BROWN FORMAN CORP
Form 10-K
June 15, 2017
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, 2017
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 001-00123

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 $12,600,000,000.

The number of shares outstanding for each of the registrant's classes of Common Stock on May 31, 2017, was:

Class A Common Stock (voting)	169,027,456
Class B Common Stock (nonvoting)	215,178,607

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 27, 2017, 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,” and indicate 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 small 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, 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 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 reconcile 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 4,700 people on six continents, including approximately 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 as the Brown family owns more than 50% of our voting stock. Additionally, taking into account ownership of shares of our non-voting stock, the Brown family controls more than 50% of the economic ownership in Brown Forman.

For a discussion of recent developments, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary.”

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. Among the top five premium spirits brands on the list, Jack Daniel’s Tennessee Whiskey was the only one to grow by volume in 2016. In its fourth year on the Worldwide Impact list, Jack Daniel’s Tennessee Honey remains the second-largest-selling flavored whiskey. Our other leading global brands on the Worldwide Impact list are Finlandia, the tenth-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.” Additionally, Woodford Reserve was once again selected as an Impact “Hot Brand.”[1]

Principal Brands

Jack Daniel’s Tennessee Whiskey	el Jimador Tequilas
Jack Daniel’s Tennessee Honey	el Jimador New Mix RTDs
Jack Daniel’s RTDs	Herradura Tequilas
Gentleman Jack Rare Tennessee Whiskey	Sonoma-Cutrer California Wines
Jack Daniel’s Tennessee Fire	Canadian Mist Canadian Whisky
Jack Daniel’s Single Barrel Collection[2]	GlenDronach Single Malt Scotch Whisky[5]
Jack Daniel’s Winter Jack	BenRiach Single Malt Scotch Whisky[5]
Jack Daniel’s Sinatra Select	Glenglassaugh Single Malt Scotch Whisky[5]
Jack Daniel’s No. 27 Gold Tennessee Whiskey	Chambord Liqueur
Jack Daniel’s Tennessee Rye[3]	Early Times Kentucky Whisky and Bourbon
Korbel California Champagnes[4]	Old Forester Kentucky Bourbon
Korbel California Brandy[4]	Pepe Lopez Tequila
Woodford Reserve Kentucky Bourbon	Antiguo Tequila
Woodford Reserve Double Oaked	Coopers’ Craft Kentucky Bourbon[6]

Woodford Reserve Kentucky Rye Whiskey	Collingwood Canadian Whisky
Finlandia Vodkas	Slane Irish Whiskey[6]

[1]All references in this paragraph are derived from Impact Databank, a well-known U.S. trade publication, who published these industry statistics in March 2017.

[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]New brand to be launched in fiscal year 2018.

[4]While Korbel is not an owned brand, we sell Korbel products under contract in the United States and other select markets.
[5]Single Malt Scotch whisky brands acquired in June 2016.

[6]New brands launched in limited markets during fiscal year 2017.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Fiscal 2017 Brand Highlights" for brand performance details.
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 more than 165 countries around the world. The United States, our largest, most important market, accounted for 48% of our net sales in fiscal 2017. Our largest international markets include the United Kingdom, Australia, Mexico, Germany, France, Poland, Japan, Canada, and Russia. Over the last decade, we have continued to expand our international footprint. In fiscal 2017, we generated 52% of our net sales outside the United States compared to 51% ten years ago. The U.S. proportion of net sales grew from fiscal 2015 to fiscal 2016 then stayed constant in fiscal 2017, mainly due to the negative effect 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 2008, below:

Percentage of Total Net Sales by Geographic Area

	Year ended April 30				
	2008	...	2015	2016	2017
United States	49 %	...	46 %	48 %	48 %
International:		...			
Europe		...	27 %	27 %	26 %
Australia		...	6 %	5 %	5 %
Other		...	21 %	20 %	21 %
Total International	51 %	...	54 %	52 %	52 %
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 2017 Market Highlights." For details about our reportable segment and for additional geographic information about net sales and long-lived assets, refer to Note 15 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, which can be grouped into three categories: owned distribution, partner, and government controlled markets. 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. Over the past decade, we began distribution operations in multiple markets outside the United States, as shown in the table below.

Recent Route-to-Consumer Changes

Fiscal year	Market
2011	Germany
	Brazil
2012	Turkey
2014	France
2018 (planned)	Spain

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.

Seasonality

Holiday buying makes the fourth calendar quarter (generally our third fiscal quarter) the peak season for our business. Approximately 32%, 31%, and 30% of our net sales for fiscal 2015, fiscal 2016, and fiscal 2017, respectively, 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 (IWSR), for calendar year 2016, 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 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. In addition, particularly in the United States, we increasingly compete with national companies and craft spirit brands, many of which are recent entrants to the industry.

Brand recognition, brand provenance, quality of product and packaging, availability, flavor profile, 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, liqueurs, RTD products, and wines are shown in the table below.

Principal Raw Materials

Distilled Spirits	Liqueurs	RTD Products	Wines	Packaging
Agave	Flavorings	Flavorings	Grapes	Aluminum cans
Barley	Neutral spirits	Malt	Wood	Cartons
Corn	Sugar	Neutral spirits		Closures
Malted barley	Water	Sugar		Glass bottles
Rye	Whiskey	Tequila		PET[1] bottles
Sugar	Wine	Water		Labels
Water		Whiskey		
Wood				

[1]Polyethylene terephthalate (PET) is a polymer used in non-glass containers.

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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 are 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 years in advance to meet future demand for these products, 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 2017 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.

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 non-U.S. jurisdictions where we sell our products. In addition, beverage alcohol products are subject to customs duties or excise taxation in many countries, including taxation at the federal, state, and local level in the United States.

Laws of each nation define distilling and maturation requirements; for example, under U.S. federal regulations, bourbon and Tennessee whiskeys must be aged in new charred oak barrels; we typically age our whiskeys three to six years. Canadian whisky is required 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. Irish whiskey must be matured at least three years in a wood cask, such as oak, on the island of Ireland. Scotch whisky must be matured in oak casks for at least three years in Scotland. We comply with all of the above laws and regulations.

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

Strategy

Seven 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.

These core principles are a constant and powerful means of connecting our stakeholders to a shared vision of “Building Forever,” and 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 and acknowledge today’s emerging opportunities.

We seek to build brands and businesses that can create shareholder value – ones that deliver strong and sustainable growth, solid margins, and high returns on investment. 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 innovate and grow our premium spirits portfolio organically. But as opportunities arise, we will 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 to grow the Jack Daniel’s family of brands across markets, price points, channels, and consumer groups. Product innovation has become a meaningful contributor to our company’s performance in recent years. We will continue to evaluate opportunities to grow the Jack Daniel’s family of brands through thoughtful new product introductions, including the recently announced U.S. launch of Jack Daniel’s Tennessee Rye in the fall of 2017, and the continued expansion of Jack Daniel’s Tennessee Fire in markets outside of the United States.

We are the global leader in American whiskey[1], 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 with our other whiskey brands around the world, particularly Woodford Reserve and Old Forester, which have both experienced rapid growth in recent years. In 2016, we launched Coopers’ Craft, our first new bourbon trademark in more than 20 years, in select markets in the United States. We unveiled our first expression of our Slane Irish Whiskey brand in April 2017 in Travel Retail in Ireland, and we expect to introduce the brand in the United States, the United Kingdom, and Australia during the summer of 2017. We added three single malt Scotch whisky brands, GlenDronach, BenRiach, and Glenglassaugh, to our world-class whiskey portfolio in June 2016 with the acquisition of The BenRiach Distillery Company Limited. 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.

Fiscal 2017 marks the ten year anniversary of our acquisition of Casa Herradura, and we are pleased with the development of both our business in Mexico and our portfolio of world-class tequila brands globally. Looking ahead, we plan to expand Herradura tequila in order to realize its full potential, reaching new consumers in Mexico, the United States, and other high-potential markets. After repositioning el Jimador tequila as a more premium brand at home in Mexico, we are encouraged by our prospects for long-term, profitable growth there. Outside Mexico, we have nearly quadrupled el Jimador’s volumes since fiscal 2008, and we remain confident in el Jimador’s potential to improve its position among the world’s leading tequila brands.

Finlandia is the tenth-largest-selling vodka in the world,[2] and it is additionally prominent in several of the world’s largest vodka markets, such as Poland, Russia, Ukraine, and Czechia. We plan to grow Finlandia where its position is strong, including in its largest market, Poland, where Finlandia accounts for five out every ten bottles of imported vodka sold.[1]

[1] IWSR, 2016 data.
[2] Impact Databank, March 2017.

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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 whiskeys 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 three years have been an exception to this trend, 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 continue to grow our business in developed markets such as France, Germany, Australia, and the United Kingdom. We will continue to pursue RTC strategies that will expand our access to and understanding of consumers in these diverse markets, such as the establishment of our own distribution organization in Spain this summer, which is the world's ninth largest whiskey market. In addition, we expect increasingly significant contributions to our growth from emerging markets including Mexico, Poland, Turkey, Brazil, China, Russia, Southeast Asia, Africa, and Eastern Europe.

We believe that having a long-term-focused, committed, engaged shareholder base, anchored by the Brown family, gives us an important strategic advantage, particularly in a business with aged products and multi-generational brands. For nearly 150 years, the Company and the Brown family have been committed to preserving Brown-Forman as a thriving, family controlled, independent company.

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. Our business is based on the belief that beverage alcohol, consumed in moderation, can enrich the experience of life. However, we are well aware that when consumed irresponsibly, alcohol can have harmful effects on people and society. We appreciate the need for governments to regulate our industry appropriately and effectively, taking into account national circumstances and local cultures. We also appreciate that some people should not drink or choose not to drink, and we respect this choice. Acting in partnership with others, we want to be part of the solution to real, complex problems such as underage drinking, drunk driving, overconsumption, and alcoholism.

