

Brown-Forman Reports Net Income Growth

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LOUISVILLE, Ky. (AP) — Liquor producer Brown-Forman Corp.'s second-quarter net income rose 10 percent as a revenue spike from recent price increases for many of its premium brands helped offset slower sales due to prior stocking up by distributors and retailers.

Buoyed by strong international demand and improving U.S. sales in the first half of its fiscal year, the company also on Wednesday raised its full-year earnings outlook to a range of \$2.58 to \$2.70 per share, up from its prior forecast of \$2.40 to \$2.67 per share.

"At this stage, we expect the momentum of the first half to continue, with the price increases we have taken driving improved price mix and leverage the gross profit line," Brown-Forman Chief Financial Officer Don Berg said in a conference call with Wall Street analysts.

Despite quarterly earnings on the upswing, the maker of Jack Daniel's whiskey said its net sales growth in the second quarter was hampered by distributors and retailers stocking up in advance of the price increases for many of its products.

Brown-Forman said its net sales growth also was affected by the sale of its Hopland, Calif.-based wine business last year.

The company, however, sounded upbeat about improvements in its U.S. business during the first half of its fiscal year.

It noted an "improving environment for spirits," with consumers trading up to drink more expensive brands.

Sales at U.S. bars and restaurants were hit hard by the economic downturn and has struggled to regain momentum during the sluggish recovery.

The company also pointed to progress in spreading sales growth beyond its flagship Jack Daniel's brand.

In the first half of the fiscal year, Brown-Forman brands excluding Jack Daniel's achieved underlying sales growth of about 6 percent, about twice the growth pace of a year ago, Berg said.

The company said emerging markets also drove its first-half sales growth, with strong sales in such countries as Russia, Brazil, Turkey, Mexico and Poland. International markets account for more than half the company's sales.

Louisville-based Brown-Forman reported net income of \$173 million, or 80 cents,

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per share, for the three months ended Oct. 31. That's up from \$157.6 million, or 73 cents per share, a year ago. Net sales were flat at just over \$1 billion.

Analysts surveyed by FactSet expected earnings of 78 cents per share on revenue of \$946.7 million.

During the first half of its fiscal year, net sales rose 9 percent for its lucrative Jack Daniel's brand when excluding currency swings. The upswing was the result of volume gains and price increases taken earlier in the year, the company said.

Jack Daniel's Tennessee Honey, which debuted last year, had global net sales growth exceeding 50 percent. The honey-laced product is part of an industrywide trend toward infusing new flavors into spirits to attract customers.

Berg said that Jack Daniel's "is early in realizing the potential upside from our innovation agenda."

Brown-Forman said net sales for its Finlandia vodka brands also grew 9 percent in the first six months of the fiscal year, adjusted for currency fluctuations. Overall six-month sales of the el Jimador tequila brand rose 6 percent.

Sales for the struggling Southern Comfort brand improved in the U.S. for the second straight quarter, with year-to-date net sales up 2 percent, the company said. But global results for the overall brand were down 5 percent for the first half, due to soft demand in the United Kingdom and Australia, key international markets.

"There is more work to do here to stabilize global sales, but we are encouraged by recent U.S. results and believe that we are on the right track to return this ... brand to growth mode," Berg said.

Brown-Forman launched a new TV advertising campaign for Southern Comfort earlier this year to try to rejuvenate sales. The company said it is expanding its new ad campaign to other key markets around the world.

First-half net sales of Korbel Champagne were up 13 percent, while Canadian Mist sales rose 4 percent.

Sales for its super-premium brands, including Woodford Reserve, Herradura and Chambord, rose 17 percent.

"Consumers are increasingly looking at our high-end brands as affordable luxuries worth the prices charged," Berg said.

Brown-Forman's Class B shares fell 36 cents, or about a half-percent, to \$68.38 in late-morning trading.

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