BROWN FORMAN CORP
Form 10-K
June 16, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended April 30, 2016
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 Louisville, Kentucky	40210
(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 þ 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 þ

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 þ 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 þ 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. ¨

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 þ 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 þ

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 $15,400,000,000.

The number of shares outstanding for each of the registrant’s classes of Common Stock on May 31, 2016, was:

Class A Common Stock (voting)	84,509,838
Class B Common Stock (nonvoting)	112,418,105

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 28, 2016, are incorporated by reference into Part III of this report.

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Forward-Looking Statement Information. Certain matters discussed in this report, including the information presented in Part II under “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,”, “can,” “continue,” “could,” “envision,” “estimate,” “ex “expectation,” “intend,” “may,” “might,” “plan,” “potential,” “project,” “pursue,” “see,” “seek,” “should,” “will,” “would,” anc 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, but are not limited to, those described in Part I under “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, budget deficits, burdensome government debt, austerity measures, higher interest rates, higher taxes, 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 commercial, political, and financial risks; local labor policies and conditions; protectionist trade policies or economic or trade sanctions; compliance with local trade practices and other regulations, including anti-corruption laws; terrorism; and health pandemics
- Fluctuations in foreign currency exchange rates, particularly a stronger U.S. dollar
- Changes in laws, regulations, or policies – especially those that affect the production, importation, marketing, labeling, pricing, distribution, 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 (for example, 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 larger producers in favor of smaller distilleries or local producers, or away from brown spirits, our premium products, or spirits generally, and our ability to anticipate or react to them; bar, restaurant, travel, or other on-premise declines; shifts in demographic trends; or unfavorable consumer reaction to new products, line extensions, package changes, product reformulations, or other product innovation
- Decline in the social acceptability of beverage alcohol in significant markets
- Production facility, aging warehouse, or supply chain disruption
- Imprecision in supply/demand forecasting
- Higher costs, lower quality, or unavailability of energy, water, raw materials, product ingredients, labor, 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 higher implementation-related or 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, or 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
- Inadequate protection of our intellectual property rights
- Product recalls or other product liability claims; or product counterfeiting, tampering, contamination, or product quality issues
- Significant legal disputes and proceedings; or government investigations

- Failure or breach of key information technology systems
- Negative publicity related to our company, brands, marketing, personnel, operations, business performance, or prospects
- Failure to attract or retain key executive or employee talent
- Our status as a family "controlled company" under New York Stock Exchange rules

Use of Non-GAAP Financial Information. Certain matters discussed in this report, including the information presented in Part II under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," include measures that are not measures of financial performance under U.S. generally accepted accounting principles (GAAP). These non-GAAP 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 similarly-titled measures presented by other companies. In Part II under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," we present the reasons we use these measures under the heading, "Non-GAAP Financial Measures," and we present reconciliations of these measures to the most closely comparable GAAP measures under the heading "Results of Operations – Year-Over-Year Comparisons."

PART I

Item 1. Business

Overview

Brown-Forman Corporation (the "Company," "Brown-Forman," "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 later 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 beverages under recognized brands. We employ over 4,600 people on six continents, including about 1,300 people in Louisville, Kentucky, USA, home of our world headquarters. We are the largest American-owned spirits and wine company with global reach. We are a "controlled company" under New York Stock Exchange rules, and the Brown family owns a majority of our voting stock.

For a discussion of recent developments, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary – Overview."

Brands

Beginning in 1870 with Old Forester Bourbon Whisky – our founding brand – and spanning the generations since, we have built a portfolio of more than 40 spirit, wine, and ready-to-drink cocktail (RTD) brands that includes some of the best-known and most-loved trademarks in our industry. The most important brand in our portfolio is Jack Daniel's Tennessee Whiskey, which is the fourth-largest spirits brand of any kind and the largest American whiskey brand in the world, according to Impact Databank's "Top 100 Premium Spirits Brands Worldwide" list.[1] In its third year on the list, Jack Daniel's Tennessee Honey is the second-largest-selling flavored whiskey on the Worldwide Impact list, selling over 1.5 million nine-liter cases in calendar year 2015, up 13% from the prior calendar year.[1] Additionally, Jack Daniel's Tennessee Fire was designated as an Impact "Hot Brand"[1] in its first full calendar year (2015). Our other leading global brands on the Worldwide Impact list are Finlandia, the ninth-largest-selling vodka; Canadian Mist, the fourth-largest-selling Canadian whisky; and el Jimador, which is the fourth-largest-selling tequila and designated as an Impact "Hot Brand"[1].

Principal Brands

Jack Daniel's Tennessee Whiskey	Woodford Reserve Kentucky Bourbons
Jack Daniel's RTDs	el Jimador Tequilas
Jack Daniel's Tennessee Honey	el Jimador New Mix RTDs
Gentleman Jack Rare Tennessee Whiskey	Herradura Tequilas
Jack Daniel's Tennessee Fire	Canadian Mist Canadian Whisky
Jack Daniel's Single Barrel Collection[2]	Sonoma-Cutrer California Wines
Jack Daniel's Sinatra Select	Early Times Kentucky Whisky and Bourbon
Jack Daniel's Winter Jack	Chambord Liqueur
Jack Daniel's No. 27 Gold Tennessee Whiskey	Old Forester Kentucky Bourbon
Finlandia Vodkas	Antiguo Tequila
Finlandia RTDs	Pepe Lopez Tequila
Korbel California Champagnes[3]	Santa Dose Cachaça
Korbel California Brandy[3]	Collingwood Canadian Whisky

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Fiscal 2015 Brand Highlights" for details on the performance of our brands.

[1]Impact Databank, a well-known U.S. trade publication, published

these industry statistics in March 2016.
[2]The Jack Daniel's Single Barrel Collection includes Jack Daniel's Single Barrel Select, Jack Daniel's Single Barrel Barrel Proof, Jack Daniel's Single Barrel Rye, and Jack Daniel's Single Barrel 100 Proof.
[3]While Korbel is not an owned brand, we sell Korbel products under contract in the United States and other select markets.

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Our vision in marketing is to “be the best brand builders in the industry.” We build our brands by investing in programs that we believe create enduring connections with our consumers. These programs cover a wide spectrum of activities, including media (TV, radio, print, outdoor, and, increasingly, digital and social media), consumer and trade promotions, sponsorships, and visitor center programs at our distilleries and our winery. We expect to grow our sales and profits by consistently delivering creative, responsible marketing programs that drive brand recognition, brand trial, brand loyalty, and, ultimately, consumer demand around the world.

Markets

We sell our products in approximately 160 countries around the world. The United States, our largest, most important market, accounted for 46% of our net sales in fiscal 2016. Our largest international markets include the United Kingdom, Australia, Mexico, Germany, Poland, France, Turkey, Russia, Canada, and Brazil. Over the last 10 years, we have greatly expanded our international footprint. In fiscal 2016, we generated 54% of our net sales outside the United States compared to 41% ten years ago. The U.S. proportion of net sales has grown from fiscal 2014 to fiscal 2016, mainly due to the negative impact of foreign exchange on our international business. We present the percentage of total net sales by geographic area for our most recent three fiscal years and, to provide historical context, fiscal 2006, below:

Percentage of Total Net Sales by Geographic Area

	Year ended April 30				
	2006	...	2014	2015	2016
United States	59 %	...	41 %	43 %	46 %
International:		...			
Europe		...	32 %	31 %	31 %
Australia		...	12 %	11 %	9 %
Other		...	15 %	15 %	14 %
Total International*	41 %	...	59 %	57 %	54 %
TOTAL	100%		100%	100%	100%

Note: Totals may differ due to rounding

For details about net sales in our largest markets, refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Fiscal 2016 Market Highlights.” For details about our reportable segment and for additional geographic information about net sales and long-lived assets, refer to Note 14 to the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data.” For details on risks related to our global operations, see “Item 1A. Risk Factors.”

Distribution Network and Customers

Our distribution network, which we sometimes refer to as our “route-to-consumer” (RTC), takes a variety of forms, depending on (a) a market’s laws and regulatory framework for trade in beverage alcohol, (b) our assessment of a market’s long-term attractiveness and competitive dynamics, (c) the relative profitability of distribution options available to us, (d) the structure of the retail and wholesale trade in a market, and (e) our portfolio’s development stage in a market. As these factors change, we evaluate our RTC strategy and, from time to time, adapt our model.

In the United States, which generally prohibits wine and spirits manufacturers from selling their products directly to consumers, we sell our brands either to distributors or (in states that directly control alcohol sales) to state governments that then sell to retail customers and consumers.

Outside the United States, we use a variety of RTC models. We own and operate distribution companies in 13 markets: Australia, Brazil, Canada, China, the Czech Republic, France, Germany, Hong Kong, South Korea, Mexico, Poland, Thailand, and Turkey. In these markets, and in a large portion of the travel retail channel, we sell our products directly to retailers, to wholesalers, or, in Canada, to provincial governments. In fiscal 2017, we plan to establish a new distribution company in Spain, which we expect to begin operating in fiscal 2018. In the United Kingdom, we partner in a cost-sharing arrangement with another supplier, Bacardi Limited, to sell a portfolio of both companies’ brands. In many other markets, including Italy, Japan, Russia, and South Africa, we rely on others to distribute our brands, generally under fixed-term distribution contracts.

We believe that our customer relationships are good. We believe our exposure to concentrations of credit risk is limited due to the diverse geographic areas covered by our operations.

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Seasonality

Holiday buying makes the fourth calendar quarter the peak season for our business. For the fiscal years ended April 30, 2014, 2015, and 2016, approximately 32% of our net sales were in the fourth calendar quarter.

Competition

Trade information indicates that we are one of the largest global suppliers of premium spirits and wine. According to International Wine & Spirit Research (the IWSR), for calendar year 2015, the ten largest global spirits companies controlled less than 20% of the total global market for spirits (on a volume basis). While we believe that the overall market environment offers considerable growth opportunities for us, our industry is now, and will remain, 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-and-higher price categories. Our competitors include major global wine and spirits companies, such as Bacardi Limited, Beam Suntory Inc., Davide Campari-Milano S.p.A., Diageo PLC, LVMH Moët Hennessy Louis Vuitton SE, Pernod Ricard SA, and Rémy Cointreau SA. In addition, particularly in the United States, we increasingly compete with (a) national companies, and (b) entrepreneurs, many of whom are recent entrants to the industry – typically with small-batch or craft spirit brands.