As a significant player in the global beverage alcohol industry, we foster collective action with our peers. Working with other producers, we are able to leverage our views on a scale that can create change. For example, we continue to work with 11 other industry leaders that signed the Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking. In the fourth year of our five year plan, we tailored our work to address key concerns in individual markets with programs that leveraged the strengths of local- and country-level partnerships. We also innovated strategies to promote responsible drinking and develop approaches that can help build programs and interventions to reduce harmful drinking. Our collective progress on these commitments will be reported annually through 2018 and can be seen at www.producerscommitments.org.

Since 2009, we have hosted an open forum to share our points of view, post the research of outside experts, and encourage the opinions of others at www.OurThinkingAboutDrinking.com. In the United States, we support The Ad Council's "Buzzed Driving is Drunk Driving" campaigns and safe ride services. In 2016, Gentleman Jack partnered with the largest U.S. designated driver service to provide free designated drivers in 24 cities nationwide. We also continued to collaborate with 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. We also engage consumers where they are through innovative programs such as the Cascadia Challenge, a partnership with U.S. Major League Soccer to get fans to pledge to be designated drivers at games in the Pacific Northwest.

As part of our commitment to responsible marketing, and to enable consumers to make more informed decisions, in February 2017 we launched a website, nutrition.brown-forman.com, providing nutritional information on our brands. Our individual brand websites will be linked to this content later this year. We also are founding members of, and contribute significant resources to, the Foundation for Advancing Alcohol Responsibility (responsibility.org), an organization created by spirits producers to prevent drunk driving and underage drinking as well as promote responsible decision-making. 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. Our team in Finland and the Association of Finnish Alcoholic Beverage Suppliers created a website in 2016 to help parents educate their teens on how to say no to alcohol. We also provide long-running support for alcohol education programs at the University of Louisville and the University of Kentucky (two major universities in the state of our corporate headquarters).

Environmental Sustainability. We view environmental sustainability as integral to our strategy to perpetuate Brown-Forman and Build Forever. Our environmental sustainability strategy aims to protect and conserve resources that we depend on. It also reinforces our business strategy through programs that reduce costs through efficiency, lessen risks to our operations, and improve effectiveness through innovation. We invest in renewable energy, energy efficiency, and efficient transportation to reduce our carbon footprint. Mindful of our overall impact, in fiscal 2014, we set ambitious environmental sustainability goals for fiscal 2023: (a) reducing our absolute greenhouse gas emissions by 15%, (b) sending zero waste to landfill, and (c) reducing our water use and wastewater discharges per unit of product by 30% (versus 2012 baseline year). These goals support our ambition to responsibly grow our brands and our company while protecting and enriching the natural environment. We have refreshed our strategy to now include a greater focus beyond our operational borders into our supply chain. We report on our progress toward these goals in our biennial Corporate Responsibility Reports, available on our corporate website. 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 were based on eight measures of corporate sustainability and environmental performance.

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 few years, we have 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 14-member Executive Leadership Team are women and two are minorities. In 2017, 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 (LGBT) Americans. This makes us one of the “Best Places to Work for LGBT equality” in the United States for the seventh consecutive year. Our Employee Resource Groups (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 our employees to bring their individuality to work. Our commitment to diversity extends to our partnerships with small and diverse suppliers. By 2020, our goal is to source at least 16% of our procurement from businesses owned by ethnic minorities, women, LGBT persons, people with disabilities, and veterans. To date, we have procured approximately 11% of our supplies from such businesses. 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. Our work in this area helped inform our response to the U.K.’s recent passage of the Modern Slavery Act in 2015, which is available on our corporate website.

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 2017, we donated approximately $11 million, logged approximately 15,000 volunteer hours, and had 128 employees serve on boards of directors of 211 non-profit organizations.
Our Corporate Responsibility reports are available at www.brown-forman.com/responsibility.

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

Employees and Executive Officers

As of April 30, 2017, we employed approximately 4,700 people worldwide (2,700 in the United States), including about 260 employed on a part-time or temporary basis. Approximately 15% of our employees are represented by a union. We believe our employee relations are good.

The following persons serve as executive officers as of June 15, 2017:

Name	Age	Principal Occupation and Business Experience
Paul C. Varga	53	Company Chairman and Chief Executive Officer since 2007. Chief Executive Officer since 2005.
Jane C. Morreau	58	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	57	Executive Vice President, General Counsel, and Secretary since 2007.
Jill Ackerman Jones	51	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	62	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	48	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	49	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	70	Senior Vice President and Chief Diversity Officer since 2007.
Brian P. Fitzgerald	44	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	47	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	55	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	57	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 Code of Conduct that applies to all our 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, or principal accounting officer 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, could adversely affect our business and financial results. While the major economic disruptions of the most recent financial crisis have largely subsided, many markets where our products are sold still face significant economic challenges resulting from the 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, 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 more than 165 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. Furthermore, uncertainty related to the future of the European Union may affect our business and financial performance in Europe. For instance, in June 2016, the United Kingdom voted by referendum to leave the European Union (Brexit), and, until the United Kingdom's exit from the European Union is finalized, there may be a period of economic and political uncertainty related to the negotiation of any successor trading arrangement with other countries as well as volatility in exchange rates, risk to supply chains across the European Union, restrictions on the mobility of employees and consumers, or changes to customs duties, tariffs or industry specific requirements and regulations. In addition, any new trade barriers, sanctions, or tariffs could materially adversely affect our operations abroad, such as those proposed during the course of the 2016 U.S. presidential campaign by the current U.S. President regarding Mexico. 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 currencies. Because our foreign currency revenues exceed our foreign currency expense, we have a net exposure to changes in the value of the U.S. dollar relative to 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 2017 were adversely affected by the recent strengthening of the U.S. dollar against currencies in our major markets, including the euro, British pound, and Mexican peso. We do not attempt to hedge all of our foreign currency exposure. We may, from time to time, attempt to hedge a portion of our foreign currency exposure through the use of foreign currency derivatives or other means; however, even in those cases, we may not be successful in fully eliminating our foreign currency exposure. 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 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 2017, Australia announced the launch of container deposit/recycling schemes, which, when implemented, may impair affordability and convenience at retail. Specifically, governments may prohibit, 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, legislation is pending in a number of countries that would result in significant 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 of our products in the affected markets and make the introduction of new products more challenging.

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 some of our major competitors, especially those that affect the effective corporate income tax rate. Comments made during the course of the 2016 U.S. presidential campaign and since the election indicate that the U.S. federal government may propose changes to international trade agreements, tariffs, taxes, and other government rules and regulations. The current U.S. administration has indicated that tax reform is among its top priorities, and the U.S. Congress is reviewing and may, in the future, propose new tax legislation. Certain tax changes that have been or are currently proposed by the U.S. Congress or the President exemplify this risk, including a repatriation or “transition” tax on foreign earnings; decreasing or eliminating the U.S. manufacturing deduction; changing the rules related to interest deductibility; changing the rules relating to the depreciation of capital expenditures; the imposition of a “border adjustment” tax; or repealing LIFO (last-in, first-out accounting treatment of inventory) for tax purposes. While we cannot predict what changes will actually occur, such changes could affect our business and results of operations.

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 countries 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 countries. 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. For example, the United Kingdom recently increased its tax on beer, cider, wine, and spirits by 3.9% with additional increases to come. The United Kingdom’s need to find additional sources of revenue to fund its post-Brexit obligations and, the European Union’s complementary need to find additional sources of revenue to make up for the loss of the United Kingdom’s expected contributions to the European Union’s budget and excise taxes may result in future increased taxes on beverage alcohol products and continued uncertainty as to the impact on taxes and tariffs arising from the decision by the United Kingdom to leave the European Union. 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, as well as changes in the interpretation of tax rules arising out of the European Union State Aid investigations.

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 2017 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 may begin to shift their consumption and purchases of our premium and super-premium products, more commonly found in on-premise establishments, in favor of off-premise purchases. This includes consumption at home as a result of various factors, including shifts in social trends, proliferation of smoking bans, and stricter laws relating to driving while under the influence of alcohol. Shifts in consumption channels such as these could adversely impact our profitability. Consumers also may begin to prefer the products of competitors or may generally reduce their demand for brands produced by larger companies. Over the past several years, the number of small, local distilleries in the

United States has grown significantly. This is being driven by a trend of consumers showing increasing interest in locally produced, regionally sourced products. As many more competitive brands enter the market, it could have a negative impact on the demand for our premium and super-premium American whiskey brands, including Jack Daniel's. 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 non-U.S. markets. Demographic forecasts in the United States for several years after 2017 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 further expand our launch of Jack Daniel's Tennessee Fire in additional international markets in fiscal 2018. 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, such as our recently announced U.S. launch of Jack Daniel’s Tennessee Rye, 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, Finlandia Vodka, and our tequilas, 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. For example, in addition to our whiskeys and some tequilas, which are aged for various periods, our recent acquisitions of The GlenDronach, BenRiach, and Glenglassaugh Scotch whisky brands and distilleries introduce a new category of inventory, which require long term maturation of up to 30 years or more, making forecasts of demand for such products in future periods subject to significant uncertainty. There is an inherent risk of forecasting error in determining the quantity of maturing stock to lay down in a given year for future consumption as a result of changes in business strategy, market demand and preferences, macroeconomic conditions, introductions of competing products, and other changes in market conditions. Any forecasting error could lead to our inability to meet the objectives of our business strategy, future demand, or lead to a future surplus of inventory and consequent write down in value of maturing stocks. If we are unable to accurately forecast demand for our products or efficiently manage its inventory, this may have a material adverse effect on our business and financial results. Further, we cannot be certain that we will be successful in using various levers, such as pricing changes, 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 or to sell used materials.

