

BROWN FORMAN CORP
Form 10-K
June 27, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended April 30, 2013

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 002-26821

BROWN-FORMAN CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware 61-0143150
(State or Other Jurisdiction of
Incorporation or Organization) (IRS Employer Identification No.)

850 Dixie Highway 40210
Louisville, Kentucky
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code (502) 585-1100

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock (voting) \$0.15 par value	New York Stock Exchange
Class B Common Stock (nonvoting) \$0.15 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes
No

The aggregate market value, as of the last business day of the most recently completed second fiscal quarter, of the voting and nonvoting equity held by nonaffiliates of the registrant was approximately \$9,400,000,000.

The number of shares outstanding for each of the registrant's classes of Common Stock on June 17, 2013 was:

Class A Common Stock (voting)	84,487,042
Class B Common Stock (nonvoting)	129,303,321

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of Registrant for use in connection with the Annual Meeting of Stockholders to be held July 25, 2013 are incorporated by reference into Part III of this report.

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PART I

Item 1. Business

Overview

Brown-Forman Corporation (“Brown-Forman,” “Company,” “we,” “us,” or “our” below) was incorporated under the laws of the State of Delaware in 1933, successor to a business founded in 1870 as a partnership and subsequently incorporated under the laws of the Commonwealth of Kentucky in 1901. We primarily manufacture, bottle, import, export, market, and sell a wide variety of alcoholic beverage brands. We are a controlled company under New York Stock Exchange rules, and the Brown family owns a majority of our voting stock.

For additional information on our business, including the matters described below in this item, please see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II of this report on Form 10-K.

Brands

Our principal brands are:

Jack Daniel’s Tennessee Whiskey	Pepe Lopez Tequilas
Jack Daniel’s Single Barrel	Woodford Reserve Bourbons
Jack Daniel’s Ready-to-Drinks	Canadian Mist Blended Canadian Whiskies
Jack Daniel’s Tennessee Honey	Chambord Liqueur
Jack Daniel’s Winter Jack	Chambord Vodka
Gentleman Jack	Collingwood Canadian Whisky
Southern Comfort	Early Times Bourbon
Southern Comfort Ready-to-Drinks	Early Times flavored line extensions
Southern Comfort flavored line extensions	Early Times Kentucky Whisky
Finlandia Vodkas	Korbel California Champagnes*
Finlandia Ready-to-Drinks	Little Black Dress Vodkas
Antiguo Tequila	Maximus Vodkas
el Jimador Tequilas	Old Forester Bourbon
el Jimador New Mix Ready-to-Drinks	Sonoma-Cutrer Wines
Herradura Tequilas	Tuaca Liqueur

* Not owned by Brown-Forman but represented by us in the United States and other select markets

The most important brand in our portfolio is Jack Daniel’s, which is the fifth-largest spirits brand and the largest selling American whiskey brand in the world according to premium spirits volume statistics published in February 2013 by Impact Databank, a well-known U.S. trade publication. Our other leading global brands are Finlandia, the sixth-largest selling vodka, Southern Comfort, the third-largest selling liqueur, Canadian Mist, the fourth-largest selling Canadian whisky, and el Jimador, the fourth-largest selling tequila, according to the recently published global volume statistics referenced above. We believe the statistics used to rank these products are reasonably accurate.

Strategy

We endeavor to enrich the experience of life by responsibly building beverage alcohol brands that thrive and endure for generations. “Building Forever” is part of our strategic vision - it reflects our long-term perspective and our desire to remain a strong, independent company indefinitely. In the summer of 2010, we introduced our ten-year strategy, the Brown-Forman 150, focused on driving sustainable growth toward the company’s 150th anniversary. Please see “Our Strategies and Objectives” in Item 7. Management’s Discussion and Analysis for a description of our specific strategic ambitions.

Trademarks

We own numerous valuable trademarks that are essential to our business. Registrations of trademarks can generally be renewed indefinitely as long as the trademarks are in use. Through licensing arrangements, we have authorized the use of some of our trademarks for the primary purpose of enhancing brand awareness.