Brand recognition, brand provenance, quality of product and packaging, availability, taste, and price affect consumers' choices among competing brands in our industry. Several factors influence consumers' buying decisions, including: advertising; promotions; merchandising in bars, restaurants, and shops; expert or celebrity endorsement; social media and word-of-mouth; and the timing and relevance of new product introductions. Although some competitors have substantially greater resources than we do, we believe that our competitive position is strong, particularly as it relates to brand recognition, quality, availability, and relevance of new product introductions.

Ingredients and Other Supplies

The principal raw materials used in manufacturing and packaging our distilled spirits are water, corn, rye, malted barley, agave, sugar, glass, cartons, PET (polyethylene terephthalate, a polymer used in non-glass containers), labels, and wood for barrels (used for storing whiskey and some tequilas). The principal raw materials used in liqueurs are neutral spirits, sugar, and wine, while the principal raw materials used in our RTD products are sugar, flavorings, neutral spirits, whiskey, tequila, and malt. The principal raw materials used in producing wines are grapes, packaging materials, and wood barrels. Our grape supply comes from a combination of our California vineyards and contracts with independent growers. We believe that our relationships with our growers are good. Currently, none of these raw materials is in short supply, but shortages could occur. From time to time, our agricultural ingredients (corn, rye, malted barley, agave, and grapes) could be adversely affected by weather and other forces that might constrain supply.

Whiskeys, certain tequilas, and other distilled spirits must be aged. Because we must schedule production to meet demand for these products years in the future, our inventories of them may be larger in relation to sales and total assets than in many other businesses.

For details on risks related to the availability of raw materials and the uncertainty inherent in forecasting supply and demand, refer to "Item 1A. Risk Factors."

Intellectual Property

Our intellectual property rights include trademarks, copyrights, proprietary packaging and trade dress, proprietary manufacturing technologies, know-how, and patents. Our intellectual property, especially our trademarks, is essential to our business. We register our trademarks broadly – some of them in every country where registration is possible. We register others where we sell or expect to sell our products. We protect our intellectual property rights vigorously but fairly. We have licensed some of our trademarks to third parties for use with services or on products other than alcoholic beverages, which we believe enhances the awareness and protection of our brands.

For details on risks related to the protection of our intellectual property, refer to "Item 1A. Risk Factors." For details on our most important brands, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Fiscal 2016 Brand Highlights."

Regulatory Environment

Federal, state, local, and foreign authorities regulate the production, storage, transportation, distribution, and sale of our products. Some countries and local jurisdictions prohibit or restrict the marketing or sale of distilled spirits in whole or in part.

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

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

Our operations are subject to various environmental protection statutes and regulations, and our policy is to comply with them.

Strategy

Six years ago, we introduced our "Brown-Forman 150" long-term strategy, focused on driving sustainable growth toward our 150th anniversary in 2020. The B-F Arrow articulates our core principles: our purpose as well as the vision, values, and behaviors that we expect our employees to embrace and exhibit.

While these core principles are a constant and powerful means of connecting our stakeholders to a shared vision of "Building Forever", we continue to refresh our strategies to reflect current realities. The strategic ambitions described below both demonstrate a sustained focus on several drivers of our recent growth, which we believe remain relevant, and acknowledge the new and changing opportunities of today.

We seek to build brands and businesses that can create shareholder value – ones that deliver strong growth, solid margins, and high returns. In addition, given our growing size and scale, we focus on building brands that can be meaningful for our company over time. Our first priority is to grow our premium spirits portfolio organically. But as opportunities arise, we will pursue innovation and consider acquisitions and partnerships that meet our rigorous quantitative and qualitative criteria.

The Jack Daniel's family of brands, including Jack Daniel's Tennessee Whiskey, is our most valuable asset. We will always work to keep Jack Daniel's Tennessee Whiskey strong, healthy, and relevant to consumers worldwide, and to take advantage of the abundant opportunities for growing the Jack Daniel's family of brands across markets, price points, channels, and consumer groups. As product innovation has become increasingly important to the brand in recent years, we will continue to evaluate opportunities to grow the Jack Daniel's family of brands through thoughtful new product introductions, such as our U.S. launch of Jack Daniel's Tennessee Fire and our recent introduction of Jack Daniel's Single Barrel Rye.

We are the global leader in American whiskey, and we will continue to pursue growth in the broader global, premium whiskey category. We believe that we can leverage our whiskey-making knowledge, production assets, trademarks, and brand- building skills to accomplish this objective. We will focus first on the global growth of our most important whiskey, Jack Daniel's. In addition, we expect to generate excellent growth for our other whiskey brands around the world, particularly Woodford Reserve and Old Forester, which have both experienced rapid growth in recent years.

We aim to grow Finlandia, el Jimador, and Herradura. We plan to focus primarily on growing Finlandia in Poland and Eastern Europe. We will work to expand the reach of Herradura tequila to new consumers, emphasizing Mexico, the United States, and other high-potential markets. We have taken steps to reposition el Jimador tequila as a more premium brand in Mexico, its largest market by volume. As a result, volumes have declined over the past couple of years in Mexico, though we expect the brand's overall performance to improve there over time. In the United States and select international markets, we continue to experience solid growth with el Jimador, and we believe in this brand's long-term potential.

We recently announced the launch of Coopers' Craft, our first new bourbon trademark in more than 20 years, which we will begin selling in select United States markets in July 2016. We are in the development stage of our Slane Irish Whiskey brand, which we anticipate launching in the spring of 2017. Lastly, on June 1, 2016, we acquired The BenRiach Distillery Company Limited. This purchase added three single malt Scotch whisky brands into our growing whiskey portfolio: The GlenDronach, BenRiach, and Glenglassaugh. We believe that super- and ultra-premium whiskeys are attractive long-term businesses for us, and we will continue to pursue global growth in these categories.

In fiscal 2016, as part of our evolving portfolio strategy and our efforts to focus resources on our highest strategic priorities, we sold our Southern Comfort and Tuaca brands. This decision reflects our continuing efforts to reshape our portfolio by developing, divesting, and acquiring brands to create value and improve growth.

The United States remains our largest market, and continuing to grow in this market is important to our long-term success. We expect to foster this growth by emphasizing fast-growing spirits categories such as super-premium whiskies and tequila, continued product and packaging innovation, continued route-to-consumer proficiency, and brand building within growing consumer segments (with increasing emphasis on multicultural marketing).

Over the last two decades, our business outside the United States has grown more quickly than our business within it. Although the past two years have been an exception to this trend, as our net sales in the United States grew faster than our international business, we expect the longer-term trend to resume. Our ability to achieve our long-term growth objectives requires further development of our business globally, especially in emerging markets. We expect to grow our business in developed markets such as France, Germany, Australia, and the United Kingdom, as well as in emerging markets such as Mexico, Poland, and Turkey. Over time, we expect increasingly significant contributions to our growth from other emerging markets such as Brazil, China, Russia, Southeast Asia, Africa, and Eastern Europe. We will continue to pursue RTC strategies that will expand our access to and understanding of consumers in these diverse markets.

We believe that having a long-term-focused, committed, engaged shareholder base, including the Brown family, gives us an important strategic advantage, particularly in a business with aged products and multi-generational brands. Recognizing the strong cash-generating capacity and the capital efficiency of our business, we will continue to pursue what we believe to be well-balanced capital deployment strategies aimed at perpetuating Brown-Forman's strength and independence.

Corporate Responsibility

In pursuing the objectives described above, we will strive to be responsible in everything we do. Our history of responsibility began in 1870, when our founder, George Garvin Brown, first sold medicinal whiskey in glass bottles to ensure quality and safety – an innovative idea back when whiskey was usually sold by the barrel. Today, achieving our stated business purpose, to "enrich the experience of life," is possible only within a context of corporate responsibility. This means promoting responsible consumer enjoyment of our brands; working to reduce alcohol abuse and misuse; protecting the environment; providing a healthy, safe, and inclusive workplace; and contributing to the communities where we operate around the globe.

Alcohol Responsibility. We promote responsible consumption of our products, as we believe this will enhance our relationships with consumers, business partners, stakeholders, and society at large. It is also essential for the long-term prosperity of our company and our industry. When abused or misused, alcohol can contribute to significant harm to both individuals and the community. We appreciate the need for governments to regulate our industry appropriately and effectively, taking into account national circumstances and local cultures. Acting in partnership with others, we want to be part of the solution to real, complex problems such as underage drinking, drunk driving, and overconsumption.

As a significant player in the global beverage alcohol industry, we foster collective action with our peers. Working together with other producers, we are able to leverage our views on a scale that can create change. For example, we are working with 13 other industry leaders that signed the Beer, Wine, and Spirits Producers' Commitments to Reduce Harmful Drinking. The group made significant progress in 2015, resulting from the collaboration among all signatories and with stakeholders where we do business. By engaging non-governmental organizations, we reached more people across a broader geographic footprint with underage drinking programs. Drunk driving prevention pilot programs expanded to another four countries, with two more planned for 2016. With our retail business partners, we developed and launched responsible retailing principles that are increasing the number of retail programs focused on enforcing legal purchase age and responsible beverage service. Our collective progress on these commitments will be reported annually, and more information can be found at www.producerscommitments.org.