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 and PET 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 were to experience 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, and the timely delivery of our products.
Water is an essential component 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, Mexico, Scotland, and Ireland.
Our ability to sell used materials for reuse may be affected by fluctuations in the market. For example, weaker demand from blended Scotch industry buyers, lower prices, and increased supply of used barrels may make it increasingly difficult to sell our used barrels at sustainable prices which could negatively affect our financial results.

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 parts of the world continue to seek governmental measures to make beverage alcohol more expensive, less available, or more difficult to advertise and promote. If future high-quality scientific 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 associated with 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 and consolidation among beverage alcohol producers, wholesalers, and retailers, and 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 business and financial results. 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 results.

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 on-line and 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 countries, for example, it may be more difficult to successfully stop counterfeiting or look-alike products, either because the law is inadequate or because of judicial or administrative decisions that are arbitrary or unjust. 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 some of our brands, experience problems with product counterfeiting and other forms of trademark infringement. We combat counterfeiting by working with other spirits industry companies through our membership in the International Federation of Spirits Producers (IFSP) and with brand owners in other industries via our membership in an organization called React. While we believe IFSP and React are effective organizations, they are not active in every market, and their efforts are subject to obtaining the cooperation of local authorities and courts in the markets where they are active. Despite the efforts of IFSP, React and our own teams, lower-quality and

counterfeit products that could be 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 business and financial results 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 our 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, and 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 products 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 crimes 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 results. 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 go “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 transactions. 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

Our 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 our 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; Prague, Czech Republic; São Paulo, Brazil; Mexico City, Mexico; Barcelona, Spain; Moscow, Russia; Istanbul, Turkey; Tokyo, Japan; Amsterdam, Netherlands; Seoul, South Korea; Shanghai, China; Hong Kong; Gurgaon, India; Cape Town, South Africa; and Dubai, United Arab Emirates.

Significant Properties

Location	Principal Activities	Notes
United States:		
Louisville, Kentucky	Corporate offices	Includes several renovated historic structures
	Distilling, bottling, warehousing	
	Cooperage	Brown-Forman Cooperage
	Visitors’ center	Future home of Old Forester
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	Vineyards, 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	
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	Future home of Slane Irish Whiskey
	Visitors’ center	
Aberdeenshire, Scotland	Distilling, warehousing	Home of Glendronach
	Visitors’ center	
Morayshire, Scotland	Distilling, warehousing	Home of BenRiach
Newbridge, Scotland	Bottling	
Portsoy, Scotland	Distilling, warehousing	Home of Glenglassaugh
	Visitors’ center	

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, 2017, there were 2,673 holders of record of Class A common stock and 4,880 holders of record of Class B common stock. Because of overlapping ownership between classes, as of May 31, 2017, we had only 5,529 distinct common stockholders of record.

The following table presents, 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 index, and dividend per share information:

	Fiscal 2016					Fiscal 2017				
	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	$59.75	$61.15	$58.77	$56.12	$61.15	$54.28	$54.45	$49.32	$50.05	$54.45
Class A low	46.55	52.94	49.75	50.20	46.55	50.78	47.00	45.62	46.36	45.62
Class B high	54.21	55.41	53.44	51.70	55.41	50.40	51.06	47.04	48.95	51.06
Class B low	45.33	47.61	45.30	46.63	45.30	46.95	44.66	43.96	45.01	43.96
Cash dividends per share:										
Declared	0.3150	—	0.3400	—	0.6550	0.3400	—	0.3650	—	0.7050
Paid	0.1575	0.1575	0.1700	0.1700	0.6550	0.1700	0.1700	0.1825	0.1825	0.7050

Note: Amounts have been adjusted for a 2-for-1 stock split that occurred in August 2016.

Equity Compensation Plan Information

The following table summarizes information as of April 30, 2017, 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	2,393,482	$32.17	12,710,672

[1]Includes 2,186,226 Class B common shares to be issued upon exercise of stock-settled stock appreciation rights (SSARs); 79,080 Class B common restricted stock units (RSUs); 86,549 Class A common deferred stock units (DSUs); and 41,627 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 6,615,257 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, 2012, 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 2012.

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."

	(Dollars in millions, except per share amounts)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
For Year Ended April 30:										
Sales	$3,282	3,192	3,226	3,404	3,614	3,784	3,946	4,096	4,011	3,857
Excise taxes	$700	711	757	818	891	935	955	962	922	863
Net sales	$2,582	2,481	2,469	2,586	2,723	2,849	2,991	3,134	3,089	2,994
Gross profit	$1,695	1,577	1,611	1,724	1,795	1,955	2,078	2,183	2,144	2,021
Operating income	$685	661	710	855	788	898	971	1,027	1,533	989
Net income	$440	435	449	572	513	591	659	684	1,067	669
Weighted average shares used to calculate earnings per share										
– Basic	459.2	451.4	443.5	436.8	429.1	426.7	426.9	423.2	406.0	387.7
– Diluted	463.2	454.1	445.7	439.5	432.2	430.0	430.2	426.2	408.6	390.5
Earnings per share from continuing operations										
– Basic	$0.96	0.96	1.01	1.31	1.20	1.38	1.54	1.62	2.63	1.72
– Diluted	$0.95	0.96	1.01	1.30	1.19	1.37	1.53	1.60	2.61	1.71
Gross margin	65.6 %	63.5 %	65.3 %	66.7 %	65.9 %	68.6 %	69.5 %	69.7 %	69.4 %	67.5 %
Operating margin	26.5 %	26.6 %	28.8 %	33.1 %	29.0 %	31.5 %	32.5 %	32.8 %	49.6 %	33.0 %
Effective tax rate	31.7 %	31.1 %	34.1 %	31.0 %	32.5 %	31.7 %	30.5 %	31.7 %	28.3 %	28.3 %
Average invested capital	$2,747	2,893	2,825	2,711	2,803	2,834	3,131	3,196	3,221	3,680
Return on average invested capital	17.2 %	15.9 %	16.6 %	21.8 %	19.1 %	21.7 %	21.6 %	22.0 %	34.1 %	19.3 %
Cash flow from operations	$534	491	545	527	516	537	649	608	524	639
Cash dividends declared per common share	$0.343	0.373	0.392	0.747	0.447	2.488	0.545	0.605	0.655	0.705
Dividend payout ratio	35.8 %	38.9 %	38.7 %	57.0 %	37.4 %	179.8 %	35.3 %	37.5 %	25.0 %	40.9 %
As of April 30:										
Total assets	$3,405	3,475	3,383	3,712	3,477	3,626	4,103	4,188	4,183	4,625
Long-term debt	$417	509	508	504	503	997	997	743	1,230	1,689
Total debt	$1,006	999	699	759	510	1,002	1,005	1,183	1,501	2,149

Notes:

1. 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 in March 2016. Includes the results of BenRiach since its acquisition in June 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, a 3-for-2 stock split in August 2012, and a 2-for-1 stock split that occurred in August 2016.
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 $0.333 per share in fiscal 2011 and $2.00 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 Operations" 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

Introduction

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader better understand Brown-Forman, our operations, our financial results, and our current business environment. Please read the MD&A in conjunction with our Consolidated Financial Statements and the accompanying Notes contained in "Item 8. Financial Statements and Supplementary Data." All per share amounts have been adjusted for the 2-for-1 stock split that occurred in August 2016. See Note 11 to the accompanying financial statements for details. Our MD&A is organized as follows:

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Presentation Basis

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, 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.

"Underlying change" in income statement measures. We present changes in certain income statement measures, or line items, that are adjusted to an "underlying" basis. We use "underlying change" for the following income statement measures: (a) underlying net sales, (b) underlying cost of sales, (c) underlying gross profit, (d) underlying advertising expenses, (e) underlying selling, general, and administrative (SG&A) expenses, and (f) underlying operating income.

To calculate these measures, we adjust, as

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applicable, for (a) acquisition and divestiture activity, (b) foreign exchange, and (c) estimated net changes in distributor inventories. We explain these adjustments below.

- “Acquisitions and divestitures.” In fiscal 2016, we sold our Southern Comfort and Tuaca brands and related assets to Sazerac Company, Inc. In fiscal 2017, we acquired The BenRiach Distillery Company Limited (BenRiach). See discussion below and Notes 16 and 17 in the accompanying financial statements for details. This adjustment removes (a) transaction-related costs for the acquisition and divestiture, (b) the gain on the sale of Southern Comfort and Tuaca, and (c) operating activity for the acquisition and divestiture for the non-comparable periods. With respect to comparisons of fiscal 2016 to fiscal 2015, the non-comparable period comprised March and April; with respect to comparisons of fiscal 2017 to fiscal 2016, the non-comparable period comprised all months. We believe that these adjustments allow us to understand better our underlying results on a comparable basis.
- “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 adjustment refers to the estimated net effect of changes in distributor inventories on changes in our income statement line items. For each period compared, we use depletion information provided by our distributors to estimate the effect of distributor inventory changes on our income statement line items. We believe that adjusting for the effect of varying levels of distributor inventories on changes in our income statement line items allows us to understand better underlying results and trends.

We use the non-GAAP measures “underlying change” for the following reasons: (a) to understand our performance from period to period on a consistent basis and to compare our performance to that of our competitors; (b) in connection with management incentive compensation calculations; (c) in our planning and forecasting processes; and (d) in communications concerning our financial performance with the board of directors, stockholders, and investment analysts. We provide reconciliations of the “underlying changes in income statement measures” to their nearest GAAP measures in the tables below under “Results of Operations - Year-Over-Year Comparisons.” We have consistently applied the adjustments within our reconciliations in arriving at each non-GAAP measure.

