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CFA Institute Research Challenge

University of Kentucky - Student Research

Consumer Goods Sector, Beverages – Wineries and Distilleries Industry

New York Stock Exchange

Brown-Forman

Date: 2/5/16 Ticker: BF.B
Current Price: $96.41

Recommendation: BUY
1 Year Target Price: $102.31 (6.12% Upside)

Market Profile	
Closing Price	$96.41
52 Week Price Range	$86.71-$111.06
Average Daily Volume	626,094
Shares Outstanding	201.35M
Market Cap	$20.15B
Dividend Yield	1.41%
P/E (ttm)	29.54
P/B (ttm)	10.56
Free Cash Flow Yield (ttm)	2.81%
EV/EBITDA (ttm)	21.11

Recent News

- 1/28/16: **Board of Directors Approve New Share Buyback Plan**. The Board authorized a $1 billion share repurchase starting April 1st 2016 to March 31st 2017.
- 1/14/16: **Brown-Forman Announces Sale of the Southern Comfort and Tuaca Portfolio to Sazerac.** The Company agreed to sell both brands for $543.5 million and will recognize a one-time operating gain of about $475 million in the next quarter.
- 2/4/16: **Labor Union and Brown Forman Clash.** About 200 hourly employees represented by the Teamsters rejected the company's latest contract proposal. The union filed a complaint against Brown-Forman accusing the company of moving forward with the proposal anyway. Negotiations were set to expire March 1st.
- 1/27/16: **Woodford Reserve Reinvents With New Limited Offering Called "Frosty Four Wood."** Record low temperatures in 2013 helped create this unique blend.

Investment Summary

We are issuing a **Buy** recommendation for Brown-Forman class B stock. A target price of $102.31 over a one-year time horizon is a 6.12% increase over the closing price on February 5, 2016 of $96.41. Our recommendation is driven by the strong brand recognition of Jack Daniel's, long term focus of management, and international presence.

Competitive Advantages of Brown-Forman

Brown-Forman operates a magnificent business built on a single core brand: Jack Daniel's. The Jack Daniel's brand has global scale and a massive audience, as evidenced by 21.3 million nine-liter cases sold in the most recent fiscal year. Brown-Forman knows the brand works and can continue to produce large volumes of its core product. Additionally, the company has a strong international distribution network. Over 40% of sales are abroad, and the global scale allows the company to reach customers quicker and supply more widely available product than other whiskey brands. Finally, the company has strengthened its operations by purchasing its own cooperages. Whiskey requires new oak barrels and such vertical integration reduces reliance on suppliers, improves quality control, and allows the company to maintain competitive pricing.

Strength of the Jack Daniel's Brand
The brand, which has been in the Brown-Forman portfolio since 1956, is one of the most recognized brands of American Whiskey in the world. The brands variants encompass a variety of price points, from "premium" to "ultra-premium", and as of Fiscal 2015 represented 60% of Brown-Forman's total sales volume. The success of "Black Label" has led to a variety of spin offs including Jack Honey and Jack Fire to continue to expand the cornerstone of the Brown-Forman portfolio.

Family Leadership and Management Are Long-Term Focused
The Brown Family controls a majority of the company's voting stock (Class A shares). The Family is reluctant to relinquish control, and instead is focused on creating a business sustainable over the long-term. The family's emphasis on long-term decision-making has carried over to management. The CEO, Paul Varga, emphasizes a long-term outlook on the business in company publications and interviews. He has been with the company since he was an intern in college, which also illustrates his company knowledge. Management's stewardship has led to Brown-Forman becoming an industry leader across a variety of financial metrics.

Diversification Through Geographic Regions
Instead of diversifying through various product lines, Brown-Forman diversifies through geography. The company's revenue split is 43% domestic and 57% international. They sell in over 160 countries, so if one country's collective tastes change, the company can shift focus and marketing efforts to another with positive trends. Brown-Forman possesses the scale to take advantage of positive trends that other competitors cannot. This geographic diversification also limits impact from the increasing small volume niche distilleries. While these may pose a limited threated in the United States, they do not have the ability to compete with Brown-Forman on a global scale.

Business Description

Founded in 1870 by George Brown, Brown-Forman has a nearly 150 year history of producing premium distilled spirits, especially American Whiskey. The Brown-Forman portfolio of spirits contains tequilas, wines, vodkas, liqueurs, whiskey, which are sold in over 160 countries. Brown-Forman is anchored by its iconic Jack Daniel's line of American Whiskey, including the growing Jack Honey and Jack Fire brands.

Brown-Forman's brand portfolio is concentrated around its core brand, Jack Daniel's Tennessee Whiskey, and its variations. The company sees a large growth opportunity with its premium whiskey and bourbon products while continuing to support its vodka, tequila, and champagne brands (Finlandia, el Jimador, and Korbel, respectively). On January 18, 2016, Brown-Forman divested its Southern Comfort and Tuaca brands for $543.5 million. Southern Comfort accounted for 6.2 percent of Brown-Forman's total cases told in fiscal 2015. Continued focus on its key brands at premium and super premium price points is the key distinguishing factor between Brown-Forman and its key competitors, Diageo and Constellation Brands.

Industry Information and Competitive Position

In 2013, the industry's revenue surpassed $141 billion and accounted for nearly 1 percent of the United States total GDP. Distilled beverages themselves are consumer staples, and thus are less susceptible to unfavorable reactions to economic downturns.

While the industry does experience consistent growth, its reliance on consumer preferences tends to cyclical trends spanning multiple decades. The 1950s through mid-1970s saw consumer demand for American whiskey sales to grow from approximately 60 million cases in 1952 to over 100 million cases by 1975 (Appendix E). However, as a new generation of drinkers emerged, they began to spurn their parents' preferences and by the 2000s, sales of American whiskey had fallen to a low of 40 million cases per year. Again, the industry experienced a generational shift and, through 2013, sales of American whiskey have been on rise and have almost returned to the same levels as the beginning of the last American whiskey boom.