Table of Contents**Ingredients and Other Supplies**

The principal raw materials used in manufacturing and packaging our distilled spirits are corn, rye, malted barley, agave, sugar, glass, cartons, PET (polyethylene terephthalate, used in non-glass containers), labels, and wood for barrels, which are used for storage of whiskey and certain tequilas. A Finnish company distills and bottles Finlandia vodka for us. The principal raw materials used in liqueurs are neutral spirits, sugar, and wine, while the principal raw materials used in our ready-to-drink products are sugar, flavorings, neutral spirits, whiskey, tequila, or malt. Currently, none of these raw materials is in short supply, but shortages in some of these can occur. The principal raw materials used in the production of wines are grapes, packaging materials and wood for wine barrels. Our grape supply comes from a combination of owned vineyards located in California and external contracts with independent growers. We believe that our relationships with our growers are good. From time to time, our agricultural ingredients (corn, agave, and grapes) could be affected by weather and other forces that impact supply.

Due to aging requirements, production of whiskeys, certain tequilas, and other distilled spirits is scheduled to meet demand in the future. Accordingly, our inventories may be larger in relation to sales and total assets than would be normal for most other businesses.

For additional information on risks related to the availability of raw materials and the uncertainty inherent in supply/demand forecasting, please see Item 1A. Risk Factors.

Seasonality

The peak season for our business is the fourth calendar quarter due to holiday buying. Approximately 31% of our net sales for each of the fiscal years ended April 30, 2011, 2012, and 2013, were in the fourth calendar quarter.

Distribution

We use a variety of distribution models across the globe to deliver our products to our customers. In the United States, we sell our brands either to distributors or to state governments that then sell to retail customers and consumers. We own and operate distribution companies in Australia, Brazil, Canada, China, the Czech Republic, Germany, Korea, Mexico, Poland, Taiwan, and Turkey, where we sell our products either directly to retail stores, to wholesalers, or in Canada, to provincial governments. In the United Kingdom, we partner with another supplier, Bacardi, to sell a combined portfolio of our companies' brands. In many other markets, including France, Japan, Spain, Italy, Russia, and South Africa we rely on others to distribute our brands. Effective January 1, 2014, we plan to begin operating our own distribution company in France.

International Markets

Our products are sold in more than 150 countries around the world. Our largest international markets include Australia, the United Kingdom, Mexico, Germany, Poland, France, Russia, Japan, Turkey, Canada, Spain, Czech Republic, South Africa, Brazil and Italy. Our fiscal 2013 net sales by geography were as follows:

United States	41	%
Europe	30	%
Australia	14	%
Other	15	%

For additional information about net sales in our largest markets, please refer to "Fiscal 2013 Market Highlights" in Part II, Item 7 of this Report on Form 10-K. For information about the Company's reportable segment and for additional geographic information about net sales and long-lived assets, please refer to Note 15 of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Report on Form 10-K.

Competition

The distilled spirits industry is highly competitive. We compete against many global, regional, and local brands in a variety of categories of beverage alcohol, but most of our brands compete primarily in the industry's premium price category. We compete based on taste, product quality, brand image, and price. While the industry is highly fragmented, other major players include Bacardi Limited, Beam Inc., Davide Campari-Milano S.p.A., Diageo plc, LVMH Moët Hennessy Louis Vuitton S.A., Pernod Ricard S.A., and Rémy Cointreau S.A.

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Regulatory Environment

The Alcohol and Tobacco Tax and Trade Bureau of the U.S. Department of the Treasury regulates the wine and spirits industry in the United States with respect to production, blending, bottling, labeling, sales, advertising, and transportation of beverage alcohol products. Similar regulatory regimes exist in each state, as well as in most of the non-U.S. jurisdictions in which our products are sold. In addition, distilled spirits products are subject to customs duties and/or excise taxation in many markets, including the U.S., at the federal, state and/or local level.