“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 use this non-GAAP measure because 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. These measures remove the effects of (a) the gain on the sale of Southern Comfort and Tuaca, (b) those transaction-related costs not included in the gain on sale of Southern Comfort and Tuaca, (c) financing-related costs for the acquisition of BenRiach, and (d) operating activity for the acquired and divested businesses in the non-comparable periods. With respect to the comparison of fiscal 2017 to fiscal 2016, the non-comparable period comprised all months of both years. Tax effects on relevant adjustments are calculated consistent with the nature of the underlying transaction. We provide these adjusted measures to identify the effect of the sale of Southern Comfort and Tuaca and the acquisition of BenRiach on reported income from operations and other key measures derived therefrom; adjusting for these effects allows us to analyze results and trends on a comparable basis.

We reconcile each of these measures to their nearest GAAP measures in the table below under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary.” We have consistently applied the adjustments within our reconciliations in arriving at each non-GAAP measure.

Significant Developments

Below we discuss the significant developments in our business during fiscal 2015, fiscal 2016, and fiscal 2017. These developments relate to (a) innovation, (b) acquisitions and divestitures, and (c) capital deployment.

Innovation

- Jack Daniel's family of brands. Following the successful launch and subsequent global rollout of Jack Daniel's Tennessee Honey (JDTH) starting in fiscal 2011, we introduced a second flavored whiskey product, Jack Daniel's Tennessee Fire (JDTF), starting with the United States in late fiscal 2015. In fiscal 2016, we completed the U.S. launch and continued the global rollout of JDTF. In fiscal 2017, we expanded JDTF to markets including France, Germany, and Travel Retail. The chart below shows the volume development of JDTF from fiscal 2015 through fiscal 2017.

- Other American whiskeys. We continue to capitalize on consumers' interest in high-quality, super- and ultra-premium whiskey with our range of brands including Woodford Reserve and Old Forester.

In fiscal 2015, we launched Woodford Reserve Rye Whiskey. In fiscal 2017, we unveiled new packaging for Woodford Reserve Double Oaked, the most successful line extension from Woodford Reserve to date (first introduced in 2012). The Rye and Double Oaked variants of Woodford Reserve continued to contribute meaningfully to the brand's growth and collectively surpassed 50 thousand nine-liter cases in fiscal 2017.

In February 2017, we launched new packaging for our oldest brand, Old Forester. We continued to invest in the renaissance of our founding brand, which grew net sales by more than 39% on a compound annual growth rate from fiscal 2014 through fiscal 2017.

Also in fiscal 2017, we introduced our first entirely new bourbon in 20 years, Coopers' Craft, a super-premium brand now in limited distribution in the United States.

- Tequila brands. We experienced another record year for our tequila brands in fiscal 2017, as Herradura, el Jimador, and New Mix contributed significantly to our overall net sales growth. In fiscal 2015, we released Herradura Ultra to participate in the fast-growing market for ultra-premium "cristalino" tequilas in Mexico. Herradura Ultra reached nearly 50 thousand nine-liter cases in fiscal 2017 and has been a driver of our tequila growth during the last three fiscal years.

Acquisitions and Divestitures

- In June 2015, we purchased all of the shares of Slane Castle Irish Whiskey Limited and announced plans to introduce new Irish whiskeys using high-quality whiskey purchased from other Irish distillers and triple-cask finished to Slane's specifications while the whiskey made at the new Slane Distillery matures. In April 2017, we unveiled the first product from our Slane Irish Whiskey brand in Travel Retail in Ireland, and we expect to introduce the brand in the United States, the United Kingdom, and Australia during the summer of 2017.
- In March 2016, we sold our Southern Comfort and Tuaca brands and related assets to Sazerac Company, Inc. for $543 million in cash, which resulted in a gain of $485 million in the fourth quarter of fiscal 2016. We substantially completed all activities related to this transition of ownership in fiscal 2017. See ''Executive Summary'' below and Note 16 to the accompanying financial statements for details about the financial impact of the sale of Southern Comfort and Tuaca.
- On June 1, 2016, we acquired The BenRiach Distillery Company Limited (BenRiach) for aggregate consideration of $407 million, consisting of a purchase price of $341 million and $66 million in assumed debt and transaction-related obligations that we have since paid. The acquisition, which brought three single malt Scotch whisky brands into our portfolio, included brand trademarks, inventories, three malt distilleries, a bottling plant, and BenRiach's headquarters in Edinburgh, Scotland. We believe that these super-premium brands will provide us an opportunity to participate in the growing single malt Scotch category and strengthen our portfolio's long-term growth prospects in the United States, the United Kingdom, Taiwan, Germany, and Travel Retail. See Note 17 to the accompanying financial statements for details.

Capital Deployment

Beyond the acquisition and divestiture activities described above, our capital deployment initiatives have been focused on (1) enabling the expected future growth of our existing businesses through investments in our production capacity, barrel whiskey inventory, and brand-building efforts for our existing portfolio; and (2) returning cash to our shareholders.

Investments. From fiscal 2015 through fiscal 2017, our capital expenditures totaled $340 million and were focused on enabling the growth of our premium whiskey brands as further detailed below.

Jack Daniel's. We expanded our distilling capacity and constructed three new warehouses, and we continued work on the expansion of our shipping warehouse facility.

Woodford Reserve. We expanded our bottling facility and constructed five new warehouses. We also continued construction of an additional warehouse.

Old Forester. We continued construction of the Old Forester Distillery and visitors' center on Main Street in Louisville, Kentucky, which is expected to open in the spring of 2018.

Slane Irish Whiskey. We continued building a new distillery and consumer experience on the historic Slane Castle Estate, which is expected to open in the summer of 2017.

- Debt and equity transactions. From fiscal 2015 through fiscal 2017, we returned $2.9 billion to our shareholders through $0.8 billion in regular quarterly dividends and $2.1 billion in share repurchases. We issued long-term debt totaling $1.2 billion (net), including (a) the $500 million 4.5% 30-year notes in June 2015 and (b) two foreign currency denominated bonds, the €300 million 1.2% 10-year notes and the £300 million 2.6% 12-year notes, in June 2016.

Executive Summary

Fiscal 2017 Highlights

Key highlights of our operating results in fiscal 2017 include:

- We delivered net sales of $3.0 billion, a decrease of 3% compared to fiscal 2016. Excluding the impact of acquisitions and divestitures, net sales were flat. After additionally adjusting for the negative effect of foreign exchange and the estimated net decrease in distributor inventories, we grew underlying net sales 3%.
- We delivered operating income of $1.0 billion, a decrease of 35% compared to fiscal 2016. Excluding the impact of acquisitions and divestitures, operating income was flat. After additionally adjusting for the negative effect of foreign exchange and the estimated net decrease in distributor inventories, we grew underlying operating income 7%.
- We delivered diluted earnings per share of $1.71, a decrease of 34% compared to fiscal 2016. Excluding the impact of acquisitions and divestitures, we delivered adjusted diluted earnings per share growth of 5%.
- Our return on average invested capital declined to 19.3% in fiscal 2017, compared to 34.1% in fiscal 2016. Excluding the impact of acquisitions and divestitures, adjusted average return on invested capital declined to 21.3% in fiscal 2017 from 22.1% in fiscal 2016.

Our underlying operating results were primarily driven by the performance of the Jack Daniel's family of brands, our tequila brands, and Woodford Reserve, partially offset by declines in used barrel sales. From a geographic perspective, the United States and our developed international markets led the growth; emerging markets growth accelerated compared to fiscal 2016; and our business in Travel Retail returned to growth in fiscal 2017 following declines in fiscal 2016. In addition, our underlying operating results benefited from the reduction of underlying SG&A expenses. Foreign exchange negatively affected our reported operating results, driven by the dollar's strengthening against a number of currencies, including, the Mexican peso, euro, and British pound. An estimated net reduction in distributor inventories due primarily to the United States and Russia also negatively affected our reported results.

Summary of Operating Performance Fiscal 2015 - 2017

				Reported Change		Underlying Change[1]	
Fiscal year ended April 30	2015	2016	2017	2016 vs. 2015	2017 vs. 2016	2016 vs. 2015	2017 vs. 2016
Net sales	$3,134	$3,089	$2,994	(1 %)	(3 %)	5 %	3 %
Cost of sales	951	945	973	(1 %)	3 %	3 %	4 %
Gross profit	2,183	2,144	2,021	(2 %)	(6 %)	5 %	3 %
Advertising	437	417	383	(4 %)	(8 %)	2 %	2 %
SG&A	697	688	667	(1 %)	(3 %)	2 %	(2 %)
Operating income	$1,027	$1,533	$989	49 %	(35 %)	8 %	7 %
Gross margin	69.7 %	69.4 %	67.5 %	(0.3pp)	(1.9pp)		
Operating margin	32.8 %	49.6 %	33.0 %	16.8pp	(16.6pp)		
Interest expense, net	$25	$44	$56	70 %	29 %		
Effective tax rate	31.7 %	28.3 %	28.3 %	(3.4pp)	—		
Diluted earnings per share	$1.60	$2.61	$1.71	63 %	(34 %)		
Return on average invested capital[2]	22.0 %	34.1 %	19.3 %	12.1pp	(14.8pp)		

[1]See “Non-GAAP Financial Measures” above for details on our use of “underlying changes,” including how we calculate these measures and why we think this information is useful to readers.
[2]See “Non-GAAP Financial Measures” above 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.

Adjusted Measures for Acquired and Divested Brands[1]

	Operating income	Operating margin	Effective tax rate	Diluted earnings per share	Return on average invested capital[2]
Fiscal year ended April 30, 2016					
Reported	$1,533	49.6 %	28.3 %	$2.61	34.1 %
Sale of Southern Comfort and Tuaca	$(486)	(15.7 %)	1.1 %	$(0.88)	(11.1 %)
Effect of acquired and divested brands	$(57)	(0.4 %)	— %	$(0.10)	(0.9 %)
Adjusted	$990	33.5 %	29.4 %	$1.63	22.1 %
Fiscal year ended April 30, 2017					
Reported	$989	33.0 %	28.3 %	$1.71	19.3 %
Effect of acquired and divested brands	$(1)	0.5 %	— %	$0.01	2.0 %
Adjusted	$988	33.5 %	28.3 %	$1.72	21.3 %
Adjusted percentage change	— %			5 %	

[1]See “Non-GAAP Financial Measures” above for details on our use of “adjusted measures,” including how we calculate these measures and why we think this information is useful to readers.
[2]See “Non-GAAP Financial Measures” above 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.