Diageo, the market leader in the distilled beverage industry, takes on a success by saturation business model. Diageo's brand portfolio contains liquors of all types across multiple price points; ranging from cheaper vodkas like Smirnoff, to super premium scotch whiskeys like Johnnie Walker XR. Constellation Brands follows the same strategy as Diageo, while also having a significant presence in the beer industry with Corona and Modelo. Unlike its competitors, Brown-Forman does not have a strategy of creating products across the pricing spectrum. Instead, the company focuses on its premium brands and has continued down the path of "premiumization." Brown-Forman focuses on its core competency of whiskey, while having a minor presence in the other segments of the industry.

Brown-Forman also sees looming competition in the United States from the large number of upstart American Whiskey distilleries. Since 2010, American Whiskey has seen sales volume grow by nearly 7.3 percent annually, and the number of craft distilleries have increased over 1000 percent over the past ten years, according to the American Craft Distillers Association. While these brands may carve out some of the niche whiskey market, Brown-Forman's management believes the brand power of Jack Daniel's will be enough to resist the impact of so many new entrants to the market.

Brown Forman stands out against its competitors in terms of profitability and financial leverage. Brown-Forman's three main competitors are Diageo, Constellation Brands, and Pernod Ricard. Brown-Forman leads all of its competitors in operating margin at 33.3%. The next closest was Constellation with an operating margin of 26.8%. Brown-Forman's net margin of 22% is close to its competitors operating margins which is a great strength for the company (Appendix F). The distilled spirits industry tends to having low debt to equity ratios, but Brown-Forman stands out as the second lowest with a ratio of .9.

Brown-Forman also has very strong return on assets and return of equity with their numbers being 15.9% and 39.2% respectively. Brown-Forman leads its competitors in these categories in most cases by a wide margin (Appendix F). Brown-Forman has also been able to produce consistent free cash flows year of year. The industry itself is pretty consistent it terms of free cash flow. Overall Brown-Forman leads its competitors in most profitability measures and this is one of the company's greatest strengths.

Family Control and Management

Since inception, Brown-Forman has been a family-controlled enterprise**.** The 2015 Proxy Report states that the Brown family controls at least 67.4% of the firm. Brown-Forman has a dual-equity structure with Class A and Class B shares that both have equal ownership status, however only the Class A stock has voting rights and are primarily owned by members of the Brown family. Normally, shares with no voting rights would be less valuable due to lack of influence in company affairs. However, in the case of Brown-Forman, the Class B shares are more valuable due to the lack of voting rights. The Brown family holds a long-term perspective on the business and, with voting control, has not sacrificed long-term performance for short-term results. A long-term perspective is important and an aligned management team removes the potential risks and costs of pressure from select short-term investors.

The Brown family has created a strong environment for management to act concurrent shareholder interests. Key management positions, including CEO Paul Varga show the same long-term commitment to the company as members of the Brown family. Annual reports continually focus on long-term horizons, and management ownership has increased consistently over recent years (Appendix G).

The Board also has sensible compensation criteria. Management is rewarded through both cash incentives based on underlying operating income growth (adjusted for currency exchange and estimated net change in distributor inventories) and equity-based incentives connected to total shareholder return. Cash incentives are determined on a yearly basis and after three-year periods. Equity-based incentives are vested over three-year periods. Management compensation details are shown in Appendix H.

Operating income growth is a strong metric. Operating income growth cannot be achieved through financial manipulation, but only through the effects of a strengthening business: increased sales and improved margins. The chart below details the compensation plan.

Investment Risks

Brown-Forman, like many other consumer goods firms, faces risks associated with economic conditions, consumer preferences, its supply chain, and the competitive environment. The alcoholic beverage industry carries its own unique risks such as governmental regulation and uncertainty in predicting future demand. The risks we find most pressing are detailed below.

Changing Consumer Preferences
Because success in this industry is highly consumer driven, changes in consumer preferences could adversely affect business results, especially if Brown-Forman lacks the ability to adapt. Because this is a highly competitive market, if Brown-Forman cannot match consumer tastes, someone else will. The global saturation of Jack Daniel’s potentially alleviates some of this risk. If consumer preferences change in one geographic market, Brown-Forman can still generate revenues from regions whose tastes remain the same. Even factors such as the source or type of the product can play a role, as has recently happened to the beer market.

According to the Brewer's Association, "saw an 18 percent rise in volume and a 22 percent increase in retail dollar value," in 2014 while the total beer market only grew at 0.5% in the same time period. This could happen in the market for spirits as well if small, local distilleries become preferred to products produced by larger companies. The consumer palate is also subject to change. The popularity of brown spirits such as whiskey and bourbon has diminished before and was replaced by a growing consumer preference to clear spirits like vodka or gin, as can be seen in the graph from the Beverage Information Group Handbook (Appendix E).

Prediction of Consumer Taste Preferences

Forecasting tastes is challenging. From Brown-Forman's actions, management believes people will drink more brown spirits in the future. We question the company's ability to accurately determine the future of spirits. For example, behind Jack Daniel's, Southern Comfort and Finlandia were the most emphasized brands about five years ago. Today, Southern Comfort was recently divested and Finlandia is struggling— both a far cry from management's initial intentions. Lacking the ability to drive new alcohol trends may pose a risk in the long-term.