Under U.S. federal regulations, bourbon and Tennessee whiskeys must be aged for at least two years in new charred oak barrels. We typically age all of our whiskeys between three and six years. Federal regulations also require that “Canadian” whisky must be manufactured in Canada in compliance with Canadian laws. Mexican authorities regulate the production and bottling of tequilas, which among other specifications, mandate minimum aging periods for anejo (one year) and reposado (two months) tequilas. We comply with these regulations.

Our operations within and outside the United States are subject to various environmental protection statutes and regulations, and our policy is to comply with all such regulatory requirements.

Employees and Executive Officers

As of April 30, 2013, we employed approximately 4,000 people, including approximately 200 employed on a part-time or temporary basis. We believe our employee relations are good.

The following persons serve as executive officers of the Company as of June 27, 2013.

Name	Age	Principal Occupation and Business Experience
Paul C. Varga	49	Company Chairman and Chief Executive Officer since 2007. Chief Executive Officer since 2005.
Donald C. Berg	58	Executive Vice President and Chief Financial Officer since 2008. Senior Vice President, Director of Corporate Finance from 2006 to 2008.
James S. Welch, Jr.	54	Company Vice Chairman, Executive Director of Corporate Affairs, Strategy and Diversity since 2012. Company Vice Chairman, Executive Director of Corporate Affairs, Strategy, Diversity, and Human Resources from 2007 to 2012.
Mark I. McCallum	58	Executive Vice President, President for Europe, Africa, Middle East, Asia Pacific, and Travel Retail since January 2013. Executive Vice President and Chief Operating Officer from 2009 through 2012. Executive Vice President and Chief Brands Officer from 2006 to 2009.
Matthew E. Hamel	53	Executive Vice President, General Counsel, and Secretary since 2007.
Jill Ackerman Jones	48	Executive Vice President, President for North America and Latin America since January 2013. Executive Vice President and Chief Production Officer from 2011 through 2012. Senior Vice President, Chief Production Officer from 2007 to 2011. Vice President, Director of Finance, Global Production from 2006 to 2007.
Brian P. Fitzgerald	40	Senior Vice President, Chief Accounting Officer since January 2013. Vice President, Finance Director of Greater Europe and Africa from 2009 through December 2012. Assistant Vice President, Director Business Strategy and Analysis from 2007 to 2009.
Jane C. Morreau	54	Senior Vice President, Chief Production Officer and Head of Information Technology since January 2013. Senior Vice President, Director of Financial Management, Accounting and Technology from 2008 through December 2012. Senior Vice President and Controller from 2006 to 2008.
Lisa P. Steiner	54	

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Lawson E. Whiting 44 Senior Vice President, Chief Human Resources Officer since 2009. Senior Vice President, Director of Global Human Resources from 2007 to 2009. Senior Vice President, Chief Brands Officer since January 2013. Senior Vice President, Managing Director Western Europe from 2011 through December 2012. Vice President, Finance Director Western Europe from 2010 to 2011. Vice President, Finance Director North America from 2009 to 2010. Vice President, Director Global Brands Strategy & Planning from 2008 to 2009.

Available Information

You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In

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addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file with the SEC at <http://www.sec.gov>.

Our website address is www.brown-forman.com. Please note that our website address is provided as an inactive textual reference only. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports are available free of charge on our website as soon as reasonably practicable after we electronically file those reports with the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference, unless such information is otherwise specifically referenced elsewhere in this report.

On our website, we have posted our Corporate Governance Guidelines, our Code of Conduct that applies to all directors and employees, and our Code of Ethics that applies specifically to our senior financial officers. We have also posted on our website the charters of our Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, and Executive Committee of our Board of Directors. Copies of these materials are also available free of charge by writing to our Secretary, Matthew E. Hamel, 850 Dixie Highway, Louisville, Kentucky 40210 or e-mailing him at Secretary@b-f.com.