Since 2009, we have hosted an open forum to share our point of view and encourage engagement of others at www.OurThinkingAboutDrinking.com. In the United States, we support The Ad Council's "Buzzed Driving is Drunk Driving" campaigns, designated-driver services such as BeMyDD, and the Responsible Retailing Forum, which brings together diverse stakeholders seeking to reduce underage sales, among other initiatives. In our consumer relationships, we seek to communicate through responsible advertising content and placement, relying on our comprehensive internal marketing code and adhering to industry marketing and advertising guidelines. As part of our commitment to responsible marketing, and to enable consumers to make more informed decisions, we will be adding nutritional information to our brand websites later this year. We also are founding members of, and contribute significant resources to, the Foundation for Advancing Alcohol Responsibility, an organization created by spirits producers to combat harmful use of alcohol. While this is a U.S. organization, we participate actively in similar organizations in other markets, such as DrinkWise in Australia, BSI in Germany, The Portman Group in the United Kingdom, and FISAC in Mexico. In the European Union, we helped form the Responsible Marketing Pact with seven other major beverage alcohol manufacturers to develop industry-led standards for responsible advertising and marketing. The standards focus on decreasing exposure of those under legal drinking age to alcohol-related advertisements. We also recognize that some individuals can't or shouldn't drink beverage alcohol and respect the choice of those who don't drink for whatever reason. To this end, we have an internal employee resource group (ERGs), SPIRIT, that supports an environment where all employees and guests feel welcome, regardless of whether they choose to drink.

Environmental Sustainability. Our vision – Building Forever – is inherently linked to environmental sustainability. A key component of our environmental sustainability strategy is reducing our energy consumption and greenhouse gas (GHG) emissions. In fiscal 2014, we set new, more ambitious environmental sustainability goals, focused on reducing our absolute GHG emissions by 15% by 2023, sending zero waste to landfill, and reducing our water use and wastewater discharges per unit of product by 30% by 2023 (versus 2012 baseline year). These goals support our ambition to be a sustainability leader within our industry, and extend programs beyond our operational borders into the supply chain. We report on our progress toward these goals in our biennial Corporate Responsibility Reports, available online. In 2016, Newsweek magazine named Brown-Forman the third "greenest" U.S. beverage company, and number 52 among the 500 largest publicly traded companies in the United States. Rankings are based on eight measures of corporate sustainability and environmental performance. In addition, we have been identified as a global leader for our actions and strategies in response to climate change and have been awarded a position on The Climate "A" List by CDP, an international not-for-profit organization that produces the list at the request of 822 investors who represent more than a third of the world's invested capital.

Diversity, Inclusion, and Human Rights. We believe that having a diverse and inclusive workforce is central to our success. As we work to increase our brands' relevance and appeal to diverse consumer groups, we need a diversity of experiences and outlooks within our own workforce. We also want employees to feel comfortable in contributing their whole selves and different perspectives to their work. Over the past year, we've made progress with diverse representation at the senior level. Three women and one African American serve on our Board of Directors. Four members of our 15-member Executive Leadership Team are women and two are minorities. In 2016, we once again earned a perfect score of 100% in the Corporate Equality Index by the Human Rights Campaign, a civil rights organization promoting equality for lesbian, gay, bisexual, and transgender Americans. This makes us one of the "Best Places to Work for LGBT equality" in the United States for the sixth consecutive year. Our ERGs have been the core of our diversity culture by supporting employees' growth while enhancing their contributions. Our eight ERGs foster a diverse and inclusive environment that drives our high-commitment, high-performance organization and encourages employees to bring their individuality to work.

In the marketplace, we focus on promoting fair and ethical business practices. We remain committed to the guidelines set forth in our Global Human Rights Statement, defining our commitment to respecting the fundamental rights of all human beings. We share our human rights policies and practices with our suppliers through our Suppliers Guiding Principles on Human Rights. Our work in this area will help inform our response to the U.K.'s recent passage of the

Modern Slavery Act.

[1]Human Rights Campaign 2016 Corporate Equity Index at www.hrc.org/resources/best-places-to-work-2016.

Community Involvement. Our approach to philanthropy reflects our values as a corporate citizen. Our civic engagement supports non-profit organizations that improve the lives of individuals and the vitality of our communities. We believe, as a responsible and caring corporate citizen, it is vital that we give back to the communities that support both our employees and our business. Through our contributions, we work to create communities that ensure basic living standards, support healthy and sustainable living, and enhance intellectual and cultural living. While we focus on our hometown of Louisville, Kentucky, our civic engagement activities extend to the communities around the globe where our employees live, work, and raise their families.

In fiscal 2016, we donated more than $10.8 million in cash, logged approximately 16,000 volunteer hours, and had over 132 employees serve on boards of directors of 192 non-profit organizations.
Our Corporate Responsibility reports are available at www.brown-forman.com/responsibility.

Employees and Executive Officers

As of April 30, 2016, we employed approximately 4,600 people, including about 200 employed on a part-time or temporary basis. We employ about 2,800 people in the United States, approximately 17% represented by a union. We believe our employee relations are good.
The following persons serve as executive officers as of June 15, 2016:

Name	Age	Principal Occupation and Business Experience
Paul C. Varga	52	Company Chairman and Chief Executive Officer since 2007. Chief Executive Officer since 2005.
Jane C. Morreau	57	Executive Vice President and Chief Financial Officer since 2014. Senior Vice President, Chief Production Officer, and Head of Information Technology from 2013 to 2014. Senior Vice President and Director of Financial Management, Accounting and Technology from 2008 to 2013.
Matthew E. Hamel	56	Executive Vice President, General Counsel, and Secretary since 2007.
Jill Ackerman Jones	50	Executive Vice President and President for North America, CCSA, IMEA, and Global Travel Retail since February 2015. Executive Vice President and President for North America and Latin America Regions from 2013 to 2015. Executive Vice President and Chief Production Officer from 2007 to 2012.
Mark I. McCallum	61	Executive Vice President and President of Jack Daniel’s Brands since February 2015. Executive Vice President and President for Europe, Africa, Middle East, Asia Pacific, and Travel Retail from 2013 to 2015. Executive Vice President and Chief Operating Officer from 2009 to 2013. Executive Vice President and Chief Brands Officer from 2006 to 2009.
Lawson E. Whiting	47	Executive Vice President and Chief Brands and Strategy Officer since February 2015. Senior Vice President and Chief Brands Officer from 2013 to 2015. Senior Vice President and Managing Director for Western Europe from 2011 to 2013. Vice President and Finance Director for Western Europe from 2010 to 2011. Vice President and Finance Director for North America from 2009 to 2010.
Alejandro “Alex” Alvarez	48	Senior Vice President and Chief Production Officer since 2014. Vice President and General Manager for Brown-Forman Tequila Mexico Operations from 2008 to 2014.
Ralph De Chabert	69	Senior Vice President and Chief Diversity Officer since 2007.
Brian P. Fitzgerald	43	Senior Vice President and Chief Accounting Officer since 2013. Vice President and Finance Director for Greater Europe and Africa from 2009 to 2013.
Kirsten M. Hawley	46	Senior Vice President and Chief Human Resources Officer since February 2015. Senior Vice President and Director of HR Business Partnerships from 2013 to 2015. Vice President and Director of Organization and Leader Development 2011 to 2013. Assistant Vice President and Director of Employee Engagement from 2009 to 2011.
Thomas Hinrichs	54	Senior Vice President and President for Europe, North Asia, and ANZSEA since February 2015. Senior Vice President and Managing Director for Europe from 2013 to 2015. Senior Vice President and Managing Director for Greater Europe and Africa from 2006 to 2013.
Lisa P. Steiner	56	Senior Vice President, Chief of Staff, and Director of Global Corporate Communications and Services since February 2015. Senior Vice President and Chief Human Resources Officer from 2009 to 2015. Senior Vice President and Director of Global Human Resources from 2007 to 2009.

Available Information

You can read and copy any materials that we file with the SEC in its 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 addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file with the SEC at www.sec.gov.

Our website address is www.brown-forman.com. 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 that 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. If we amend or waive any of the provisions of our Code of Conduct or our Code of Ethics applicable to our principal executive officer, principal financial officer, principal accounting officer, or controller that relates to any element of the definition of "code of ethics" enumerated in Item 406(b) of Regulation S-K under the Securities Act of 1934 Act, we intend to disclose these actions on our website. We have also posted on our website our Corporate Governance Guidelines and 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 emailing him at Secretary@b-f.com.

Item 1A. Risk Factors

We believe the following discussion identifies the most significant risks and uncertainties that could adversely affect our business. If any of the following risks were actually to occur, our business, results of operations, cash flows, or financial condition could be materially and adversely affected. Additional risks not currently known to us, or that we currently deem to be immaterial, could also materially and adversely affect our business, results of operations, cash flows, or financial condition.

Unfavorable economic conditions could negatively affect our operations and results.

Unfavorable global or regional economic conditions, including uncertainty caused by unstable geopolitical environments in many parts of the world, such as Russia, Brazil, and Turkey, could adversely affect our business and financial results. While the major economic disruptions of the 2008-2009 financial crisis have largely subsided, many markets where our products are sold still face significant economic challenges resulting from the ensuing global economic downturn that followed, including low consumer confidence, high unemployment, budget deficits, burdensome governmental debt, austerity measures, increased taxes, and weak financial, credit, and housing markets. Unfavorable economic conditions such as these can cause governments to increase taxes on beverage alcohol to attempt to raise revenue or reduce consumers' willingness to make discretionary purchases of beverage alcohol products or pay for premium brands such as ours. In unfavorable economic conditions, consumers may make more value-driven and price-sensitive purchasing choices and drink more at home rather than at restaurants, bars, and hotels, which tend to favor many of our premium and super-premium products.

Unfavorable economic conditions could also adversely affect our suppliers, distributors, and retailers, who in turn could experience cash flow problems, more costly or unavailable financing, credit defaults, and other financial hardships. This could lead to distributor or retailer destocking, increase our bad debt expense, or cause us to increase the levels of unsecured credit that we provide to customers. Other potential negative consequences to our business from poor economic conditions include higher interest rates, an increase in the rate of inflation, deflation, exchange rate fluctuations, credit or capital market instability, or lower returns on pension assets or lower discount rates for pension obligations (possibly requiring higher contributions to our pension plans). For details on the effects of changes in the value of our benefit plan obligations and assets on our financial results, see Note 9 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data."

Our global business is subject to commercial, political, and financial risks, including foreign currency exchange rate fluctuations.

Our products are sold in approximately 160 countries; accordingly, we are subject to risks associated with doing business globally, including commercial, political, and financial risks. In the long term, we continue to expect our growth rates in non-U.S. markets to surpass our growth rates in the United States. Emerging regions, such as eastern Europe, Latin America, Asia, and Africa, as well as more developed markets, such as the United Kingdom, France, Germany, and Australia, provide growth opportunities for us. If shipments of our products – particularly Jack Daniel's Tennessee Whiskey – to our global markets were to experience significant disruption due to these risks or for other reasons, it could have a material adverse effect on our financial results.