Decreased demand for alcoholic beverages could even result from something as unpredictable as trend changes. The reason for these trends can come from a variety of sources such as an increasingly health conscious population, changes in social norms or a decrease in the social acceptance of alcohol similar to what the cigarette industry has faced over the past few decades. The risk of the legalization of marijuana could reduce alcohol growth rates as it competes for share of consumers' discretionary income. Population shifts are also a threat if the main consumer segment for beverage alcohol negatively changes. Forecasts in the United States indicate a slight decrease in the population segment aged 21 to 24 for several years after 2015, which is a worrying sign.

Distillery Saturation

Competition is a threat in any industry, but it is especially fierce in this one. With low barriers to entry, the industry is being swarmed with many new entrants vying for a piece of the market. According to the Indianapolis Business Journal, craft distilleries are growing exponentially. They stated, "[that] in 2000, there were only 24 such operations in the United States. The number rose to 234 by the end of 2011, and 580 in 2014." This growth can be seen in the graph from the American Distiller Institute located in Appendix I. It should be noted that Brown-Forman has the scale and brand recognition to outcompete many of these competitors, but it cannot be emphasized enough that any change in consumer preference away from big spirit producers for a more localized distiller would adversely hurt performance.

Craft Distilleries and Market Saturation

Brown-Forman relies on whiskey, which has experienced a resurgence in the last decade, for a majority of its sales. Brown-Forman had the capability to meet rising demand, but with an optimistic spirit outlook, new competitors appeared. According to Fortune, the number of craft distilleries has increased nearly twentyfold from 1999-2014. As more new supply comes online, distillers will take advantage of the ease of domestic distribution, which will likely create pricing pressure on some of Brown-Forman's products. Eventually, more distillers will export supply to international markets, creating further competitive pressures on Brown-Forman.

Dependence on Jack Daniel’s Brand

Brown-Forman’s high level of dependence on the Jack Daniel’s family of brands raises another concern because it is the primary driver of revenue and growth. According to the 2015 10-k, out of 35.5 million 9-liter cases sold, 21.3 million were from the Jack Daniel’s brand. Any adverse events to the Jack Daniel’s brand or even simply a trend away from whiskey would severely hurt the company and shareholder value. Jack Daniel’s success is highly dependent on consumer perception and the reputation of the brand must be maintained. Even an isolated event could hurt the brand if it receives wide publicity.

Predictability

The inherent uncertainty in supply and demand forecasting adversely affects the business and is compounded as the age of the product increases. Brown-Forman must be able predict demand years in advance in order to have adequate supply, but not oversupply. Some products take years to make and might not be available when demand is high. Some of the risk of having an excess supply can be mitigated by Brown-Forman’s ability to further age some of its products to sell when demand returns.

Supply Chain Concentration

Risks in production and in the supply chain must also be considered. Any production facility disruption could adversely affect the business. Brown-Forman centralizes the location of many of its facilities, which increases efficiencies, but it also increases the potential damage Brown-Forman would face if there were a catastrophic event in the vicinity of those facilities. The Jack Daniel’s family of brands and Finlandia Vodka are produced at a single location and any physical damage, disruption, or failures at these locations or the other major distillation or bottling facilities could cripple the company. Aged and maturing products are also stored at various warehouses and they too are at risk and the destruction of these would cause Brown-Forman to be unable to meet demand for potentially years. During this time, consumers of a particular product, Jack Daniel’s for example, would find substitutes which risks consumers changing their taste and preferences thereby diminishing brand equity.

Additionally, the ability to make and sell products depends upon the availability of the inputs for production such as product ingredients, finished products, wood, glass, bottles, cans, bottle closures, packaging, and other materials used to produce and package them. A single producer supplies most of the company’s glass requirements and only a few glass producers make bottles on a scale sufficient for Brown-Forman’s requirements. If any of these were to become unavailable, production would be hampered. Accesses to resources such as water, one of the major product components, is critical in keeping production going. Droughts, along with other events e.g. fracking contamination, could affect the water supply of water in key production localities in Tennessee, Kentucky, California, Finland, Canada, and Mexico.

Government Regulation

Another industry wide threat government intervention. Brown-Forman’s global presence extrapolates this risk. Increases in regulation could complicate operations. The business is subjected to high amounts of regulation to ensure safety, but other regulations are either present or a distinct possibility. Climate change regulation regarding use of water, fuel emissions, or other environmental issues could increase distribution and supply chain costs. Significant additional labeling or warning requirements that raise health or safety concerns or limitations on the availability of alcoholic products could inhibit sales by making product undesirable. Investigations could disrupt business operations and might provide negative publicity especially if they resulted in product recalls. Other product liability claims could materially and adversely affect sales. Litigation and legal disputes could expose business to financial and reputational risk.

Changes in laws presents further uncertainty. Governments may prohibit, impose, or increase limitations on promotional activities, the times or locations where beverage alcohol may be sold or consumed, or adopt other measures that could inhibit the sale and distribution of alcohol. For example, some countries have banned all television, newspaper, magazine, and Internet advertising for beverage alcohol products, which could cause a decline in consumer awareness. Governmental attitude on taxes is another factor that affects the alcohol industry along with nearly all other types businesses. An increase in taxes would directly cut into the bottom line. These could be direct taxes, such as the corporate tax rate, or indirect taxes, such as excise taxes, sales tax, property taxes, and payroll taxes. Even changes in tax rules may harm financial results if various exemptions and tax deductions are eliminated or if accounting practices used for taxes are changed.

Financial Analysis

Balance sheet

Brown-Forman is in good financial health. The company has historically generated strong free cash flows and has been able to increase FCF year-over-year. The balance sheet (Appendix A) is strong, and the company has very little leverage supported by a debt to equity ratio below 1. Current assets totaled 2.25 million while current liabilities totaled 0.95 million for a current ratio of 2.35.

Cash flow

Cash flow has been steadily increasing each year and we believe this factor is a key strength of Brown-Forman. In fiscal year 2015 Brown-Forman earned $608 million in cash provided by operations. After capital expenditures of $125 million this left free cash flows of $483 million (Appendix B).