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Fiscal 2018 Outlook

We are optimistic about our prospects for growth of net sales, operating income, and diluted earnings per share in fiscal 2018. Below we discuss our current expectations for fiscal 2018, including trends, developments, and uncertainties that we expect to affect our business.

Outlook for key measures:

- Net sales. We expect the Jack Daniel's family of brands, our portfolio of premium bourbons, and our tequila brands to drive our net sales growth. We expect that volume will be the most significant driver of net sales growth in fiscal 2018.

Additionally, we expect that recent and new additions to our portfolio will contribute to our net sales growth; these include: (a) the fall 2017 introduction of Jack Daniel's Tennessee Rye in the United States, (b) the expansion of our Scotch whiskey brands following their successful integration in fiscal 2017, and (c) the rollout of Slane Irish Whiskey.

- Operating expenses. We expect total operating expenses to grow at a slower rate than net sales. In addition, we expect: (a) for cost of sales, input costs should increase in the low single digits, (b) advertising expenses to grow at a rate similar to our net sales growth rate, and (c) SG&A expenses to be approximately unchanged compared to fiscal 2017.

Additional considerations related to our fiscal 2018 outlook:

- Sale of Southern Comfort and Tuaca. In fiscal 2016, we sold our Southern Comfort and Tuaca brands and related assets. Our fiscal 2017 results compared to fiscal 2016 were negatively affected by this sale. Looking ahead to fiscal 2018, we do not expect our growth rates compared to the prior fiscal year period to be affected by the divestiture. See discussion above and Note 16 to the accompanying financial statements for details about the financial impact of the sale of Southern Comfort and Tuaca.
- Productivity and efficiency initiative. In June 2017, we announced a multiyear cost saving and productivity initiative designed to (a) deliver sustainable cost savings, and (b) accelerate our net sales growth rate, as a portion of the cost savings generated by the initiative are expected to be invested in incremental advertising and promotional activities. Our fiscal 2018 outlook reflects the currently expected effects of this initiative.
- Foreign exchange. In fiscal 2017, our reported results were significantly affected by negative foreign exchange due to the strength of the U.S. dollar; however, we anticipate our fiscal 2018 results will not be as negatively affected. See "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" for more information about foreign exchange and our business.
- Global whiskey trends and competition. We expect that the continued success of our existing premium-plus whiskeys, as well as the introduction and expansion of our new whiskeys, will drive our net sales growth in fiscal 2018. The American, Irish, and single malt Scotch whiskey categories are growing faster than total distilled spirits globally,[1] but competition has intensified as industry participants seek to capitalize on consumers' interest in these categories. While we believe that we are well-positioned to benefit from these trends, we may also be negatively affected by the increased competition.

[1] IWSR, 2016 data.

Results of Operations
Fiscal 2017 Market Highlights
The following table shows net sales results for our ten largest markets, summarized by geographic area, for fiscal 2017, compared to fiscal 2016. We discuss the most significant changes in net sales for each market.
Top 10 Markets - Percentage of Fiscal 2017 Total Net Sales and Fiscal 2017 Net Sales Growth by Geographic Area

Markets	% of Fiscal 2017 Net Sales	Net Sales[1] % Change vs. 2016 Reported	Acquisitions and Divestitures	Foreign Exchange	Net Chg in Est. Distributor Inventories	Underlying
United States	48 %	(3 %)	5 %	— %	2 %	4 %
Europe	26 %	(8 %)	3 %	6 %	3 %	4 %
United Kingdom	7 %	(12 %)	10 %	6 %	— %	5 %
Germany	4 %	(1 %)	1 %	6 %	— %	6 %
France	4 %	5 %	(1 %)	5 %	— %	10 %
Poland	2 %	5 %	(1 %)	4 %	— %	9 %
Russia	1 %	(43 %)	— %	4 %	46 %	7 %
Rest of Europe	7 %	(10 %)	— %	5 %	2 %	(3 %)
Australia	5 %	(2 %)	5 %	(2 %)	— %	2 %
Other geographies	14 %	1 %	— %	5 %	(3 %)	4 %
Mexico	5 %	— %	— %	15 %	(1 %)	15 %
Japan	1 %	30 %	— %	(4 %)	(9 %)	18 %
Canada	1 %	(8 %)	4 %	3 %	3 %	1 %
Remaining geographies[2]	7 %	— %	— %	— %	(5 %)	(5 %)
Travel Retail[3]	4 %	3 %	3 %	2 %	— %	7 %
Other non-branded[4]	3 %	11 %	(30 %)	— %	— %	(18 %)
Total	100 %	(3 %)	3 %	2 %	1 %	3 %

Note: Totals may differ due to rounding

[1]See “Non-GAAP Financial Measures” above for details on our use of “underlying change” in net sales, including how we calculate this measure and why we think this information is useful to readers.
[2]“Remaining geographies” represents over 110 countries, with the largest being Brazil, South Africa, and Chile.
[3]“Travel Retail” represents our sales to global duty free customers, travel retail customers, and the U.S. military.
[4]“Other non-branded” includes used barrel, bulk whiskey and wine, and contract bottling sales.

The United States, our largest and most important market, accounted for 48% of our reported net sales in both fiscal 2017 and fiscal 2016. In fiscal 2017, reported net sales in the United States fell 3%, while underlying net sales increased 4%, after adjusting for the absence of revenues associated with Southern Comfort and Tuaca (which were sold last March) and an estimated net decrease in distributor inventories. Underlying net sales gains were driven primarily by (a) our American whiskey portfolio, led by JDTW, Woodford Reserve, Old Forester, and Gentleman Jack; (b) our tequila brands, led by el Jimador and Herradura; (c) Sonoma-Cutrer; and (d) Korbel Champagne. This growth was partially offset by declines of Canadian Mist.
Europe accounted for 26% of our reported net sales in fiscal 2017, down from 27% in fiscal 2016. For fiscal 2017, reported net sales in Europe were down 8%, while underlying net sales grew 4%, after adjusting for (a) the net effect of acquired and divested brands, (b) the negative effect of foreign exchange driven by the strengthening of the dollar against the euro, British pound, and Turkish lira, and (c) an estimated net decrease in distributor inventories primarily in Russia. The growth in underlying net sales was driven by gains in France, the United Kingdom, Germany, Poland, Ukraine, and Russia, partially offset by declines in Belgium and Turkey.

- In the United Kingdom, underlying net sales growth was driven by higher volumes of JDTW, Jack Daniel's ready-to-drinks (JD RTDs), and Chambord as well as higher prices and favorable customer mix of JDTW.

- In Germany, underlying net sales growth was driven by higher volumes of JD RTDs and JDTH, and the introduction of JDTF. JDTW volumes declined driven by customer buying patterns, although consumer takeaway trends remained solid.
- In France, underlying net sales growth was primarily driven by higher volumes for JDTW and the introduction of JDTF, as the Jack Daniel’s family of brands continued to gain market share in the world’s fourth largest whiskey market.
- In Poland, higher volumes of JDTW led underlying net sales growth, partially offset by a decline in volume of Finlandia.
- In Russia, underlying net sales growth was driven by price increases on Finlandia and JDTW intended to mitigate the effect of the devaluation of the ruble, partially offset by volume declines of both brands. After a period of declines driven by the challenging economic environment, Russia returned to growth in the second half of fiscal 2017, driven by JDTW and Finlandia, as the market began to stabilize.

Australia accounted for 5% of our reported net sales in fiscal 2017 and fiscal 2016. In fiscal 2017, reported net sales were down 2%, but underlying net sales were up 2% after adjusting for the negative effect of the absence of revenues resulting from the sale of Southern Comfort and Tuaca and the positive effect of foreign exchange. Underlying net sales growth was driven by the Jack Daniel’s family of brands, led by recently launched JD RTD products, which were partially offset by declines of Jack Daniel’s & Cola.

Net sales for our other geographies constituted 14% of our reported net sales in fiscal 2017, up from 13% in fiscal 2016. Reported net sales increased 1% in fiscal 2017 and underlying net sales were up 4% after adjusting reported results for the negative effect of foreign exchange driven by the strengthening of the dollar against the Mexican peso and the estimated net increase in distributor inventories in Japan. Underlying net sales growth was led by Mexico and Japan, the latter of which benefited from price increases in fiscal 2017. These gains were partially offset by declines in Southeast Asia, China, and sub-Saharan Africa.

Travel Retail accounted for 4% of our reported net sales in fiscal 2017 and fiscal 2016. Reported net sales increased 3% and underlying net sales increased 7% after adjusting reported results for the absence of revenues resulting from the sale of Southern Comfort and Tuaca and the negative effect of foreign exchange. Following declines in fiscal 2016, underlying net sales growth was led by higher volumes of JDTW and JDTH, distribution gains on Woodford Reserve, and the expansion of JDTF into Europe.

Other non-branded. Reported net sales increased 11%, while underlying net sales declined 18% after removing the net effect of acquired and divested businesses (primarily bulk whiskey and contract bottling sales). The reduction in underlying net sales was due primarily to declines in used barrel sales largely reflecting lower prices due to increased supply of used barrels and somewhat weaker demand from blended Scotch industry buyers.

Fiscal 2017 Brand Highlights

The following table highlights the worldwide results of our largest brands for fiscal 2017, compared to the results for fiscal 2016. We discuss results of the brands most affecting our performance below the table.