In addition, we are subject to potential business disruption caused by military conflicts; potentially unstable governments or legal systems; civil or political upheaval or unrest; local labor policies and conditions; possible expropriation, nationalization, or confiscation of assets; problems with repatriation of foreign earnings; economic or trade sanctions; closure of markets to imports; anti-American sentiment; terrorism or other types of violence in or outside the United States; health pandemics; and a significant reduction in global travel. For example, Europe is a key commercial and production region for some of our products, and further outbreaks of violence there could disrupt our operations. In addition, our ability to sell into Russia depends on our products being imported, and any economic or trade sanctions could materially adversely affect our operations there. Our success will depend, in part, on our ability to overcome the challenges we encounter with respect to these risks and other factors affecting U.S. companies with global operations.

The more we expand our business globally, the more exchange rate fluctuations relative to the U.S. dollar influence our financial results. In many markets outside the United States, we sell our products and pay for some goods, services, and labor primarily in local currency. Because our foreign currency revenues for each foreign currency exceed the corresponding foreign currency expense, we have a net exposure to changes in the value of the U.S. dollar relative to each of those currencies. Over time, our reported financial results generally will be hurt by a stronger U.S. dollar and improved by a weaker one. For instance, profits from our overseas businesses for fiscal 2016 were adversely affected by the recent strengthening of the U.S. dollar against currencies in our major markets, including the euro, Russian ruble, and Australian dollar. We do not attempt to hedge all of our foreign currency risk. We may, from time to time, attempt to hedge foreign currency risk, but, even in those cases, we may not be successful in limiting foreign currency risk through the use of foreign currency derivatives or other means. For details on how foreign exchange affects our business, see "Item 7A. Quantitative and Qualitative Disclosures about Market Risk – Foreign Exchange."

National and local governments may adopt regulations or undertake investigations that could limit our business activities or increase our costs.

Our business is subject to extensive regulatory requirements regarding production, exportation, importation, marketing and promotion, labeling, distribution, pricing, and trade practices, among others. Changes in laws, regulatory measures, or governmental policies, or in the manner in which current ones are interpreted, could cause us to incur material additional costs or liabilities, and jeopardize the growth of our business in the affected market. For instance, in fiscal 2016, we experienced disruption of our business in Indonesia due to recent changes in industry regulation and import duties. Specifically, governments may prohibit, or impose or increase limitations on, advertising and promotional activities, or times or locations where beverage alcohol may be sold or consumed, or adopt other measures that could limit our opportunities to reach consumers or sell our products. In Europe, for example, regulators in a number of countries have adopted or are considering severe limitations on the marketing and sale of beverage alcohol. Certain countries historically have banned all television, newspaper, magazine, and internet advertising for beverage alcohol products. Increases in regulation of this nature could substantially reduce consumer awareness for our products in the affected markets.

Some countries where we do business have a higher risk of corruption than others. While we are committed to doing business in accordance with applicable anti-corruption and other laws, our Code of Conduct, Code of Ethics for Senior Financial Officers, and other Company policies, we remain subject to the risk that an employee will violate our policies, or that any of our many affiliates or agents, such as importers, wholesalers, distributors, or other business partners, may take action determined to be in violation of international trade, money laundering, anti-corruption, or other laws, including the U.S. Foreign Corrupt Practices Act of 1977, the U.K. Bribery Act 2010, or equivalent local laws. Any determination that our operations or activities are not, or were not, in compliance with U.S. or foreign laws or regulations could result in investigations, interruption of business, loss of business partner relationships, suspension or termination of licenses and permits (our own or those of our partners), imposition of fines, legal or equitable sanctions, negative publicity, and management distraction. Further, our compliance with applicable anti-corruption or other laws, our Code of Conduct, Code of Ethics for Senior Financial Officers, and our other policies could result in higher operating costs.

Additional regulation in the United States and other countries addressing climate change, use of water, and other environmental issues could increase our operating costs. Increasing regulation of fuel emissions could increase the cost of energy, including fuel, required to operate our facilities or transport and distribute our products, thereby substantially increasing the production, distribution, and supply chain costs associated with our products.

Tax increases and changes in tax rules could adversely affect our financial results.

Our business is sensitive to changes in both direct and indirect taxes. As a multinational company based in the United States, we are more exposed to the impact of U.S. tax changes than most of our major competitors, especially those that affect the effective corporate income tax rate. Certain tax changes that have been or are currently proposed by the U.S. Congress or the President exemplify this risk, including repealing LIFO (last-in, first-out accounting treatment of inventory) for tax purposes, decreasing or eliminating the ability of U.S.-based companies to receive a tax credit for foreign taxes paid or to obtain a current U.S. tax deduction for certain expenses in the United States related to foreign earnings, changing the U.S. tax treatment of income related to foreign intangibles, decreasing or eliminating the U.S.

manufacturing deduction, or changing the rules relating to the depreciation of capital expenditures or the deduction of advertising expenses.

Our business operations are also subject to numerous duties or taxes that are not based on income, sometimes referred to as “indirect taxes,” which include excise taxes, sales or value-added taxes, property taxes, and payroll taxes. Increases in or the imposition of new indirect taxes on our operations or products would increase the cost of our products or, to the extent levied directly on consumers, make our products less affordable, which could negatively affect our financial results by reducing purchases of our products and encouraging consumers to switch to lower-priced or lower-taxed product categories. For example, certain jurisdictions, such as Brazil, have increased and may continue to increase excise taxes on beverage alcohol products, which could increase the cost of our products to consumers and could reduce consumer demand in those jurisdictions. Our global business can also be negatively affected by import and export duties, tariff barriers, and related local governmental protectionist measures, and the suddenness and unpredictability with which these can occur. As governmental entities look for increased sources of revenue, it is possible that they may increase taxes on beverage alcohol products. New tax rules, accounting standards, or pronouncements, and changes in interpretation of existing ones, could also have a significant adverse effect on our business and financial results. This includes potential changes in tax rules or the interpretation of tax rules arising out of the Base Erosion & Profit Shifting project initiated by the Organization for Economic Co-operation and Development.

Our business performance is substantially dependent upon the continued health of the Jack Daniel's family of brands.

The Jack Daniel's family of brands is the primary driver of our revenue and growth. Jack Daniel's is an iconic global trademark with a loyal consumer fan base, and we invest much effort and many resources to protect and preserve the brand's reputation for quality, craftsmanship, and authenticity. A brand's reputational value is based in large part on consumer perceptions, and even an isolated incident that causes harm – particularly one resulting in widespread negative publicity – could adversely influence these perceptions and erode consumer trust and confidence in the brand. Significant damage to the brand equity of Jack Daniel's would adversely affect our business. Given the importance of Jack Daniel's to our overall success, a significant or sustained decline in volume or selling price of our Jack Daniel's products would have a negative effect on our growth and our stock price. Additionally, should we not be successful in our efforts to maintain or increase the relevance of the Jack Daniel's brand in the minds of current and future consumers, our business and operating results could suffer. For details on the importance of the Jack Daniel's family of brands to our business, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Fiscal 2016 Brand Highlights."

Changes in consumer preferences and purchases, and our ability to anticipate or react to them, could negatively affect our business results.

We are a branded consumer products company in a highly competitive market, and our success depends on our continued ability to offer consumers appealing, high-quality products. Consumer preferences and purchases may shift due to a host of factors, many of which are difficult to predict, including changes in economic conditions, demographic and social trends, public health policies and initiatives, changes in government regulation of beverage alcohol products, the potential legalization of marijuana use on a more widespread basis within the United States or elsewhere, and changes in travel, leisure, dining, gifting, entertaining, and beverage consumption trends. Consumers also may begin to prefer the products of competitors or may generally reduce their demand for brands produced by larger companies. For example, smaller local distilleries are experiencing accelerated growth as a result of shifting consumer preferences toward locally-produced, regionally-sourced products. In addition, we could experience unfavorable business results if we fail to attract consumers from diverse backgrounds and ethnicities in the United States and in our other non-U.S. markets. Forecasts in the United States for several years after 2016 indicate a slight decrease in the population segment aged 21 to 24; fewer potential consumers in this age bracket could have a negative effect on industry growth rates and our business. To continue to succeed, we must anticipate or react effectively to shifts in demographics, consumer behavior, consumer preferences, drinking tastes, and drinking occasions.

Our plans call for the continued growth of the Jack Daniel's family of brands. In particular, we plan to continue to grow Jack Daniel's Tennessee Honey sales globally and to launch Jack Daniel's Tennessee Fire in select international markets in fiscal 2017. If these plans are unsuccessful, or if we otherwise fail to develop or implement effective business, portfolio, and brand strategies, our growth, stock price, or financial results could suffer. More broadly, if consumers shift away from spirits (particularly brown spirits such as American whiskey and bourbon), our premium-priced brands, or our RTD products, our financial results could be adversely affected.

We believe that new products, line extensions, label and bottle changes, product reformulations, and similar product innovations by both our competitors and us will compete increasingly for consumer drinking occasions. Product innovation is a significant element of our growth strategy; however, there can be no assurance that we will continue to develop and implement successful line extensions, packaging, formulation or flavor changes, or new products. Unsuccessful implementation or short-lived popularity of our product innovations could result in inventory write-offs and other costs, reduction in profits from one year to the next, and also could damage consumers' perception of the brand family. Our inability to attract consumers to our product innovations relative to our competitors' products –

especially over time – could negatively affect our growth, business, and financial results.
Production facility disruption could adversely affect our business.
Some of our largest brands, including Jack Daniel's and Finlandia Vodka, are distilled at single locations. A catastrophic event causing physical damage, disruption, or failure at one of our major distillation or bottling facilities could adversely affect our business. Further, because whiskeys and some tequilas are aged for various periods, we maintain a substantial inventory of aged and maturing products in warehouses at a number of different sites. The loss of a substantial amount of aged inventory –

through fire, other natural or man-made disaster, contamination, or otherwise – could significantly reduce the supply of the affected product or products. A consequence of any of these or other supply or supply chain disruptions could result in our inability to meet consumer demand for the affected products for a period of time. In addition, insurance proceeds may be insufficient to cover the replacement value of our inventory of maturing products and other assets if they were to be lost. Disaster recovery plans may not prevent business disruption, and reconstruction of any damaged facilities could require a significant amount of time.