Revenues and Costs

Brown-Forman's Income Statement (Appendix C) shows increasing revenues year-over-year since 2013 and in fiscal year 2015 revenues totaled $3.134 billion. We expect revenues to grow within the core brands such as Jack Daniel's. However, overall, revenues will fall as Brown-Forman recently sold their Southern Comfort and Tuaca lines. We expect pricing power to remain strong in the Jack Daniel's lines. Revenues and pricing power could see negative effects in an economic downturn as consumers look for cheaper, low tier brands. Jack Daniel's is a premium brand and Brown-Forman currently does not own any lower tier brands in their product lines.

Much of Brown-Forman's costs come from storage costs as their products are aged. These costs can be fairly predictable as there is usually not a drastic swing in production. In fiscal year 2015 Brown-Forman had an interest coverage ratio of 38.11. The company is very capable of making their interest payments and we expect this to continue as they have historically had a small amount of debt.

Dividends and Share Repurchases

Brown-Forman has paid dividends since 1985. Dividends have consistently increased to the most recent dividend paid on December 1, 2015 (Appendix D). An additional dividend for $0.34 was declared on January 28, 2016 to be paid on April 1, 2016. Brown-Forman has also paid several special dividends to return excess funds to shareholders, the most recent of which was in 2012. Additionally on March 25, 2015 the Board of Directors approved an additional $1 billion for share repurchases through March 24, 2016.

Valuation

Brown-Forman appears to us as a high quality company with strong brand equity, competitive advantages, and global growth opportunities. We classify it as an above-average company with an above-average future outlook. While stock valuations are mostly at or slightly above historical averages, we feel a favorable earnings outlook and strong cash flows are supporting factors. In fact, after posting 4.9% EPS growth in FY15, we believe growth could rise to 5.5% in FY16 and accelerate to 10% in FY17. In addition, we believe recent events/transactions (share repurchase plan, asset sale) could result in shareholder-friendly allocations of cash.

In each of the past five years, Brown-Forman shares have not failed to trade at a forward P/E multiple of at least 26x, and have reached a 31x multiple in FY15. Since that peak level, the current forward P/E multiple has contracted to 27x (mostly related to market weakness), while the earnings outlook has remained intact.

We feel future valuations can hold steady or increase slightly as favorable earnings are well received by the market (next six quarters are expected to produce year-over-year EPS growth of 6%-18%) and as the company executes on its recently announced $1 billion share repurchase plan and as the company uses the $543 million in coming asset sale proceeds. Future stock price appreciation could be in line with or slightly ahead of future EPS growth, in our view. With dividends, total return could be in the low double-digit percentages, by our estimate, which is our minimum requirement for an investment in Brown-Forman.

Brown-Forman's forward p/e is currently at 1.3x the multiple for the Consumer Staples sector, right at the average for the stock over the past 10 years. The forward multiple of 27x is above the ten-year median figure of 21x, but below the 31x mark reached in fiscal 2015. The 1.7x relative multiple versus the S&P 500 is above the 10-year median of 1.5x, but below the 2.0 figure reached in fiscal 2015.

The aforementioned positives (strong brand equity, competitive advantage, growth opportunities) are factors in commanding a premium,

The investment decision is ultimately based on a risk/reward tradeoff. We consider Brown-Forman a high quality company with strong cash flows, which have allowed for expansion of the company's product portfolio and geographic reach, while growing earnings and supporting an impressive dividend history. The pending sale of the Southern Comfort and Tuaca brands was a strategically sound move with broad management support, and we are confident in management's decisions related to the product portfolio and sales price it received. We believe concentration of faster growing and/or higher margin brands and products can result in continued earnings growth and generation of free cash flow. We feel the risk/reward relationship is favorable at this time.

Meanwhile, in regards to Brown-Forman's dividend, which currently yields 1.5%, we believe there is room to increase the rate and the payout ratio. The dividend was increased in November of each of the past few years, at upper single-digit rates, and we expect another similar hike in November of 2016. Furthermore, we believe the rate of increase could reach low double-digit rates given Brown-Forman's current payout ratio (in the upper 30%'s over the past few years) is below the Consumer Staples average (roughly 50% over the past few years). The expected proceeds from the planned asset sale could give the company the financial flexibility to consider such a move.

Indicated by the recent $1 billion stock repurchase plan, Brown-Forman's management believes that the stock is currently undervalued. In conjunction, the company's long term history of market leadership, earnings growth, consistently growing dividend payments, and a constant review of product portfolio as demonstrated by the recent divesture of the Southern Comfort and Tuaca brands, leads us to agree that there will be an upward market correction in the near future.

Our estimated strong future cash flows can allow for a variety of shareholder friendly actions, including the payment of debt, dividend payment and growth, strategic acquisitions and other share repurchase plans to reinvest in the business for internal growth opportunities.

For these reasons we are recommending a buy for Brown-Forman stock. We derived a target price of $102.31 by using a discounted cash flows analysis with an exit EBITDA multiple approach.