Major Brands Worldwide Results for Fiscal 2017[1]

Brand family / brand	Depletion Volume				Net Sales % Change vs. 2016			
	Nine-Liter Cases (Millions)	% Change vs. 2016	Drinks Equivalent (Millions)	% Change vs. 2016	Reported	Foreign Exchange	Net Chg in Est. Distributor Inventories	Underlying
Jack Daniel's Family	23.3	4 %	16.1	3 %	— %	2 %	1 %	3 %
Jack Daniel's Tennessee Whiskey	12.5	1 %	12.5	1 %	(1 %)	2 %	1 %	3 %
Jack Daniel's Tennessee Honey	1.6	6 %	1.6	6 %	3 %	2 %	(2 %)	4 %
Other Jack Daniel's whiskey brands[2]	1.3	9 %	1.3	9 %	3 %	1 %	1 %	5 %
Jack Daniel's RTDs/RTP[3]	8.0	8 %	0.8	8 %	3 %	3 %	— %	6 %
New Mix RTDs	6.3	7 %	0.6	7 %	2 %	15 %	— %	17 %
Finlandia	3.0	— %	3.0	— %	(10%)	3 %	6 %	(1 %)
Canadian Mist	1.2	(7 %)	1.2	(7 %)	(13%)	— %	1 %	(12 %)
el Jimador	1.2	4 %	1.2	4 %	— %	4 %	4 %	8 %
Woodford Reserve	0.6	18 %	0.6	18 %	14 %	1 %	4 %	19 %
Herradura	0.4	12 %	0.4	12 %	9 %	7 %	(2 %)	14 %

Note: Totals may differ due to rounding

[1]See "Non-GAAP Financial Measures" above for details on our use of "underlying change" in net sales, including how we calculate this measure and why we think this information is useful to readers; see "Volume and Depletions" above for definitions of volume measures presented here.

[2]In addition to the brands separately listed here, the Jack Daniel's family of brands includes Gentleman Jack, Jack Daniel's Single Barrel Collection, Jack Daniel's Sinatra Select, Jack Daniel's No. 27 Gold Tennessee Whiskey, Jack Daniel's 1907 Tennessee Whiskey, Jack Daniel's Single Barrel Rye Whiskey, and Jack Daniel's Tennessee Fire.

[3]Jack Daniel's RTD and RTP products include all RTD line extensions of Jack Daniel's, such as Jack Daniel's & Cola, Jack Daniel's & Diet Cola, Jack & Ginger, Jack Daniel's Country Cocktails, Gentleman Jack & Cola, Jack Daniel's Double Jack, Jack Daniel's American Serve, Jack Daniel's Tennessee Honey RTD, and the seasonal Jack Daniel's Winter Jack RTP.

In fiscal 2017, the Jack Daniel's family of brands grew volumes 3% globally to 16.1 million drinks-equivalent nine-liter cases across all expressions of the brand. Reported net sales for the family were flat, while underlying net sales increased 3% after adjusting for the negative effect of foreign exchange primarily due to the strengthening of the dollar against the British pound, euro, Mexican peso, and Turkish lira. Jack Daniel's family of brands was the most significant contributor to our total underlying net sales growth in fiscal 2017. The following are details about the underlying performance of the Jack Daniel's family of brands:

Jack Daniel's Tennessee Whiskey generates a significant percentage of our total net sales, and it is our top priority. As the world's fourth-largest premium spirits brand measured by both volume and retail value[1], JDTW is one of the most valuable spirits brands in the world. During calendar 2016, JDTW grew volume for the 25th consecutive year and, among the top five premium spirits brands on the list, Jack Daniel's Tennessee Whiskey was the only one to grow by volume in 2016[1] – an achievement that underscores our belief in the brand's sustainable appeal and long-term growth potential. JDTW grew volumes 1% globally in fiscal 2017, down from its 3% growth rate in fiscal 2016. JDTW reported net sales declined 1%, while underlying net sales grew 3% led by the United States, Poland, France, the United Kingdom, Japan, Mexico, and Travel Retail. These increases were partially offset by declines in Belgium, Southeast Asia, sub-Saharan Africa, China, and Turkey.

Since its introduction in late fiscal 2011, Jack Daniel's Tennessee Honey has contributed significantly to our net sales growth. JDTH is now the 12th largest brand in the world priced over $25 per 750ml bottle.[2] In fiscal 2017, JDTH grew volumes by 6%, on top of the 8% growth rate last fiscal year. JDTH grew reported net sales 3% and underlying net sales 4% driven by higher volumes in the United States, Travel Retail, and Germany. These gains were partially offset by declines in Brazil.

Our Other Jack Daniel's whiskey brands reported net sales grew 3% and underlying net sales increased 5%. The most significant contributor to underlying net sales growth was JDTF, which was led by the expansion in France, Germany, and Travel Retail. In the United States, JDTF full-year results declined as volumes in the first half of last year were high due to the national introduction in late fiscal 2015, but the brand returned to growth in the second half of fiscal 2017. Gentleman Jack also contributed to underlying net sales growth, while Jack Daniel's Sinatra declined.

The Jack Daniel's RTDs/RTPs brands grew volume 8%, reported net sales 3%, and underlying net sales 6% in fiscal 2017. JD RTDs' underlying net sales growth was driven by consumer-led volumetric gains, distribution expansion, and product innovation in Mexico, Germany, the United Kingdom, and Australia.

In fiscal 2017, New Mix volumes increased 7%. Reported net sales increased 2%, while underlying net sales grew 17% after adjusting for the negative effect of foreign exchange due to the strengthening of the dollar against the Mexican peso. The growth in underlying net sales was driven by higher prices and volume gains.

Finlandia volumes were flat in fiscal 2017, while reported net sales were down 10% and underlying net sales declined 1% after adjusting for the negative effect of foreign exchange and an estimated net decrease in distributor inventories. The decline in underlying net sales was driven predominantly by lower volumes in Poland, the brand's largest market, and in the United States. These declines were partially offset by volume gains in Travel Retail.

Canadian Mist volumes declined 7%, while reported net sales decreased 13% and underlying net sales declined 12% in fiscal 2017. The net sales declines were driven by volume declines and lower prices in the United States, which is the brand's largest market.

el Jimador volumes grew 4% in fiscal 2017. Reported net sales were flat, while underlying net sales were up 8% after adjusting for the negative effect of foreign exchange due to the strengthening of the dollar against the Mexican peso. Underlying net sales growth was driven by higher volumes in the United States, where el Jimador remained on the Impact's "Hot Brands" list[3] in calendar 2016.

Woodford Reserve grew volumes 18% in fiscal 2017 (after growing 26% in fiscal 2016 and 30% in fiscal 2015) and was once again selected as an Impact's "Hot Brand."[3] In addition, reported net sales increased 14% and underlying net sales grew 19% in fiscal 2017. The United States is by far the brand's most important market and was responsible for most of its growth during fiscal 2017. Woodford Reserve continued its momentum outside the United States as well, growing volumes 23%, driven by distribution expansion in Travel Retail. During fiscal 2017, we increased our advertising investment behind Woodford Reserve both in the United States and internationally. Woodford Reserve led a fast-growing competitive set of super-premium American whiskeys, and we believe it is poised for continued growth as interest in bourbon increases around the world. We plan to devote substantial resources to Woodford Reserve to support its growth potential, including sustained advertising investment focused on consumer communications and capital spending.

[1]Based on industry statistics published by Impact Databank, a well-known U.S. trade publication, in March 2017.
[2]IWSR, 2016 data.
[3]Impact Databank published the Impact's "Hot Brands - Spirits" list in March 2017.

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In fiscal 2017, Herradura volumes grew 12%. Reported net sales increased 9% and underlying net sales were up 14% after adjusting for the negative effect of foreign exchange due to the strengthening of the dollar against the Mexican peso. This growth was driven primarily by increased volumes in the brand’s largest markets, Mexico and the United States, as well as higher prices in Mexico. Both of these markets benefited from consumer-led volumetric growth of Herradura Ultra, our “cristalino” tequila expression released in fiscal 2015. We remain focused on developing Herradura in the United States (where we continue to see considerable potential for growth), strengthening our position in Mexico, and continuing to build our presence in higher-value tequila markets throughout the world.

Year-Over-Year Comparisons

Net Sales

Percentage change versus the prior fiscal year ended April 30	2017	2016
Change in reported net sales	(3%)	(1%)
Acquisitions and divestitures	3 %	1 %
Foreign exchange	2 %	5 %
Estimated net change in distributor inventories	1 %	—%
Change in underlying net sales	3 %	5 %

Change in underlying net sales attributed to:		
Volume	2%	1%
Net price/mix	2%	4%

Note: Totals may differ due to rounding

Fiscal 2017 compared to Fiscal 2016

Net sales of $2,994 million decreased 3%, or $95 million, in fiscal 2017 compared to fiscal 2016. After adjusting reported results for (a) the net effect of acquisitions and divestitures, (b) the negative effect of foreign exchange, and (c) the estimated net decrease in distributor inventories, underlying net sales grew 3%. The negative effect of foreign exchange was driven primarily by the dollar’s strengthening against the Mexican peso, euro, and British pound. The change in underlying net sales was driven almost equally by the positive impact of price/mix and volume growth. Volume growth was led by the Jack Daniel's family and the tequilas, partially offset by declines in Canadian Mist. Improved price/mix was driven by (a) higher average pricing on JDTW and the tequilas, and (b) a shift in sales out of lower-priced brands (most notably, Canadian Mist) to higher priced brands (most notably, Jack Daniel's family and Woodford Reserve; the gains were partially offset by declines in used barrel sales.