The inherent uncertainty in supply/demand forecasting could adversely affect our business, particularly with respect to our aged products.

There is an inherent risk of forecasting imprecision in determining the quantity of aged and maturing products to produce and hold in inventory in a given year for future sale. The forecasting strategies we use to balance product supply with fluctuations in consumer demand may not be effective for particular years or products. We cannot be certain that we will be successful in using various levers, such as price, to create the desired balance of available supply and consumer demand for particular years or products. As a consequence, we may be unable to meet consumer demand for the affected products for a period of time. Furthermore, not having our products in the market on a consistent basis may adversely affect our brand equity and future sales.

Higher costs or unavailability of materials could adversely affect our financial results, as could our inability to obtain certain finished goods.

Our products use materials and ingredients that we purchase from suppliers. Our ability to make and sell our products depends upon the availability of the raw materials, product ingredients, finished products, wood, glass, bottles, cans, bottle closures, packaging, and other materials used to produce and package them. Without sufficient quantities of one or more key materials, our business and financial results could suffer. For instance, only a few glass producers make bottles on a scale sufficient for our requirements, and a single producer supplies most of our glass requirements. In addition, if we experienced a disruption in the supply of American oak logs to produce the new charred oak barrels in which we age our whiskeys, our production capabilities would be compromised. If any of our key suppliers were no longer able to meet our timing, quality, or capacity requirements, ceased doing business with us, or significantly raised prices, and we could not promptly develop alternative cost-effective sources of supply or production, our operations and financial results could suffer.

Higher costs or insufficient availability of suitable grain, agave, water, grapes, wood, glass, closures, and other input materials, or higher associated labor costs or insufficient availability of labor, may adversely affect our financial results, because we may not be able to pass along such cost increases or the cost of such shortages through higher prices to customers without reducing demand or sales. Similarly, when energy costs rise, our transportation, freight, and other operating costs, such as distilling and bottling expenses, also may increase. Our financial results may be adversely affected if we are not able to pass along energy cost increases through higher prices to our customers without reducing demand or sales.

Weather, the effects of climate change, diseases, and other agricultural uncertainties that affect the mortality, health, yield, quality, or price of the various raw materials used in our products also present risks for our business, including in some cases potential impairment in the recorded value of our inventory. Changes in weather patterns or intensity can disrupt our supply chain as well, which may affect production operations, insurance costs and coverage, as well as the timely delivery of our products.

Water is one of the major components of our products, so the quality and quantity of available water is important to our ability to operate our business. If droughts become more common or severe, or if our water supply were interrupted for other reasons, high-quality water could become scarce in some key production regions for our products, including Tennessee, Kentucky, California, Finland, Canada, and Mexico.

If the social acceptability of our products declines, or governments adopt policies disadvantageous to beverage alcohol, our business could be adversely affected.

Our ability to market and sell our products depends heavily on societal attitudes toward drinking and governmental policies that both flow from and affect those attitudes. In recent years, increased social and political attention has been directed at the beverage alcohol industry. For example, there remains continued attention focused largely on public health concerns related to alcohol abuse, including drunk driving, underage drinking, and the negative health impacts of the abuse and misuse of beverage alcohol. While most people who drink enjoy alcoholic beverages in moderation, it is commonly known and well reported that excessive levels or inappropriate patterns of drinking can lead to increased risk of a range of health conditions and, for certain people, can result in alcohol dependence. Some academics, public health officials, and critics of the alcohol industry in the United States, Europe, and other countries continue to seek governmental measures to make beverage alcohol more expensive, less available, or more difficult to advertise and promote. If future research indicated more widespread serious health risks associated with alcohol consumption – particularly with moderate consumption – or if for any reason the social acceptability of beverage alcohol were to decline significantly, sales of our products could decrease.

Significant additional labeling or warning requirements or limitations on the availability of our products could inhibit sales of affected products.

Various jurisdictions have adopted or may seek to adopt significant additional product labeling or warning requirements or limitations on the availability of our products relating to the content or perceived adverse health consequences of some of our products. Several such labeling regulations or laws require warnings on any product with substances that the state lists as potentially causing cancer or birth defects. Our products already raise health and safety concerns for some regulators, and heightened requirements could be imposed. If additional or more severe requirements of this type become applicable to one or more of our major products under current or future health, environmental, or other laws or regulations, they could inhibit sales of such products.

We face substantial competition in our industry, including many new entrants into spirits as well as from consolidation among beverage alcohol producers, wholesalers, or retailers, or changes to our route-to-consumer model, could hinder the marketing, sale, or distribution of our products.

We use different business models to market and distribute our products in different countries around the world. In the United States, we sell our products either to distributors for resale to retail outlets or, in those states that control alcohol sales, to state governments who then sell them to retail customers and consumers. In our non-U.S. markets, we use a variety of route-to-consumer models – including, in many markets, reliance on others to market and sell our products. Consolidation among spirits producers, distributors, wholesalers, suppliers, or retailers could create a more challenging competitive landscape for our products. Consolidation at any level could hinder the distribution and sale of our products as a result of reduced attention and resources allocated to our brands both during and after transition periods, because our brands might represent a smaller portion of the new business portfolio. Expansion into new product categories by other suppliers, or innovation by new entrants into the market, could increase competition in our product categories.

For example, we are experiencing increased competition for some of our products from new entrants in the small-batch or craft spirits category. Changes to our route-to-consumer models or partners in important markets could result in temporary or longer-term sales disruption, could result in higher costs, and could negatively affect other business relationships we might have with that partner. Disruption of our distribution network or fluctuations in our product inventory levels at distributors, wholesalers, or retailers could negatively affect our results for a particular period. Further, while we believe we have sufficient scale to succeed relative to our major competitors, we nevertheless face a risk that continuing consolidation of large beverage alcohol companies could put us at a competitive disadvantage.

Our competitors may respond to industry and economic conditions more rapidly or effectively than we do. Other suppliers, as well as wholesalers and retailers of our brands, offer products that compete directly with ours for shelf space, promotional displays, and consumer purchases. Pricing (including price promotions, discounting, couponing, and free goods), marketing, new product introductions, entry into our distribution networks, and other competitive behavior by other suppliers, and by wholesalers and retailers, could adversely affect our sales, margins, and profitability. While we seek to take advantage of the efficiencies and opportunities that large retail customers can offer, they often seek lower pricing and purchase volume flexibility, offer competing own-label products, and represent a large number of other competing products. If the buying power of these large retail customers continues to increase, it could negatively affect our financial results.

We might not succeed in our strategies for acquisitions and dispositions.

From time to time, we acquire or invest in additional brands or businesses. We expect to continue to seek acquisition and investment opportunities that we believe will increase long-term shareholder value, but we may not be able to find and purchase brands or businesses at acceptable prices and terms. Acquisitions involve risks and uncertainties, including potential difficulties integrating acquired brands and personnel; the possible loss of key customers or employees most knowledgeable about the acquired business; implementing and maintaining consistent U.S. public company standards, controls, procedures, policies, and information systems; exposure to unknown liabilities; business disruption; and management distraction. Acquisitions, investments, or joint ventures could also lead us to incur additional debt and related interest expenses, issue additional shares, become exposed to contingent liabilities, and lead to dilution in our earnings per share and reduction in our return on average invested capital. We could incur future restructuring charges or record impairment losses on the value of goodwill or other intangible assets resulting from previous acquisitions, which may also negatively affect our financial results.

We also evaluate from time to time the potential disposition of assets or businesses that may no longer meet our growth, return, or strategic objectives. In selling assets or businesses, we may not get prices or terms as favorable as we anticipated. We could also encounter difficulty in finding buyers on acceptable terms in a timely manner, which could delay our accomplishment of strategic objectives. Expected cost savings from reduced overhead relating to the sold assets may not materialize, and the overhead reductions could temporarily disrupt our other business operations. Any of these outcomes could negatively affect our financial performance.

Product counterfeiting or inadequate protection of our intellectual property rights could adversely affect our business prospects.

Our brand names, trademarks, and related intellectual property rights are critical assets, and our business depends on our protecting them in the countries where we do business. We may be unsuccessful in protecting our intellectual property rights in a given market or in challenging those who infringe our rights or imitate or counterfeit our products. Although we believe that our intellectual property rights are legally protected in the markets in which we do business, the ability to register and enforce intellectual property rights varies from country to country. In some developing countries, for example, it may be more difficult to use legal process to stop counterfeiting. We may not be able to register our trademarks in every country where we want to sell a particular product, and we may not obtain favorable decisions by courts or trademark offices.

Many global spirits brands, including our brands, experience problems with product counterfeiting and other forms of trademark infringement. We work cooperatively with other spirits industry companies through our membership in the International Federation of Spirits Producers (IFSP) to combat spirits counterfeiting. While we believe IFSP is an effective organization, it is not active in every market, and its efforts are subject to cooperation with local authorities and courts in the markets where it is active. Despite our and IFSP's efforts, confusingly similar, lower-quality, or even counterfeit products harmful to consumers could reach the market and adversely affect our intellectual property rights, brand equity, corporate reputation, and financial results. In addition, the industry as a whole could suffer negative effects related to the manufacture, sale, and consumption of illegally produced beverage alcohol.

Product recalls or other product liability claims could materially and adversely affect our sales.

The success of our brands depends upon the positive image that consumers have of those brands. We could decide to, or be required to, recall products due to suspected or confirmed product contamination, product tampering, spoilage, or other quality issues. Any of these events could adversely affect our sales. Actual contamination, whether deliberate or accidental, could lead to inferior product quality and even illness, injury, or death to consumers, potential liability claims, and material loss. Should a product recall become necessary, or we voluntarily recall a product in the event of contamination, damage, or other quality issue, sales of the affected product or our broader portfolio of brands could be adversely affected. A significant product liability judgment or widespread product recall may negatively impact the sales and profitability of the affected brand or brands. Even if a product liability claim is unsuccessful or is not fully pursued, resulting negative publicity could adversely affect our reputation with existing and potential customers and our corporate and brand image.