Appendix A—Balance Sheet

April 30,	2011	2012	2013	2014	2015	10/31/15
Assets						
Cash & Cash Equivalents	$567	$338	$204	$437	$370	$195
Accounts Receivable	514	484	557	578	593	737
Less Allowance for Doubtful Accounts	(18)	(9)	(9)	(9)	(10)	(10)
Inventories						
Barreled Whiskey	330	388	456	504	571	604
Finished Goods	150	159	177	187	200	251
Work in Process	120	115	137	144	121	124
Raw Material & Supplies	47	50	57	47	61	88
Total Inventories	647	712	827	882	953	1067
Current Deferred Tax Assets	48	36	29	33	16	18
Other Current Assets	218	188	213	256	332	341
Total Current Assets	1976	1749	1821	2177	2254	2348
Property, Plant, & Equipment, Net	393	399	450	526	586	619
Goodwill	625	617	617	620	607	606
Other Intangible Assets	670	668	668	677	611	608
Deferred Tax Assets	12	6	14	18	18	17
Other Assets	36	38	56	85	117	121
Total Assets	$3712	$3477	$3626	$4103	$4193	$4319
Liabilities						
Accounts Payable & Accrued Expenses	412	386	451	474	497	549
Accrued Income Taxes	32	10	10	71	12	16
Current Deferred Tax Liabilities	8	1	7	8	9	12
Short-Term Borrowings	-	4	3	8	190	303
Current Portion of Long-Term Debt	255	3	2	-	250	250
Total Current Liabilities	707	404	473	561	958	1130
Long-Term Debt	504	503	997	997	748	1229
Deferred Tax Liabilities	150	158	180	102	107	116
Accrued Pension & Other Postretirement Benefits	203	278	280	244	311	300
Other Liabilities	88	65	68	167	164	143
Total Liabilities	$1652	$1408	$1998	$2071	$2288	$2918
Stockholders' Equity						
Common Stock						
Class A	9	9	13	13	13	13
Class B	15	15	21	21	21	21
Additional Paid-in Capital	55	49	71	81	99	115
Retained Earnings	2710	3031	2500	2894	3300	3508
Accumulated Other Comprehensive Income (Loss), net of tax	(131)	(230)	(211)	(188)	(300)	(306)
Treasury Stock	(598)	(805)	(766)	(789)	(1228)	(1950)
Total Stockholder' equity	$2060	$2069	$1628	$2032	$1905	$1401
Total Liabilities and Stockholders' Equity	$3712	$3477	$3626	$4103	$4193	$4319

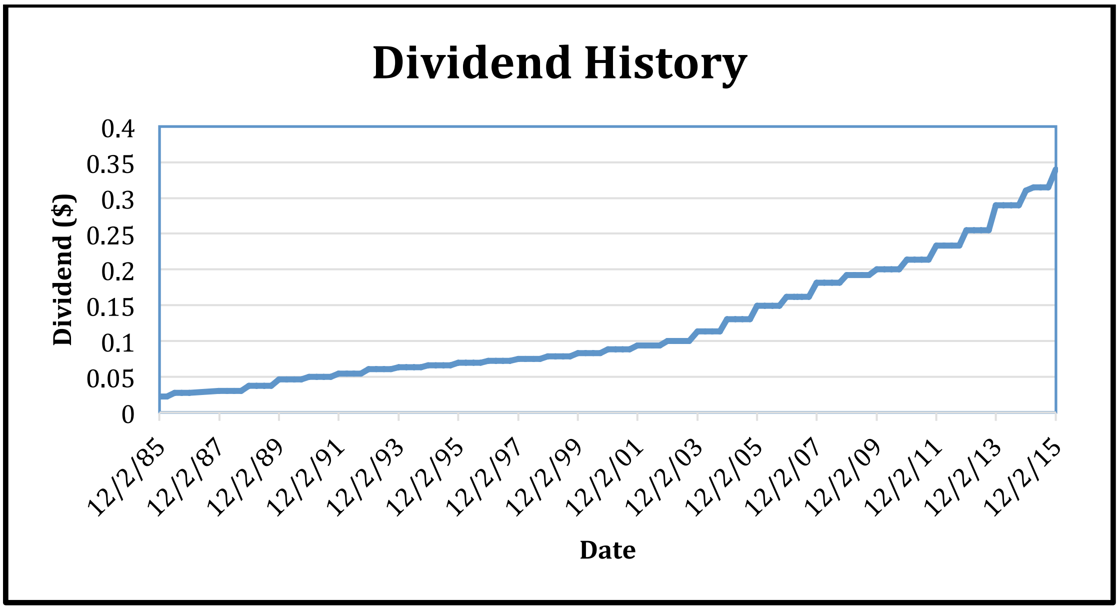
Appendix B—Statement of Cash Flows

Year Ended April 30,	2011	2012	2013	2014	2015	TTM
Cash Flows From Operating Activities:						
Net Income	$572	$513	$591	$659	$684	$682
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:						
Gain on Sale of Business	(38)	-	-	-	-	-
Depreciation & Amortization	56	49	51	50	51	53
Stock-based Compensation Expense	9	9	11	13	15	17
Deferred Income Taxes	27	53	26	(5)	6	16
Other, Net	(2)	1	2	1	9	-
Changes in Assets & Liabilities						(78)
Accounts Receivable	(57)	2	(65)	(34)	(50)	
Inventories	(42)	(88)	(105)	(67)	(102)	
Other Current Assets	(2)	19	(22)	(43)	(30)	
Accounts Payable & Accrued Expenses	21	19	58	31	64	
Accrued Income Taxes	7	(13)	17	60	(58)	
Noncurrent Assets & Liabilities	(24)	(48)	(27)	(16)	19	9
Cash Provided By Operating Activities	**527**	**516**	**537**	**649**	**608**	**699**
Cash Flows From Investing Activities:						
Proceeds From Sale of Business	234	-	-	-	-	-
Additions to Property, Plant, & Equipment	(39)	(58)	(95)	(126)	(120)	(127)
Proceeds From Sale of Property, Plant, & Equipment	12	-	-	2	-	-
Acquisition of Brand Names & Trademarks	(1)	(7)	(1)	(1)	(4)	(1)
Computer Software Expenditures	(3)	(3)	(1)	(2)	(1)	-
Cash Used For Investing Activities	**203**	**(68)**	**(97)**	**(127)**	**(125)**	**(128)**
Cash Flows From Financing Activities:						
Net Change In Short-term Borrowings	(188)	4	(1)	5	183	-
Repayment of Long-term Debt	(3)	(252)	(253)	(2)	-	-
Proceeds From Long-term Debt	248	-	747	-	-	490
Debt Issuance Costs	(2)	-	-7	-	-	-
Net Payments Related to Exercise of Stock-Based Awards	(7)	(10)	(16)	(19)	(14)	-
Excess Tax Benefits From Stock-Based Awards	8	8	17	10	18	-
Acquisition of Treasury Stock	(136)	(220)	-	(49)	(462)	(996)
Dividends Paid	(326)	(192)	(1063)	(233)	(256)	(262)
Other (Placeholder for TTM)						174
Cash Used For Financing Activities	**(406)**	**(662)**	**(576)**	**(288)**	**(531)**	**(594)**
Effect of Exchange Rate Change on Cash & Cash Equivalents	11	(15)	2	(1)	(19)	(17)
Net Increase (Decrease) in Cash & Cash Equivalents	335	-229	-134	233	(67)	(40)
Cash & Cash Equivalents, Beginning of Period	232	567	338	204	437	235
Cash & Cash Equivalents, End of Period	567	338	204	437	370	195
Cash Flow From Operations	527	516	537	649	608	699
Capital Expenditures	-43	-68	-97	-129	-125	-128
Free Cash Flow	**$484**	**$448**	**$440**	**$520**	**$483**	**$571**