The primary factors contributing to underlying net sales growth were:

- our American whiskey portfolio in the United States, led by JDTW, Woodford Reserve, Old Forester, and Gentleman Jack;
- JDTW in several international markets, most notably, Poland, France, the United Kingdom, Japan, Mexico, and Travel Retail;
- our tequila brands, led by (1) higher prices and volume gains of New Mix in Mexico, (2) higher volumes of Herradura and el Jimador in the United States, and (3) higher volumes and price increases of Herradura in Mexico;
- JD RTDs, partially due to new product introductions, led by Mexico, Germany, the United Kingdom, and Australia;
- Sonoma-Cutrer and Korbel Champagne in the United States;
- JDTF driven by launches in Germany, France, and Travel Retail; and
- Woodford Reserve outside of the United States, driven by distribution expansion in Travel Retail.

The primary factors partially offsetting growth in underlying net sales were declines of:

- used barrel sales, reflecting lower prices due to increased supply of used barrels and somewhat weaker demand from blended Scotch industry buyers;
- JDTW in Belgium, Southeast Asia, sub-Saharan Africa, China, and Turkey;
- Canadian Mist volumes in the United States; and
- lower-margin agency brands that we no longer distribute.

Fiscal 2016 compared to Fiscal 2015

Net sales of $3,089 million decreased 1%, or $45 million, in fiscal 2016 compared to fiscal 2015. Underlying net sales growth was 5%, after adjusting reported results for the negative effects of foreign exchange and the sale of Southern Comfort and Tuaca. The negative effect of foreign exchange was driven primarily by the dollar’s broad strengthening against most currencies. The change in underlying net sales was driven by the 4% positive impact of price/mix and 1% volume growth. Improved price/mix was driven by a shift in sales out of lower-priced brands, most notably Finlandia and Canadian Mist, to higher-priced brands, led by the Jack Daniel’s family and Woodford Reserve.

The primary factors contributing to underlying net sales growth were:

- our American whiskey portfolio in the United States, led by JDTW, Woodford Reserve, Gentleman Jack, and Old Forester;
- JDTW volumes in several international markets, led by the United Kingdom, France, Germany, and Mexico; and beneficial channel mix in Turkey;
- JDTF, due to its launch in the United States and the United Kingdom;
- our tequila brands, led by (1) higher volumes of New Mix in Mexico, (2) higher prices and volumes of Herradura in the United States and Mexico, and (3) higher volumes of el Jimador in the United States;
- Korbel Champagne and Sonoma-Cutrer in the United States;
- JDTH outside the United States, led by Brazil and France; and
- used barrel sales driven by higher prices.

The primary factors partially offsetting growth in underlying net sales were declines of:

- JDTW volumes in Travel Retail and Russia;
- lower-margin brands that we discontinued in fiscal 2016 and lower-margin agency brands that we no longer distribute;
- Southern Comfort in the United States before the sale;
- Canadian Mist in the United States;
- Finlandia in Europe, most notably in Russia; and
- volume of el Jimador in Mexico.

Cost of Sales

Percentage change versus the prior fiscal year ended April 30	2017	2016
Change in reported cost of sales	3 %	(1%)
Acquisitions and divestitures	—%	—%
Foreign exchange	—%	4 %
Estimated net change in distributor inventories	1 %	—%
Change in underlying cost of sales	4 %	3 %
Change in underlying cost of sales attributed to:		
Volume	2%	1%
Cost/mix	3%	2%

Note: Totals may differ due to rounding

Fiscal 2017 compared to Fiscal 2016

Cost of sales of $973 million increased $28 million, or 3%, in fiscal 2017 compared to fiscal 2016. Underlying cost of sales grew 4% after adjusting reported costs for the estimated net change in distributor inventories. The increase in underlying costs of sales was driven by growth in sales volumes and higher input costs, including wood and grain. Looking ahead to fiscal 2018, we currently expect that input costs will increase in the low single digits.

Fiscal 2016 compared to Fiscal 2015

Cost of sales of $945 million decreased $6 million, or 1%, in fiscal 2016 compared to fiscal 2015. Underlying cost of sales grew 3% after adjusting reported costs for the positive effect of foreign exchange. About one-third of the underlying increase in costs of sales was driven by growth in sales volumes, while the other two-thirds related to higher input costs, including wood and grain, and a shift in product mix to higher-cost brands.

Gross Profit

Percentage change versus the prior fiscal year ended April 30	2017	2016
Change in reported gross profit	(6%)	(2%)
Acquisitions and divestitures	4 %	1 %
Foreign exchange	3 %	6 %
Estimated net change in distributor inventories	1 %	—%
Change in underlying gross profit	3 %	5 %

Note: Totals may differ due to rounding

Gross Margin

Fiscal year ended April 30	2017	2016
Prior year gross margin	69.4%	69.7%
Price/mix	0.1 %	0.3 %
Cost	(0.4 %)	(0.2 %)
Acquisitions and divestitures	(0.9 %)	(0.1 %)
Foreign exchange	(0.7 %)	(0.3 %)
Change in gross margin	(1.9 %)	(0.3 %)
Current year gross margin	67.5%	69.4%

Note: Totals may differ due to rounding

Fiscal 2017 compared to Fiscal 2016

Gross profit of $2,021 million decreased $123 million, or 6%, in fiscal 2017 compared to fiscal 2016. Gross profit on an underlying basis improved 3% after adjusting reported gross profit for (a) the net effect of acquisitions and divestitures, (b) the negative effect of foreign exchange, and (c) the estimated net change in distributor inventories. The increase in underlying gross profit resulted from the same factors that contributed to the increase in underlying net sales partially offset by the same factors that drove higher underlying cost of sales.

Gross margin decreased to 67.5% in fiscal 2017, down 190 basis points from 69.4% in fiscal 2016. The decrease in gross margin was primarily due to (a) the net effect of acquisitions and divestitures, (b) the negative effect of foreign exchange, and (c) an increase in underlying cost of sales.

Fiscal 2016 compared to Fiscal 2015

Gross profit of $2,144 million decreased $39 million, or 2%, in fiscal 2016 compared to fiscal 2015. Gross profit on an underlying basis improved 5% after adjusting reported gross profit for the negative effects of foreign exchange and the sale of Southern Comfort and Tuaca. The increase resulted from the same factors that contributed to the increase in underlying net sales for the year partially offset by the same factors that drove higher underlying cost of sales.

Gross margin decreased to 69.4% in fiscal 2016, down 30 basis points from 69.7% in fiscal 2015. The decrease in gross margin was primarily due to the negative effect of foreign exchange, partially offset by higher pricing and favorable mix shift.

Advertising Expenses

Percentage change versus the prior fiscal year ended April 30	2017	2016
Change in reported advertising	(8%)	(4%)
Acquisitions and divestitures	8 %	2 %
Foreign exchange	2 %	5 %
Change in underlying advertising	2 %	2 %

Note: Totals may differ due to rounding

Fiscal 2017 compared to Fiscal 2016

Advertising expenses of $383 million decreased $34 million, or 8%, in fiscal 2017 compared to fiscal 2016. Underlying advertising expenses increased 2% after adjusting reported results for the net effect of acquisitions and divestitures and the benefit of foreign exchange. The increase in underlying advertising expense was driven by higher spending on (a) JDTW, due in part to the 150th anniversary of Jack Daniel's Distillery, (b) JD RTDs, partially due to new innovations, and (c) the launch of JDTF outside the United States. These increases were partially offset by lower spending for JDTF in the United States following the national introduction in late fiscal 2015 and for Finlandia Vodka.

Fiscal 2016 compared to Fiscal 2015

Advertising expenses of $417 million decreased $20 million, or 4%, in fiscal 2016 compared to fiscal 2015. Underlying advertising expenses increased 2% after adjusting reported results for the positive effects of foreign exchange and the sale of Southern Comfort and Tuaca. The increase in underlying advertising expenses was driven primarily by investments in the United States for Woodford Reserve, JDTW, and JDTF, as well as higher spending outside the United States on the Jack Daniel's family. These increases were partially offset by lower spending for Southern Comfort globally and Finlandia Vodka in many markets.

Selling, General, and Administrative (SG&A) Expenses

Percentage change versus the prior fiscal year ended April 30	2017	2016
Change in reported SG&A	(3%)	(1%)
Acquisitions and divestitures	—%	—%
Foreign exchange	1 %	4 %
Change in underlying SG&A	(2%)	2 %

Note: Totals may differ due to rounding

Fiscal 2017 compared to Fiscal 2016

SG&A expenses of $667 million decreased $21 million, or 3%, in fiscal 2017 compared to fiscal 2016, while underlying SG&A dropped 2% after adjusting reported results for the benefit of foreign exchange. The most significant contributors to the year-over-year decrease in underlying SG&A were lower compensation-related expenses and tight management of discretionary spending.

Fiscal 2016 compared to Fiscal 2015

SG&A expenses of $688 million decreased $9 million, or 1%, in fiscal 2016 compared to fiscal 2015, while underlying SG&A grew 2% after adjusting reported results for the positive effect of foreign exchange. The most significant contributors to the year-over-year increase in underlying SG&A were higher compensation and related expenses.

Operating Income

Percentage change versus the prior fiscal year ended April 30	2017	2016
Change in reported operating income	(35%)	49 %
Acquisitions and divestitures	35 %	(46%)
Foreign exchange	4 %	4 %
Estimated net change in distributor inventories	3 %	1 %
Change in underlying operating income	7 %	8 %

Note: Totals may differ due to rounding

Fiscal 2017 compared to Fiscal 2016

Operating income was $989 million in fiscal 2017, a decrease of $544 million, or 35%, compared to fiscal 2016. Underlying operating income growth was 7% after adjusting for (a) the net effect of acquisitions and divestitures, (b) the negative effect of foreign exchange, and (c) the estimated net change in distributor inventories, driven primarily by the United States and Russia. The same factors that contributed to the growth in underlying gross profit also contributed to the growth in underlying operating income, enhanced by meaningful operating expense leverage as SG&A spend declined and underlying advertising expenses grew 2% compared to underlying net sales growth of 3%.