Forward-Looking Statement Information. Certain matters discussed in this report, including the information presented in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, contain statements, estimates, and projections that are “forward-looking statements” as defined under U.S. federal securities laws. Words such as “aim,” “anticipate,” “aspire,” “believe,” “continue,” “could,” “envision,” “estimate,” “expect,” “expectations,” “may,” “plan,” “potential,” “project,” “pursue,” “see,” “seek,” “should,” “will,” and similar words identify forward-looking statements which speak only as of the date we make them. Except as required by law, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. By their nature, forward-looking statements involve risks, uncertainties and other factors (many beyond our control) that could cause our actual results to differ materially from our historical experience or from our current expectations or projections. These risks and uncertainties include those described in Part I, Item 1A. Risk Factors and those described from time to time in our future reports filed with the Securities and Exchange Commission, including:

- Unfavorable global or regional economic conditions, and related low consumer confidence, high unemployment, weak credit or capital markets, sovereign debt defaults, sequestrations, austerity measures, higher interest rates, political instability, higher inflation, deflation, lower returns on pension assets, or lower discount rates for pension obligations

Risks associated with being a U.S.-based company with global operations, including political or civil unrest; local labor policies and conditions; protectionist trade policies; compliance with local trade practices and other regulations, including anti-corruption laws; terrorism; and health pandemics

Fluctuations in foreign currency exchange rates

Changes in laws, regulations or policies - especially those that affect the production, importation, marketing, sale or consumption of our beverage alcohol products

Tax rate changes (including excise, sales, VAT, tariffs, duties, corporate, individual income, dividends, capital gains) or changes in related reserves, changes in tax rules (e.g., LIFO, foreign income deferral, U.S. manufacturing and other deductions) or accounting standards, and the unpredictability and suddenness with which they can occur

Dependence upon the continued growth of the Jack Daniel’s family of brands

Changes in consumer preferences, consumption or purchase patterns - particularly away from brown spirits, our premium products, or spirits generally, and our ability to anticipate and react to them; decline in the social acceptability of beverage alcohol products in significant markets; bar, restaurant, travel or other on-premise declines

Production facility, aging warehouse or supply chain disruption; imprecision in supply/demand forecasting

Higher costs, lower quality or unavailability of energy, input materials or finished goods

Route-to-consumer changes that affect the timing of our sales, temporarily disrupt the marketing or sale of our products, or result in implementation-related or higher fixed costs

Inventory fluctuations in our products by distributors, wholesalers, or retailers

Competitors’ consolidation or other competitive activities, such as pricing actions (including price reductions, promotions, discounting, couponing or free goods), marketing, category expansion, product introductions, entry or

expansion in our geographic markets or distribution networks

- Risks associated with acquisitions, dispositions, business partnerships or investments - such as acquisition integration, or termination difficulties or costs, or impairment in recorded value

- Insufficient protection of our intellectual property rights

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• Product counterfeiting, tampering, or recall, or product quality issues

• Significant legal disputes and proceedings; government investigations (particularly of industry or company business, trade or marketing practices)

• Failure or breach of key information technology systems

• Negative publicity related to our company, brands, marketing, personnel, operations, business performance or prospects

• Business disruption, decline or costs related to organizational changes, reductions in workforce or other cost-cutting measures, or our failure to attract or retain key executive or employee talent

Use of Non-GAAP Financial Information. Certain matters discussed in this report, including the information presented in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, include measures not derived in accordance with generally accepted accounting principles (GAAP), including “constant-currency” and “underlying” measures of changes in income statement line items. These measures should not be considered in isolation or as a substitute for any measure derived in accordance with GAAP, and also may be inconsistent with similar measures presented by other companies. Reconciliations of these measures to the most closely comparable GAAP measures, and reasons for the company’s use of these measures, are presented in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, under the heading, “Basis of Presentation and Use of Non-GAAP Measures.”

Item 1A. Risk Factors

We believe the following discussion identifies the most si