Appendix C—Income Statement

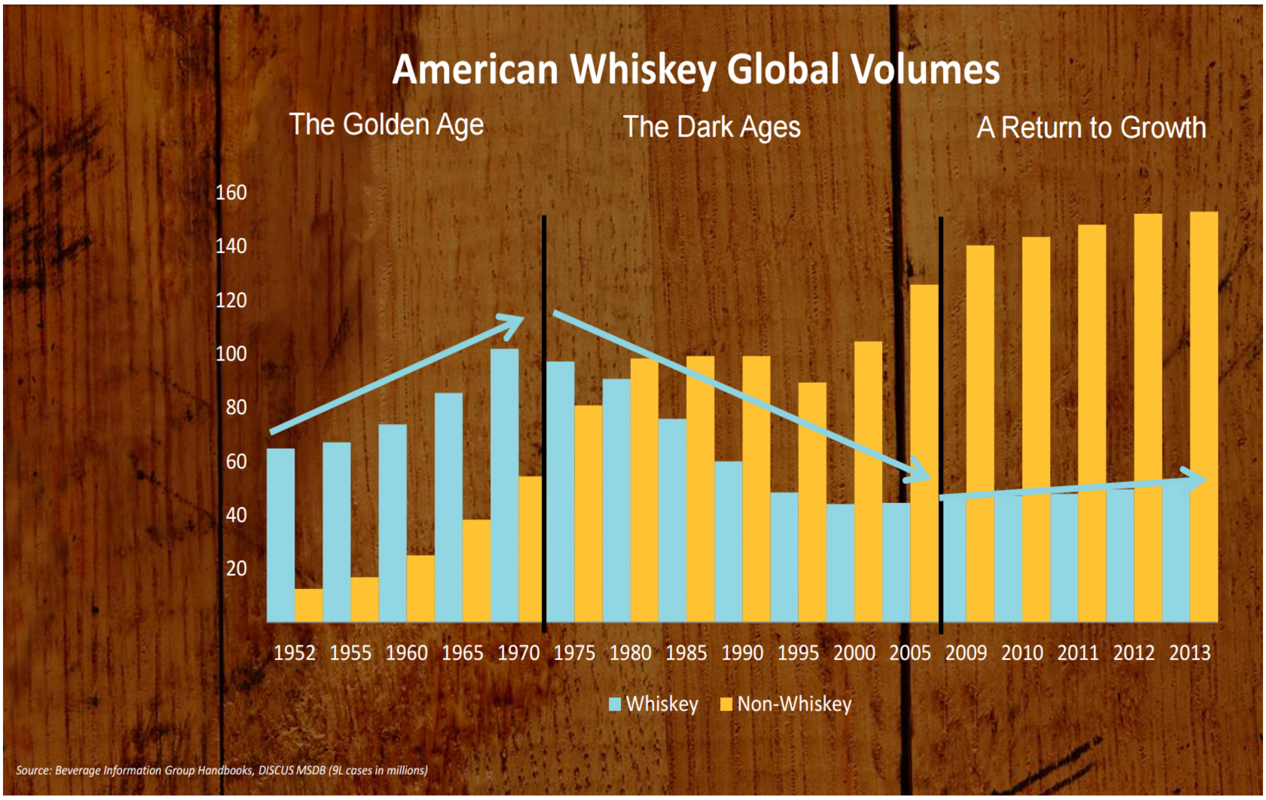
Year Ended April 30,	2011	2012	2013	2014	2015	TTM
Net Sales	$3,404	$3,614	$3,784	$3,946	$4,096	$4,035
Excise Taxes	818	891	935	955	962	932
Cost of Sales	862	928	894	913	951	948
Gross Profit	1,724	1,795	1,955	2,078	2,183	2,155
Advertising Expenses	366	395	408	436	437	423
SG&A Expenses	574	610	650	686	697	689
Amortization Expense	5	3	-	-	-	-
Other expense (income), net	76	1	1	15	2	0
Operating Income	855	788	898	971	1,027	1,033
Interest Income	3	3	3	2	2	2
Interest Expense	29	31	36	26	27	35
Pre-Tax Income	829	760	865	947	1,002	1,000
Income Taxes	257	247	274	288	318	318
Net Income	**$572**	**$513**	**$591**	**$659**	**$684**	**$682**
Earnings per Share						
Basic	$2.61	$2.39	$2.77	$3.08	$3.23	$3.28
Diluted	$2.60	$2.37	$2.75	$3.06	$3.21	$3.26