Litigation and legal disputes could expose our business to financial and reputational risk.

Major private or governmental litigation challenging the production, marketing, promotion, distribution, or sale of beverage alcohol or specific brands could affect our ability to sell products. Because litigation and other legal proceedings can be costly to defend, even actions that are ultimately decided in our favor could have a negative impact on our business reputation or financial results. Lawsuits have been brought against beverage alcohol companies alleging problems related to alcohol abuse, negative health consequences from drinking, problems from alleged marketing or sales practices, or underage drinking. While these lawsuits have been largely unsuccessful in the past, others may succeed in the future. We could also experience employment-related class actions, environmental claims, commercial disputes, product liability actions stemming from a beverage or container production defect, a whistleblower suit, or other major litigation that could adversely affect our business results, particularly if there is negative publicity or to the extent the losses or expenses were not covered by insurance.

Governmental actions around the world to enforce trade practice, anti-money-laundering, anti-corruption, competition, tax, environmental, and other laws are also a continuing compliance risk for global companies such as ours. In addition, as a U.S. public company, we are exposed to the risk of securities-related class action suits, particularly following a precipitous drop in the share price of our stock. Adverse developments in major lawsuits concerning these or other matters could result in management distraction and have a material adverse effect on our business.

A failure or corruption of one or more of our key information technology systems, networks, processes, associated sites, or service providers could have a material adverse impact on our business.

We rely on information technology (IT) systems, networks, and services, including internet sites, data hosting and processing facilities and tools, hardware (including laptops and mobile devices), software, and technical applications and platforms, some of which are managed, hosted, provided, or used by third parties or their vendors, to help us manage our business. The various uses of these IT systems, networks, and services include, but are not limited to: hosting our internal network and communication systems; ordering and managing materials from suppliers; supply/demand planning; production; shipping product to customers; hosting our branded websites and marketing products to consumers; collecting and storing customer, consumer, employee, investor, and other data; processing transactions; summarizing and reporting results of operations; hosting, processing, and sharing confidential and proprietary research, business plans, and financial information; complying with regulatory, legal, or tax requirements; providing data security; and handling other processes necessary to manage our business.

Increased IT security threats and more sophisticated cyber crime pose a potential risk to the security and availability of our IT systems, networks, and services, including those that are managed, hosted, provided, or used by third parties, as well as the confidentiality, availability, and integrity of our data. If the IT systems, networks, or service providers we rely upon fail to function properly, or if we suffer a loss or disclosure of business or other sensitive information, due to any number of causes, ranging from catastrophic events to power outages to security breaches, and our business continuity plans do not effectively and timely address these failures, we may suffer interruptions in our ability to manage operations and reputational, competitive, or business harm, which may adversely affect our business operations or financial condition. In addition, such events could result in unauthorized disclosure of material confidential information, and we may suffer financial and reputational damage because of lost or misappropriated confidential information belonging to us or to our partners, our employees, customers, suppliers, or consumers. In any of these events, we could also be required to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and IT systems, which, in any case, could require a significant amount of time.

Negative publicity could affect our stock price and business performance.

Unfavorable publicity, whether accurate or not, related to our industry or to us or our brands, marketing, personnel, operations, business performance, or prospects could negatively affect our corporate reputation, stock price, ability to attract high-quality talent, or the performance of our business. Adverse publicity or negative commentary on social media outlets, particularly any that goes “viral,” could cause consumers to react by avoiding our brands or choosing brands offered by our competitors, which could materially negatively affect our financial results.

Our failure to attract or retain key executive or employee talent could adversely affect our business.

Our success depends upon the efforts and abilities of our senior management team, other key employees, and a high-quality employee base, as well as our ability to attract, motivate, reward, and retain them. Difficulties in hiring or retaining key executive or other employee talent, or the unexpected loss of experienced employees, could have an adverse impact on our business performance.

The Brown family has the ability to control the outcome of matters submitted for stockholder approval.

We are considered a “controlled company” under New York Stock Exchange rules. Controlled companies are exempt from New York Stock Exchange listing standards that require a board composed of a majority of independent directors, a fully independent nominating/corporate governance committee, and a fully independent compensation committee. We avail ourselves of the exemptions from having a board composed of a majority of independent directors and a fully independent nominating/corporate governance committee. Notwithstanding the available exemption, our Compensation Committee is composed exclusively of independent directors. As a result of our use of some “controlled company” exemptions, our corporate governance practices differ from those of non-controlled companies, which are subject to all of the New York Stock Exchange corporate governance requirements.

A substantial majority of our voting stock is controlled by members of the Brown family, and collectively, they have the ability to control the outcome of stockholder votes, including the election of all of our directors and the approval or rejection of any merger, change of control, or other significant corporate transaction. We believe that having a long-term-focused, committed, and engaged shareholder base provides us with an important strategic advantage, particularly in a business with aged products and multi-generational brands. This advantage could be eroded or lost, however, should Brown family members cease, collectively, to be controlling stockholders of the Company. We desire to remain independent and family-controlled, and we believe the Brown family stockholders share these interests. However, the Brown family’s interests may not always be aligned with other stockholders’ interests. By exercising their control, the Brown family could cause the Company to take actions that are at odds with the investment goals of institutional, short-term, non-voting, or other non-controlling investors, or that have a negative effect on our stock price.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Company-owned production facilities include distilleries, a winery, a concentrate plant, bottling plants, warehousing operations, sawmills, and cooperages. We also have agreements with other parties for contract production in Australia, Belgium, Brazil, China, Estonia, Finland, Ireland, Mexico, the Netherlands, South Africa, and the United States.

In addition to Company-owned corporate offices in Louisville, Kentucky, we lease office space for use in our sales, marketing, and administrative operations in the United States and in over 40 other cities around the globe. The lease terms expire at various dates and are generally renewable. Our most significant office locations outside Louisville are:

- United States: Irvine, California; Irving, Texas; Atlanta, Georgia; Baltimore, Maryland; and Washington, D.C.
- International: Guadalajara, Mexico; Hamburg, Germany; Sydney, Australia; London, United Kingdom; Warsaw, Poland; Paris, France; Mexico City, Mexico; Prague, Czech Republic; São Paulo, Brazil; Istanbul, Turkey; Amsterdam, Netherlands; Moscow, Russia; Shanghai, China; Hong Kong; and Gurgaon, India.

Significant Properties

Location	Principal Activities	Notes
United States:		
Louisville, Kentucky	Corporate offices	Includes several renovated historic structures
	Distilling, bottling, warehousing	
	Cooperage	Brown-Forman Cooperage
Lynchburg, Tennessee	Distilling, bottling, warehousing	Home of Jack Daniel’s
	Visitors’ center	
Woodford County, Kentucky	Distilling, bottling, warehousing	Home of Woodford Reserve
	Visitors’ center	
Windsor, California	Winery, bottling, warehousing	Home of Sonoma-Cutrer
	Visitors’ center	
Decatur, Alabama	Cooperage	Jack Daniel Cooperage
Clifton, Tennessee	Stave and heading mill	
Stevenson, Alabama	Stave and heading mill	
Spencer, Indiana	Stave and heading mill	Acquired in first quarter fiscal 2016
Jackson, Ohio	Stave and heading mill	Land is leased from a third party
International:		
Collingwood, Canada	Distilling, warehousing	Home of Canadian Mist
Cour-Cheverny, France	Distilling, bottling, warehousing	Home of Chambord
Amatitán, Mexico	Distilling, bottling, warehousing	Home of our tequilas and New Mix RTDs
	Visitors’ center	
Slane, Ireland	Distilling, visitors’ center	Future home of Slane Irish Whiskey

We believe that our facilities are in good condition and are adequate for our business.

Item 3. Legal Proceedings

We operate in a litigious environment and we are sued in the normal course of business. We do not anticipate that any currently pending suits will have, individually or in the aggregate, a material adverse effect on our financial position, results of operations, or liquidity.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our Class A and Class B common stock is traded on the New York Stock Exchange under the symbols "BFA" and "BFB," respectively. As of May 31, 2016, there were 2,736 holders of record of Class A common stock and 5,154 holders of record of Class B common stock. Because of overlapping ownership between classes, as of May 31, 2016, we had only 5,719 distinct common stockholders of record.

The following table sets forth, for the periods indicated, the high and low sales prices per share for our Class A and Class B common stock, as reported on the New York Stock Exchange composite tape, and dividend per share information:

	Fiscal 2015					Fiscal 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Market price per share:										
Class A high	$95.29	$93.09	$98.00	95.23	$98.00	$119.49	$122.30	$117.53	$112.24	$122.30
Class A low	85.98	81.38	85.33	86.85	81.38	93.09	105.87	99.50	100.40	93.09
Class B high	97.15	93.62	97.97	93.99	97.97	108.41	110.81	106.88	103.39	110.81
Class B low	86.48	81.89	85.43	86.71	81.89	90.65	95.21	90.60	93.25	90.60
Cash dividends per share:										
Declared	0.580	—	0.630	—	1.210	0.630	—	0.680	—	1.310
Paid	0.290	0.290	0.315	0.315	1.210	0.315	0.315	0.340	0.340	1.310

Note: Quarterly amounts may not add to amounts for the year due to rounding.

Equity Compensation Plan Information

The following table summarizes information as of April 30, 2016, about our equity compensation plans under which we have made grants of stock options, stock appreciation rights, restricted stock, market value units, performance units, or other equity awards.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights[1]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights[2]	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by Class A common stockholders	1,532,196	$56.83	6,803,869

[1]Includes 1,411,701 Class B common shares to be issued upon exercise of stock-settled stock appreciation rights (SSARs); 67,426 Class B common restricted stock units (RSUs); 31,676 Class A common deferred stock units (DSUs); and 21,393 Class B common DSUs issued under the Brown-Forman 2004 or 2013 Omnibus Compensation Plans. Does not include issued shares of performance-based restricted stock. SSARs are exercisable for an amount of our common stock with a value equal to the increase in the fair market value of the common stock from the date the SSARs were granted. The fair market value of our common stock at fiscal year-end has been used for the purposes of reporting the number of shares to be issued upon exercise of the 3,426,162 SSARs outstanding at fiscal year-end.

