

Brown-Forman delivers strong year-to-date net sales growth



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Brown-Forman Corporation has reported financial results for its third quarter and nine months, ended January 31, 2023. The following summary is based on a press release shared by the company:

For the third quarter, reported net sales increased 4% to \$1.1 billion (+5% on an organic basis) compared to the same prior-year period. Reported operating income decreased 50% to \$173 million (-11% on an organic basis) reflecting lower gross margin, a non-cash impairment charge of \$96 million for the Finlandia brand name, and higher operating expenses including certain post-closing costs and expenses in connection with the acquisitions of Diplomático and Gin Mare.

Diluted earnings per share decreased 61% to \$0.21 in the quarter, driven primarily by the drop in reported operating income and a \$27 million pension settlement charge.

For the first nine months of the fiscal year, reported net sales increased 8% to \$3.2 billion (+12% on an organic basis) compared to the same prior-year period. In the first nine months, reported operating income decreased 13% to \$829 million (+9% on an organic basis) due to the items mentioned above.

Diluted earnings per share decreased 16% to \$1.20 due to the decrease in reported operating income and a \$27 million pension settlement charge.

“Brown-Forman continues to deliver strong net sales growth year-to-date, as we executed our strategic priorities and invested boldly behind our brands and our people.” He added, “Even as trends begin to normalize, we believe our business will remain robust given the premiumization of our portfolio, the health of our brands, and the resolve of our people. We also believe our long-term perspective enables us to navigate the changes of our world and drive consistent, reliable growth year after year,” said Lawson Whiting, Brown-Forman’s President and Chief Executive Officer.

Year-to-date fiscal 2023 highlights

- The company delivered broad-based reported net sales growth across all geographic clusters, with travel retail channel driven by strong consumer demand and the continued rebuilding of distributor inventories.
- Portfolio growth was led by:
 - Jack Daniel's Tennessee Whiskey with reported net sales growth of 6% (+12% organic).
 - Continued very strong double-digit growth of Woodford Reserve as reported net sales increased 34% (+35% organic).
 - Ready-to-Drinks (RTDs) with double-digit reported net sales growth of 12% (+15% organic) fueled by New Mix and Jack Daniel's RTDs.
- Reported gross margin contracted 170 basis points driven by inflation, supply chain disruption costs, and foreign exchange, partially offset by favorable price/mix and the removal of tariffs.
- Reported advertising expense increased by 20% (+24% organic).

Year-to-date fiscal 2023 market results

- Reported net sales growth was broad-based across all geographic clusters and the travel retail channel reflecting the strength of the brand portfolio, strong consumer demand, and the continued rebuilding of distributor inventories. This rebuilding of distributor inventories reflects the easing of supply chain constraints compared to the same period last year.
- Emerging markets' reported net sales increased 18% (+26% organic) led by the growth of Jack Daniel's Tennessee Whiskey in Brazil and United Arab Emirates, and continued double-digit growth in Mexico fueled by New Mix.
- As trends began to normalize, reported net sales in the United States grew 4% (+4% organic). This growth was driven by higher volumes of Woodford Reserve, partially reflecting an estimated net increase in distributor inventories, and higher prices across the portfolio led by the Jack Daniel's family of brands. Lower volumes of Jack Daniel's Tennessee Whiskey and Korbel California Champagne partially offset the growth due to an estimated net decrease in distributor inventories.
- Developed International markets' reported net sales increased 5% (+13% organic) due to volumetric growth and higher pricing from Jack Daniel's Tennessee Whiskey and volumetric growth of Jack Daniel's RTDs. Reported net sales growth in developed international markets was led by Italy, Korea, and Belgium.
- The travel retail channel sustained strong growth with a reported net sales increase of 48% (+52% organic) driven by higher volumes across much of the portfolio as travel continued to rebound.

Fiscal 2023 outlook

The company anticipates strong growth in fiscal 2023 despite global macroeconomic volatility and geopolitical uncertainties. The rebuilding of finished goods inventories, due to the easing of supply chain constraints, positively impacted results during the first nine months of fiscal 2023.

For the full year, the effect of the estimated net change in distributor inventories could range from no impact to a moderate unfavorable impact on results as the company laps significant inventory rebuilding during the fourth quarter of fiscal 2022. Accordingly, the company updates guidance for

fiscal 2023 and expects the following, assuming that there will be no impact from an estimated net change in distributor inventories for the full year:

- Reflecting the continued strength of our portfolio of brands, strong consumer demand, and the return of inventories to more normalized levels, we now to expect organic net sales growth in the 8% to 10% range.
- For the full year, we continue to expect reported gross margin to be consistent with the first half of fiscal 2023.
- Based on the above expectations, we continue to anticipate high-single digit organic operating income growth.
- We continue to expect our fiscal 2023 effective tax rate to be in the range of approximately 22% to 23%.
- Capital expenditures are planned to be in the range of \$190 to \$210 million.