Appendix D—Dividend History

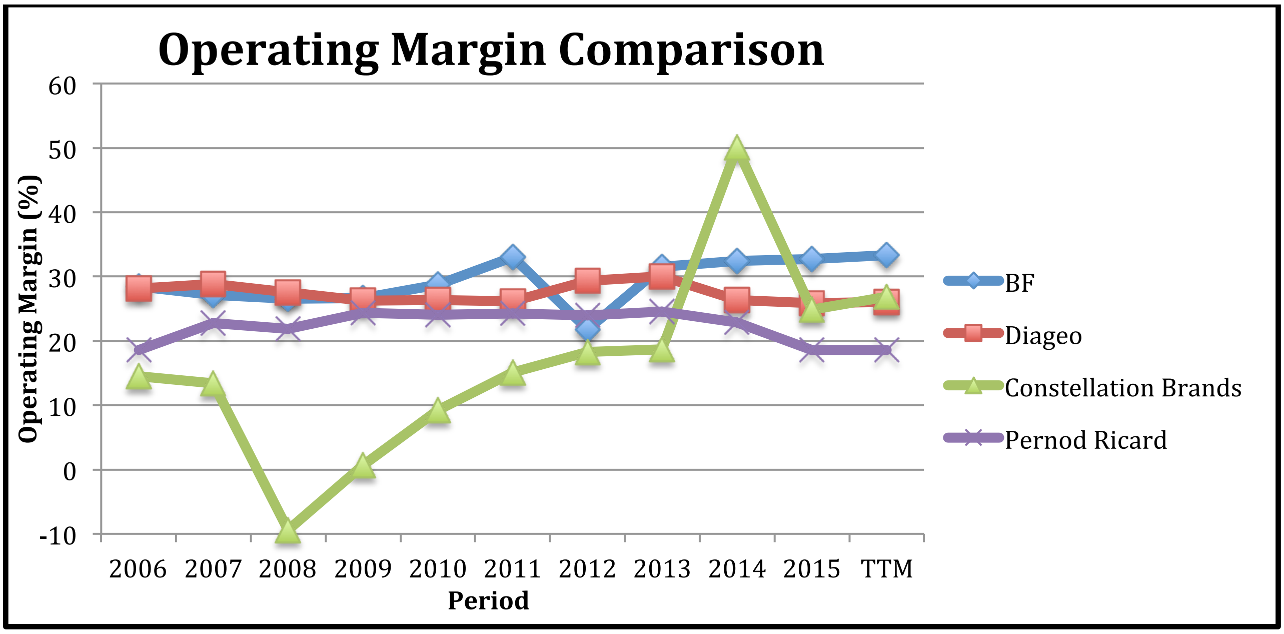


The dividend history graph does not include special dividends issued by the company. A $4 special dividend was paid on 12/27/12 and $0.6667 was paid on 12/28/2010.

