, particularly Gentleman Jack over these last many years. So those are lifting the overall portfolio. And of course they convert nicely, particularly the super premium whiskeys convert very nicely as it relates to upgrading from a portfolio mix within the Jack Daniel's in terms of helping the sales rate. And then you're also correct that the international markets are significantly outpacing the U.S. growth rates in order to produce the kind of growth we're reporting year-to-date. It's been a really exciting and in some levels, even surprising year in terms of the volumetric growth that Jack Daniel's is seeing. We take note of the way that a lot of consumer products companies generally are talking about places like Europe, and we're very enthused by the response we're getting to Jack Daniel's Tennessee Whiskey. It also happens to be markets in Europe and other places around the world where our RTDs are doing fairly well. So we think a portfolio approach to this is really important. We think it's critical, as well as been helpful to our particular efforts because of the efficiency that comes from having these branded ready-to-drinks in the marketplace. We consider that advertising as well as a contributor to sales growth rate.

Thomas Russo

And then three of the countries that you called out as part of the developing emerging, Turkey has had a change of ownership, and then you had the Middle East and North Africa seem to have a change of political ownership. Can you talk about your prospects in Turkey once the transaction announced closes? And then also disruption in Northern Africa and Middle East?

Paul Varga

Well, I mean, Turkey has had its, for us, has had its fits and starts over the last many years. I mean, it is almost one of the classic emerging markets where you'll be way off one year and up another. But at the last 18 months or so, we've seen – particularly, what we've seen in the local market in terms of brand building, a really super response to the Jack Daniel's effort. I mean, we think Jack Daniel's has, I mean, just wonderful potential in Turkey and it also carries over. I mean, the Middle East, North Africa comments, I mean, in the aggregate they start to add up to volume but they're individual countries and we've been at that for a while. At the time we talked about this, I think, on prior calls. It's this whole region where up and down, Eastern Europe, we're starting to see the Middle East, North Africa, you go over to India and parts of Asia, there's just, Jack Daniel's has this appeal globally and it can be interrupted, of course, by global recession. But the breadth of growth that we've been experiencing is one of the main points we wanted to make. From quarter-to-quarter, you'll call out various countries because they'll have a particularly good quarter. But when you stretch this back over three to five years and look how broadly Jack Daniel's is accomplishing its growth, it really is sort of an impressive statistic. That's why we tend to want to call it out. And if we view market share data in a lot of these markets as well, we don't think we're even close to where we would declare that we've maxed out in some of these countries. I mean, we still think there's not only distribution upside but also in a lot of these places where the emerging middle classes are going to help consumption, we think Jack Daniel's will benefit quite a bit.

Operator

At this time, there are no further questions.

Ben Marmor

Well, thank you DeShanda. We do not have any closing remarks today so thank you, everyone for joining in.

Paul Varga

Thanks, everyone.

Donald Berg

Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference call. You may now disconnect.