[2]RSUs and DSUs have no exercise price because their value depends on continued employment or service over time, and are to be settled for shares of Class B common stock. Accordingly, these have been disregarded for purposes of computing the weighted-average exercise price.

Stock Performance Graph

The graph below compares the cumulative total shareholder return of our Class B common stock for the last five years with the Standard & Poor's 500 Stock Index, the Dow Jones U.S. Consumer Goods Index, and the Dow Jones U.S. Food & Beverage Index. The information presented assumes an initial investment of $100 on April 30, 2011, and that all dividends were reinvested. The cumulative returns shown represent the value that these investments would have had on April 30 in the years since 2011.

Share Repurchases

The following table provides information about shares of our common stock that we acquired during the quarter ended April 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
February 1, 2016 - February 29, 2016	1,133,637	$96.03	1,133,637	$1,124,800,000
March 1, 2016 - March 31, 2016	1,282,310	$97.38	1,282,310	$1,000,000,000
April 1, 2016 - April 30, 2016	1,165,013	$95.70	1,165,013	$888,500,000
Total	3,580,960	$96.41	3,580,960	

As we announced on October 15, 2014, our Board of Directors authorized us to repurchase up to $250 million of our outstanding Class A and Class B common shares from October 15, 2014, through October 14, 2015, subject to market and other conditions. As we announced on March 25, 2015, the Board approved a $1 billion increase to the share repurchase authorization and extended it through March 24, 2016, subject to market and other conditions. As we announced on January 28, 2016, the Board approved a new $1 billion share repurchase authorization, commencing April 1, 2016, through March 31, 2017, subject to market and other conditions. The shares presented in the table above were acquired under these Board authorizations.

Item 6. Selected Financial Data
This selected financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the accompanying Notes contained in "Item 8. Financial Statements and Supplementary Data."
BROWN-FORMAN CORPORATION
SELECTED FINANCIAL DATA
(Dollars in millions, except per share amounts)

Year Ended April 30,	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Continuing Operations:										
Net sales	$2,806	3,282	3,192	3,226	3,404	3,614	3,784	3,946	4,096	4,011
Gross profit	$1,481	1,695	1,577	1,611	1,724	1,795	1,955	2,078	2,183	2,144
Operating income	$602	685	661	710	855	788	898	971	1,027	1,533
Net income	$400	440	435	449	572	513	591	659	684	1,067
Weighted average shares used to calculate earnings per share										
– Basic	230.4	229.6	225.7	221.8	218.4	214.5	213.4	213.5	211.6	203.0
– Diluted	232.8	231.6	227.1	222.9	219.8	216.1	215.0	215.1	213.1	204.3
Earnings per share from continuing operations										
– Basic	$1.74	1.91	1.92	2.02	2.61	2.39	2.77	3.08	3.23	5.26
– Diluted	$1.72	1.89	1.91	2.01	2.60	2.37	2.75	3.06	3.21	5.22
Gross margin	52.8 %	51.6 %	49.4 %	50.0 %	50.7 %	49.7 %	51.7 %	52.7 %	53.3 %	53.4 %
Operating margin	21.5 %	20.9 %	20.7 %	22.0 %	25.1 %	21.8 %	23.7 %	24.6 %	25.1 %	38.2 %
Effective tax rate	31.7 %	31.7 %	31.1 %	34.1 %	31.0 %	32.5 %	31.7 %	30.5 %	31.7 %	28.3 %
Average invested capital	$2,431	2,747	2,893	2,825	2,711	2,803	2,834	3,131	3,196	3,221
Return on average invested capital	17.4 %	17.2 %	15.9 %	16.6 %	21.8 %	19.1 %	21.7 %	21.6 %	22.0 %	34.1 %
Total Company:										
Cash dividends declared per common share	$0.62	0.69	0.75	0.78	1.49	0.89	4.98	1.09	1.21	1.31
Total assets at April 30	$3,551	3,405	3,475	3,383	3,712	3,477	3,626	4,103	4,188	4,183
Long-term debt at April 30	$422	417	509	508	504	503	997	997	743	1,230
Total debt at April 30	$1,177	1,006	999	699	759	510	1,002	1,005	1,183	1,501
Cash flow from operations	$355	534	491	545	527	516	537	649	608	524
Dividend payout ratio	36.8 %	35.8 %	38.9 %	38.7 %	57.0 %	37.4 %	179.8 %	35.3 %	37.5 %	25.0 %

Notes:

1. Includes the consolidated results of Chambord and Casa Herradura since their acquisitions in May 2006 and January 2007, respectively. Includes the results of our Hopland-based wine brands, which were sold in April 2011 but retained in our portfolio as agency brands through December 2011. Includes the results of Southern Comfort and Tuaca, both of which were sold on March 1, 2016.
2. Weighted average shares, earnings per share, and cash dividends declared per common share have been adjusted for a 5-for-4 stock split in October 2008 and a 3-for-2 stock split in August 2012.
3. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation – Non-GAAP Financial Measures" for details on our use of "return on average invested capital," including how we calculate this measure and why we think this information is useful to readers.
4. Cash dividends declared per common share include special cash dividends of $0.67 per share in fiscal 2011 and $4.00 per share in fiscal 2013.
5. We define dividend payout ratio as cash dividends divided by net income.
6. Results for fiscal 2016 include a gain of $485 million on the sale of Southern Comfort and Tuaca. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation – Executive Summary –

Fiscal 2016 Financial Highlights” for additional information about the impact of that sale on our operating results for fiscal 2016.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand Brown-Forman, our operations, our financial results, and our current business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our Consolidated Financial Statements and the accompanying Notes contained in "Item 8. Financial Statements and Supplementary Data."

Volume and Depletions

When discussing volume, unless otherwise specified, we refer to "depletions," a term commonly used in the beverage alcohol industry. Depending on the context, "depletions" means either (a) our shipments directly to retailers or wholesalers, or (b) shipments from our distributor customers to retailers and wholesalers. We generally record revenues when we ship our products to our customers, so our reported sales for a period do not necessarily reflect actual consumer purchases during that period. We believe that our depletions measure volume in a way that more closely reflects consumer demand than our shipments to distributor customers do.

Volume is discussed on a nine-liter equivalent unit basis (nine-liter cases) unless otherwise specified. At times, we use a "drinks-equivalent" measure for volume when comparing single-serve ready-to-drink (RTD) or ready-to-pour (RTP) brands to a parent spirits brand. "Drinks-equivalent" depletions are RTD and RTP nine-liter cases converted to nine-liter cases of a parent brand on the basis of the number of drinks in one nine-liter case of the parent brand. To convert RTD volumes from a nine-liter case basis to a drinks-equivalent nine-liter case basis, RTD nine-liter case volumes are divided by 10, while RTP nine-liter case volumes are divided by 5.

Non-GAAP Financial Measures

We use certain financial measures in this report that are not measures of financial performance under GAAP. These non-GAAP measures, which are defined below, should be viewed as supplements to (not substitutes for) our results of operations and other measures reported under GAAP. The non-GAAP measures we use in this report may not be defined and calculated by other companies in the same manner.

We present changes in certain income statement line-items that are adjusted to an "underlying" basis, which we believe assists in understanding both our performance from period to period on a consistent basis, and the trends of our business. Non-GAAP "underlying" measures include changes in (a) underlying net sales, (b) underlying cost of sales, (c) underlying excise taxes, (d) underlying gross profit, (e) underlying advertising expenses, (f) underlying selling, general, and administrative (SG&A) expenses, and (g) underlying operating income. To calculate these measures, we adjust, as applicable, for (a) foreign currency exchange, (b) estimated net changes in distributor inventories, and (c) the impact of acquisition and divestiture activity. We explain these adjustments below.

- "Foreign exchange." We calculate the percentage change in our income statement line items in accordance with GAAP and adjust to exclude the cost or benefit of currency fluctuations. Adjusting for foreign exchange allows us to understand our business on a constant-dollar basis, as fluctuations in exchange rates can distort the underlying trend both positively and negatively. (In this report, "dollar" always means the U.S. dollar unless stated otherwise.) To eliminate the effect of foreign exchange fluctuations when comparing across periods, we translate current year results at prior-year rates.
- "Estimated net change in distributor inventories." This measure refers to the estimated net effect of changes in distributor inventories on changes in our measures. For each period compared, we estimate the effect of distributor inventory changes on our results using depletion information provided by our distributors. We believe that this adjustment reduces the effect of varying levels of distributor inventories on changes in our measures and allows us to understand better our underlying results and trends.
- "Sale of Southern Comfort and Tuaca." On January 14, 2016, we reached an agreement to sell our Southern Comfort and Tuaca brands and related assets to Sazerac Company, Inc. The transaction closed March 1, 2016, for $543 million in cash (subject to a post-closing inventory adjustment), which resulted in a one-time gain of $485 million in the fourth quarter of fiscal 2016. This adjustment removes (a) the gain on sale, (b) those transaction-related costs not included in the gain on sale, and (c) operating activity for the non-comparable period, March and April in fiscal 2015 and 2016. We believe that these adjustments allow us to understand better our underlying results on a comparable basis.

Management uses "underlying" measures of performance to assist it in comparing and measuring our performance from period to period on a consistent basis, and in comparing our performance to that of our competitors. We also use underlying measures in connection with management incentive compensation calculations. Management also uses underlying measures in its planning and forecasting and in communications with the board of directors, stockholders, analysts, and investors concerning our financial performance. We have provided reconciliations of the non-GAAP measures adjusted to an "underlying" basis to their nearest GAAP measures in the tables below under “Results of Operations – Year-Over-Year Comparisons” and have consistently applied the adjustments within our reconciliations in arriving at each non-GAAP measure.