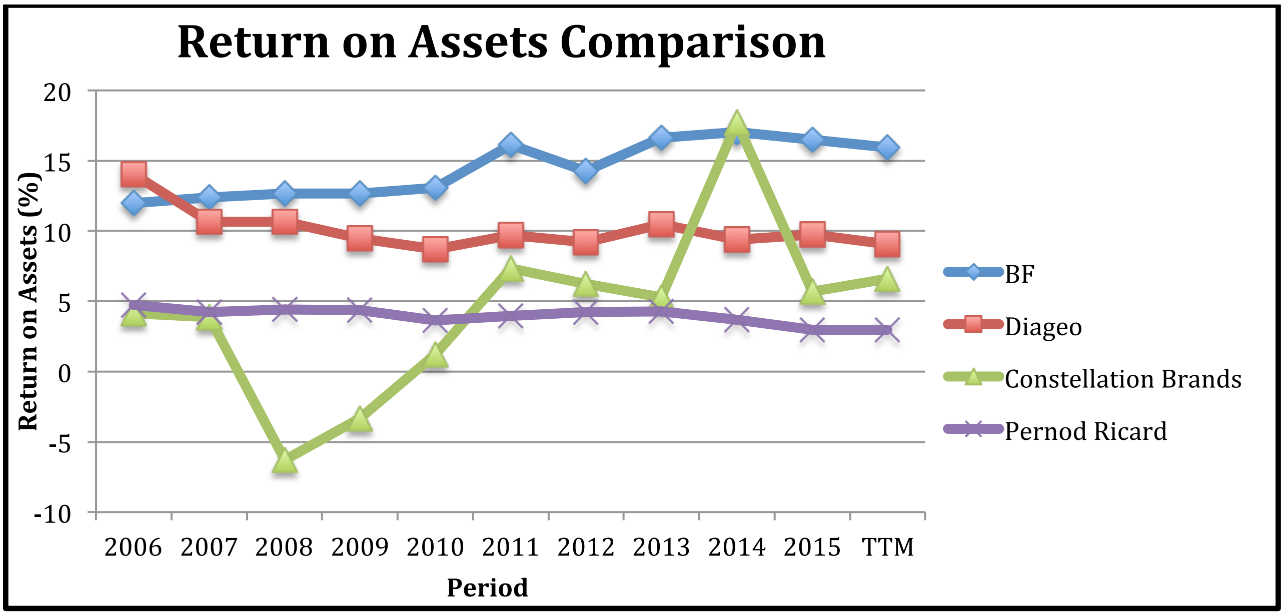
Appendix E—Historical Whiskey Volume

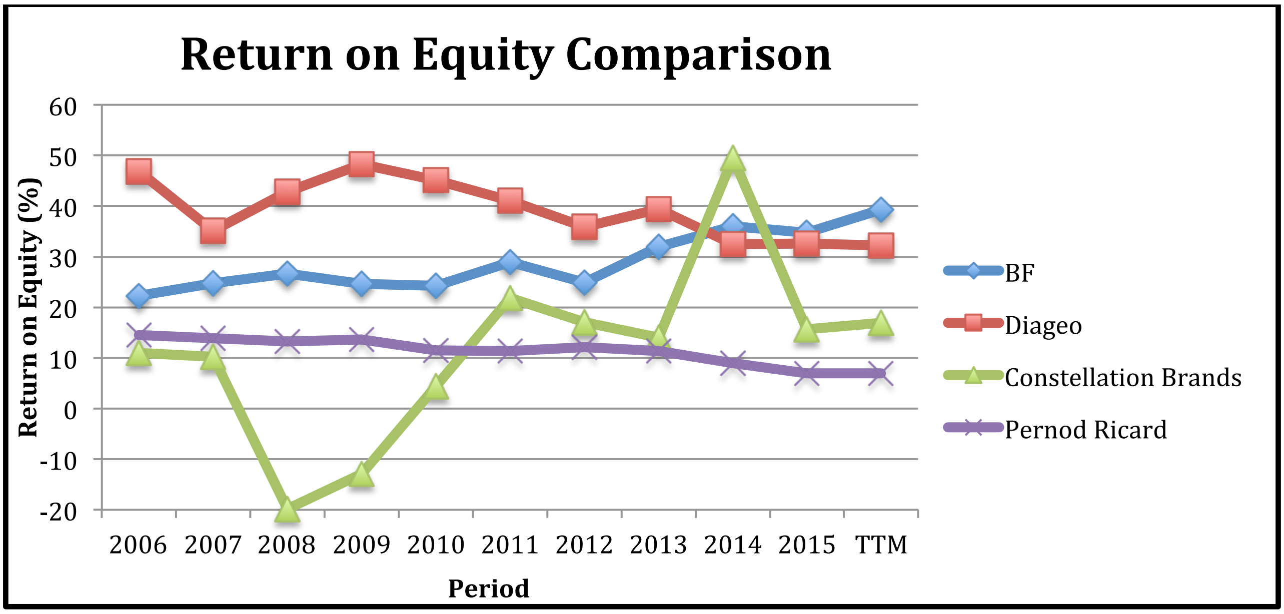


Appendix F—Competitor Comparison

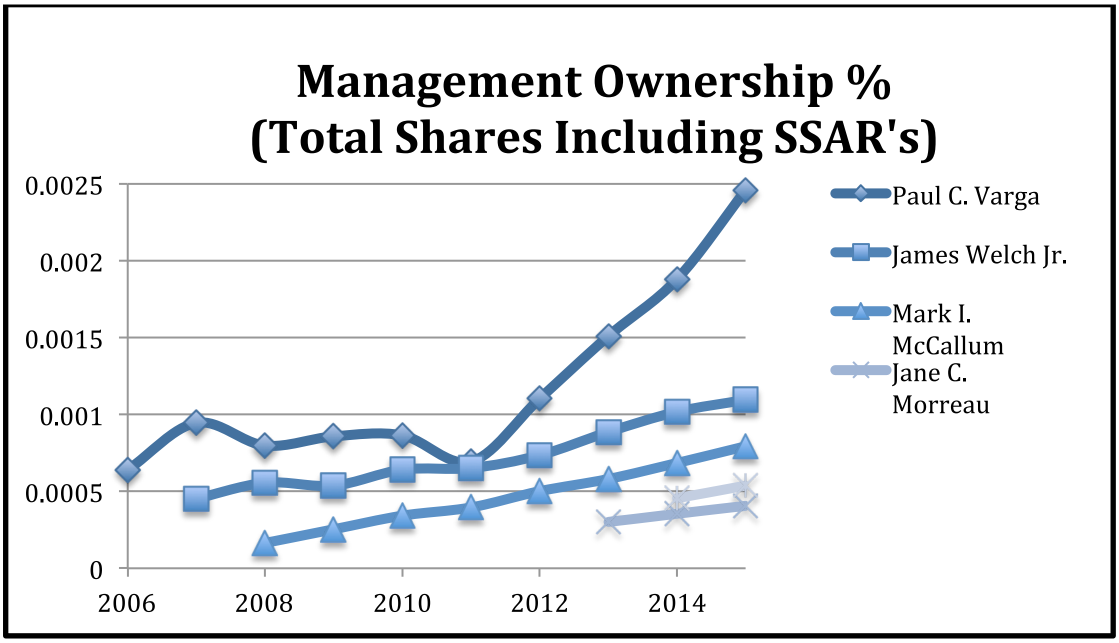


Appendix F (continued)—Competitor Comparison





Appendix G—Management Ownership



Appendix H—Compensation Structure

Compensation Structure				
	Cash Incentive		Equity Incentive	
	Short-Term (1 year)	Long-Term (3 year)	Long-Term	
Type	Cash	Cash	Performance-Based Restricted Stock (Class A)	Stock-Settled Appreciation Rights (Class B)
Evaluation Criteria	1.) Underlying operating income growth (80%) 2.) Individual performance (20%)	1.) Absolute underlying operating income growth (40%) 2.) Relative underlying operating income growth compared to peers (40%) 3.) Key long-term strategic goals (20%)	1.) Total shareholder return compared to S&P Consumer Staples Index	*Automatically granted each year*
Performance Threshold	1.) >0% 2.) "Below Target"	1.) >3% 2.) >0%	30th percentile	
Performance Target	1.) 6% 2.) "On Target"	1.) 8% 2.) Equal	55th percentile	
Vesting Period			4 years	3 years

Appendix I—Craft Distillery Growth