We also use the following additional non-GAAP financial measures in “Item 6. Selected Financial Data” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary”:

- “Return on average invested capital.” This measure refers to the sum of net income and after-tax interest expense, divided by average invested capital. Average invested capital equals assets less liabilities, excluding interest-bearing debt, and is calculated using the average of the most recent 13 month-end balances. After-tax interest expense equals interest expense multiplied by one minus our effective tax rate. We consider return on average invested capital to be a meaningful indicator of how effectively and efficiently we use capital invested in our business.
- “Adjusted” measures for (a) operating income, (b) operating margin, (c) effective tax rate, (d) diluted earnings per share, and (e) return on average invested capital. We provide these adjusted measures to identify the effect of the sale of Southern Comfort and Tuaca on reported income from operations and other key measures derived therefrom; this effect is expected not be part of our sustainable results or trends. These measures remove the effects of (a) the gain on sale, (b) those transaction-related costs not included in the gain on sale, and (c) operating activity related to the brands for the period subsequent to their divestiture (March and April in fiscal 2016). Tax effects on items (c), (d), and (e) are calculated consistent with the nature of the underlying transaction.

Our MD&A includes the following sections:

EXECUTIVE SUMMARY

Overview

Over the past several years, including fiscal 2016, we have made progress toward realizing the ambitions of our long-term strategy, which was first set forth in fiscal 2010 and has evolved along with our business since then. See "Item 1. Business – Strategy" for details. Here is a discussion of recent developments:

- We have further developed the Jack Daniel's family of brands through innovations designed to create new demand for products from the world's foremost maker of American whiskey. These efforts resulted in the successful launch of Jack Daniel's Tennessee Honey (JDTH), Jack Daniel's Tennessee Fire (JDTF), and a series of ultra-premium-priced line extensions including Jack Daniel's Sinatra Select, Jack Daniel's No. 27 Gold Tennessee Whiskey, and several additions to the Jack Daniel's Single Barrel Collection. At the same time, we have invested steadily in our core Jack Daniel's Tennessee Whiskey (JDTW) brand to support its growth around the world.

We are partway through a multiyear production capacity expansion project for Jack Daniel's. In fiscal 2014, we completed construction of the Jack Daniel Cooperage in Decatur, Alabama. We announced a major expansion of our distilling capacity in August 2013, and we completed construction of a new distillery on our property in Lynchburg, Tennessee during the first quarter of fiscal 2016. The next stage of our expansion in Lynchburg will add bottling capacity and finished product warehousing, to be completed in the next few years.

- The continued growth of the Jack Daniel's family of brands is the most important measure of our progress toward becoming a global leader in whiskey. Woodford Reserve's growth has also helped us move forward on this ambition, as this super-premium brand grew volume at a compound annual rate of approximately 25% from fiscal 2011 to fiscal 2016 – more than doubling its annual volume to approximately 500,000 nine-liter cases by the end of fiscal 2016. In June 2013, we announced a more than $35 million expansion at our Woodford Reserve Distillery to support our expected growth. During fiscal 2014, we completed a renovation of our visitors' center at the Woodford Reserve Distillery, as visitors have increased over 20% since fiscal 2014 to almost 125,000 visitors in fiscal 2016. During fiscal 2016, we completed the construction of two new warehouses, and we entered into the second phase of a bottling expansion. In fiscal 2017, we expect to complete two new warehouses.
- Brown-Forman was founded in 1870 with Old Forester, the world's first bottled bourbon brand. Old Forester is attracting a new generation of fans, as it has grown net sales by approximately 20% annually since fiscal 2011, including growth of nearly 50% in fiscal 2016. We plan to leverage the current momentum of Old Forester and the favorable trends in American whiskey to reestablish Old Forester as an iconic bourbon brand. To support our ambition, we announced the construction of the Old Forester Distillery and visitors' center in fiscal 2014, and in May 2015 purchased two historic buildings on Main Street in Louisville for its location. We began construction of the Old Forester Distillery in February 2016, and we expect to open late in 2017. We anticipate investing approximately $50

million in this project.

- Over the past five years, we have divested certain businesses to enable better alignment of our resources with our long-term strategy. We divested our Hopland-based wine brands in 2011, leaving us with a portfolio primarily focused on spirits. Since then, we have pursued growth of our spirits portfolio mostly by organic means, with innovation playing a key role (see discussion below). In March 2016, we sold Southern Comfort and Tuaca to dedicate additional resources to opportunities with greater long-term growth prospects. See ‘‘Financial Highlights’’ below, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations,” and Note 15 to the accompanying financial statements for details about the financial impact of the sale of Southern Comfort and Tuaca.
- In addition to our successful efforts to develop and introduce new products and line extensions for the Jack Daniel’s family of brands, we have pursued growth through innovation in the rest of our portfolio. Notable introductions have included Woodford Reserve Double Oaked (fiscal 2012) and Herradura Ultra (fiscal 2015). In April 2016, we announced plans to release our first new bourbon trademark in 20 years, Coopers’ Craft, in the summer of 2016 (fiscal 2017).

- In June 2015 (fiscal 2016), we purchased all of the shares of Slane Castle Irish Whiskey Limited and announced plans to invest approximately $40 million to build a new distillery, construct warehouses, and develop a consumer experience on the historic Slane Castle Estate (in County Meath, about 30 miles north of Dublin). We plan to open the Slane Castle Whiskey Distillery and to introduce new Irish whiskeys in the spring of 2017, using high-quality whiskey purchased from other Irish distilleries and finished to Slane's specifications while the whiskey made at the new Slane Distillery matures.
- In June 2016 (fiscal 2017), we purchased The BenRiach Distillery Company Limited and, with it, three single malt Scotch whisky brands and distilleries – The GlenDronach, BenRiach, and Glenglassaugh. This purchase included other trademarks, a bottling plant, and The BenRiach Distillery Company Limited's headquarters in Edinburgh, Scotland. We believe that these super-premium brands will provide us an immediate opportunity to participate in the growing single malt Scotch category and strengthen our portfolio's long-term growth prospects in markets such as the United States, the United Kingdom, Taiwan, Germany, and in travel retail. We plan to build three new warehouses in fiscal 2017 to support the growth of these brands.
- Our focus on the importance of the barrel in crafting whiskeys of the highest quality is perhaps unique in the industry. We believe we are the largest maker of new whiskey barrels in the world and, within the global spirits industry, only we own manufacturing facilities for new whiskey barrels. Our control over this critical input to the whiskey-making process gives us a competitive advantage – one that applies both to Jack Daniel's and to our other aged spirits, including bourbons and tequilas today and – over time – Irish and Scotch whiskeys. For example, our barrel-making expertise enables us to introduce unique characteristics into our products, as we did with our successful recent innovation, Woodford Reserve Double Oaked. In addition, newly-introduced Coopers' Craft bourbon was created to celebrate our more than 70 years of expertise raising barrels at the Brown-Forman Cooperage. While we expect it to benefit from a generally favorable craft spirits trend, we also believe that linking its identity to our distinctive barrel-making expertise will benefit Coopers'. As we progress toward becoming a global leader in whiskey, we will continue to take advantage of this source of differentiation for our existing portfolio and across the range of new opportunities.
- Over the past several decades, we have pursued international growth both in larger, developed markets and in the emerging world. In recent years, our most visible progress has been the evolution of our RTC strategy in several key markets. We set up new distribution companies in three of our current top ten countries (Germany, France, and Turkey) and also in Brazil, a market that we believe is among our most promising long-term growth opportunities. In fiscal 2017, we plan to establish a new distribution company in Spain, which we expect to begin operating in fiscal 2018. We have added substantially to our employee base outside the United States, mostly in markets where we evolved our RTC strategy.
- Our capital deployment initiatives have been focused on (1) enabling the expected future growth of our existing businesses through investments in our production capacity, innovation, and brand-building efforts for our existing portfolio; and (2) returning cash to our shareholders. From fiscal 2010 through 2016, we returned over $4.6 billion to our shareholders through $1.5 billion in regular quarterly dividends, $1.0 billion in two special dividends, and $2.1 billion in share repurchases.

Summary and Timing of Recent Developments

Fiscal year	PORTFOLIO	ROUTE-TO-CONSUMER	PRODUCTION
2011	Introduced Jack Daniel’s Tennessee Honey in Q4	Started distribution operations in Germany	
	Sold Hopland-based wine brands and properties	Started distribution operations in Brazil	
2012	Introduced Woodford Reserve Double Oaked	Started distribution operations in Turkey	
	Introduced Jack Daniel’s Winter Jack		
2013	Introduced Jack Daniel’s Sinatra Select		Announced plans for the Jack Daniel Cooperage
	Introduced Jack Daniel’s Tennessee Rye Whiskey		Opened the Stevenson Mill
2014	Introduced Jack Daniel’s No. 27 Gold Tennessee Whiskey	Started distribution operations in France	Announced capacity expansion at the Woodford Reserve Distillery
	Introduced Jack Daniel’s Tennessee Fire (limited test)		Announced capacity expansion at the Jack Daniel Distillery Opened the Jack Daniel Cooperage
2015	Introduced Herradura Ultra in Mexico in Q2		Announced plans for the Old Forester Distillery and bourbon experience
	Introduced Jack Daniel’s Tennessee Fire nationwide in the United States in Q4		Completed new barrel warehouses at Jack Daniel's and Woodford Reserve
	Introduced Woodford Reserve Rye Whiskey		
2016	Purchased Slane Castle Irish Whiskey Limited in Q1		Announced plans to construct a new distillery at Slane Castle in Ireland
	Sold Southern Comfort and Tuaca in Q4		Opened the Spencer Mill
2017	Announced Coopers’ Craft bourbon to be released in Q1		
	Purchased The BenRiach Distillery Company Limited in Q1		

Fiscal 2016 Financial Highlights
Summary of Operating Performance Fiscal 2014 - 2016

Fiscal year ended April 30	2014	2015	2016	Reported Change 2015 vs. 2014	Reported Change 2016 vs. 2015	Underlying Change[1] 2015 vs. 2014	Underlying Change[1] 2016 vs. 2015
Net sales	$3,946	$4,096	$4,011	4%	(2)%	6%	5%
Excise taxes	955	962	922	1%	(4)%	5%	6%
Cost of sales	913	951	945	4%	(1)%	7%	3%
Gross profit	2,078	2,183	2,144	5%	(2)%	7%	5%
Advertising	436	437	417	—%	(4)%	4%	2%
SG&A	686	697	688	2%	(1)%	4%	