Operating margin declined 16.6 percentage points to 33.0% in fiscal 2017 from 49.6% in fiscal 2016. The decrease in our operating margin was primarily due to the net 16.6 percentage point effect of acquisitions and divestitures and the negative effect of foreign exchange, partially offset by a reduction in SG&A spend.

Fiscal 2016 compared to Fiscal 2015

Operating income was $1,533 million in fiscal 2016, an increase of $506 million, or 49%, compared to fiscal 2015. Underlying operating income growth was 8% after adjusting for (a) the positive effect of the sale of Southern Comfort and Tuaca; (b) the negative effect of foreign exchange related to the broad strengthening of the dollar; and (c) the estimated net decrease in distributor inventories, driven primarily by the absence of the distributor inventory increase in the United States associated with the nationwide rollout of JDTF in the fourth quarter of fiscal 2015. The same factors that contributed to the growth in underlying gross profit also contributed to the growth in underlying operating income, enhanced by a slower rate of growth in operating expenses.

Operating margin grew 16.8 percentage points to 49.6% in fiscal 2016 from 32.8% in fiscal 2015. The increase in our operating margin was primarily due to the sale of Southern Comfort and Tuaca, which increased our operating margin 15.7 percentage points. In addition, the slower rate of growth in operating expenses compared to the gross profit growth rate also contributed to the operating margin expansion.

Fiscal 2017 compared to Fiscal 2016

Interest expense (net) increased $12 million, or 29%, in fiscal 2017 compared to fiscal 2016, primarily due to our July 2016 issuance of €300 million 1.20% and £300 million 2.60% senior unsecured notes due on July 7, 2026 and July 7, 2028, respectively.

Our effective tax rates for fiscal 2017 and fiscal 2016 were 28.3%. A decrease in the beneficial impact of foreign earnings at lower rates and an increase in foreign exchange gains in non-U.S. entities that are currently subject to U.S. tax were offset by an increase in the tax benefit related to discrete items. Additionally, the absence of the beneficial impact of the sale of the Southern Comfort and Tuaca business was primarily offset by the beneficial impact of the excess tax benefits from stock-based awards.

Diluted earnings per share were $1.71 in fiscal 2017, down 34% from $2.61 in fiscal 2016. This decrease resulted from the same factors that contributed to the decrease in reported operating income, including (a) the absence of the $0.88 gain from the sale of Southern Comfort and Tuaca in fiscal 2016, (b) the absence of net income contribution from those brands, and (c) higher interest expense in fiscal 2017, partially offset by (d) a reduction in shares outstanding due to share repurchases.

Fiscal 2016 compared to Fiscal 2015

Interest expense (net) increased $19 million, or 70%, in fiscal 2016 compared to fiscal 2015, primarily due to our June 2015 issuance of $500 million 4.50% senior unsecured notes due on July 15, 2045 and the increase in our commercial paper borrowing.

Our effective tax rate for fiscal 2016 was 28.3% compared to 31.7% in fiscal 2015. The decrease in our effective tax rate was driven primarily by an increase in the beneficial impact of foreign earnings and the impact of the sale of the Southern Comfort and Tuaca business.

Diluted earnings per share were $2.61 in fiscal 2016, up 63% from $1.60 in fiscal 2015. This increase resulted from (a) the same factors that contributed to the increase in operating income, including $0.88 from the sale of Southern Comfort and Tuaca, (b) the reduction in the shares outstanding resulting from share repurchases, and (c) the decrease in the effective tax rate.

Liquidity and Capital Resources

Our ability to generate cash from operations consistently is one of our most significant financial strengths. Our strong cash flows enable us to invest in our people, invest in our brands, invest in our assets, pay dividends, make strategic acquisitions that we believe will enhance shareholder value, repurchase shares of common stock, and, from time to time, pay special dividends. Investment-grade credit ratings (A1 by Moody's, A by Fitch, and A- by Standard & Poor's) provide us with financial flexibility when accessing global credit markets. We believe cash flows from operations are sufficient to meet our expected operating and capital requirements.

Cash Flow Summary

(Dollars in millions)	2015	2016	2017
Operating activities	$608	$524	$639
Investing activities:			
Proceeds from sale of business	—	543	—
Acquisition of business	—	—	(307)
Additions to property, plant, and equipment	(120)	(108)	(112)
Other	(5)	(2)	(3)
	(125)	433	(422)
Financing activities:			
Net change in short-term borrowings	183	80	(122)
Net issuance (repayment) of long-term debt	—	240	717
Acquisition of treasury stock	(462)	(1,107)	(561)
Dividends paid	(256)	(266)	(274)
Other	4	(7)	(45)
	(531)	(1,060)	(285)
Foreign exchange effect	(19)	(4)	(13)
Change in cash and cash equivalents	$(67)	$(107)	$(81)

Fiscal 2017 compared to Fiscal 2016

Cash and cash equivalents declined $81 million in fiscal 2017, compared to a decline of $107 million in fiscal 2016. Cash provided by operations of $639 million was up $115 million from last year, largely reflecting the absence of a $125 million payment made during fiscal 2016 for estimated income taxes incurred on the sale of the Southern Comfort and Tuaca business. Cash used for investing activities was $422 million during fiscal 2017, an increase of $855 million over the $433 million in cash provided by investing activities during fiscal 2016. The increase of $855 million largely reflects the impact of the sale of the Southern Comfort and Tuaca business (for which we received cash of $543 million) in fiscal 2016 and the acquisition of BenRiach (for which we paid cash of $307 million) in fiscal 2017.

Cash used for financing activities was $285 million during fiscal 2017, compared to $1,060 million during fiscal 2016. The $775 million decrease in cash used for financing activities largely reflects a $546 million decrease in share repurchases and a $477 million increase in proceeds from long-term debt net of repayments, partially offset by a $202 million decline in net proceeds from short-term borrowings and the payment of $30 million in November 2016 to settle an obligation related to our acquisition of BenRiach. The impact on cash and cash equivalents as a result of exchange rate changes was a decline of $13 million for fiscal 2017, compared to a decline of $4 million in the prior fiscal year.

Fiscal 2016 compared to Fiscal 2015

Cash and cash equivalents decreased $107 million during fiscal 2016, compared to a decrease of $67 million during fiscal 2015. Cash provided by operations during fiscal 2016 was $524 million, compared to $608 million in fiscal 2015. The $84 million decline was primarily due to a $55 million increase in income tax payments, largely reflecting a $125 million payment made during the fourth quarter of fiscal 2016 for the estimated taxes incurred on the sale of the Southern Comfort and Tuaca business, partially offset by the absence of $64 million paid during fiscal 2015 in connection with an intercompany transfer of assets. The decline in cash provided by operations also reflected a $14 million increase in interest payments, due to higher debt balances and interest rates.

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Cash provided by investing activities was $433 million in fiscal 2016. The increase of $558 million over fiscal 2015 primarily reflected the proceeds of $543 million from the sale of the Southern Comfort and Tuaca business in fiscal 2016. Cash used for financing activities was $1,060 million during fiscal 2016, compared to $531 million for fiscal 2015. The $529 million increase largely reflected a $645 million increase in share repurchases and the repayment of $250 million in aggregate principal amount of 2.5% notes that matured in January 2016, partially offset by proceeds of $490 million from the issuance of 4.50% senior notes due 2045 issued in June 2015, and an $80 million increase in short-term borrowings. The impact on cash and cash equivalents as a result of exchange rate changes was a decline of $4 million in fiscal 2016, compared to a decline of $19 million in fiscal 2015.

Capital Expenditures

Investments in property, plant, and equipment were $120 million in fiscal 2015, $108 million in fiscal 2016, and $112 million in fiscal 2017. Average expenditures over those three fiscal years were 61% higher than our average expenditures in the previous five fiscal years. Approximately 80% of total spend in fiscal 2017 related to production operations that continued to expand capacity, reduce costs, and build our brands. Our focus has been building our American whiskey brands, with an emphasis on JDTW, Woodford Reserve, and Old Forester.

For fiscal 2018, we expect to spend up to $140 million in capital expenditures. Our capital spending plans for fiscal 2018 include continued investment in our American whiskey brands, led by spending on our shipping warehouse facility at Jack Daniel's and the Old Forester Distillery and homeplace. In addition, we will continue building a new distillery and consumer experience on the historic Slane Castle Estate in Ireland. We expect capital expenditures in fiscal 2019 and fiscal 2020 to remain elevated as we complete several key, multiyear projects.

Share Repurchases

We have repurchased approximately 46.2 million shares of our common stock since the beginning of fiscal 2014. The following table summarizes information about those share repurchases by period.

	Shares Purchased		Average Price Per Share, Including Brokerage Commissions		Total Cost of Shares
Period	Class A	Class B	Class A	Class B	(Millions)
May 1, 2013 – April 30, 2014	49,600	1,322,944	$ 34.02	$ 34.52	$ 47
May 1, 2014 – April 30, 2015	130,210	10,068,660	$ 45.11	$ 45.18	$ 461
May 1, 2015 – April 30, 2016	42,082	22,714,698	$ 47.72	$ 48.49	$ 1,104
May 1, 2016 – April 30, 2017	30,312	11,799,240	$ 48.46	$ 47.19	$ 558
	252,204	45,905,542			$ 2,170

We repurchased these shares under three separate repurchase programs, including the most recent $1 billion program that began on April 1, 2016, and concluded on March 31, 2017. Under the most recent program, we have repurchased a total of 14,159,578 shares for approximately $670 million.

The results of the three share repurchase programs are summarized in the following table.

Dates		Shares Purchased		Average Price Per Share, Including Brokerage Commissions		Total Spent on Stock Repurchase Program
Starting	Ending	Class A	Class B	Class A	Class B	(Millions)
October 2013	September 2014	94,926	5,723,252	$ 39.41	$ 43.04	$ 250
October 2014	March 2016	126,966	26,053,024	$ 45.90	$ 47.76	$ 1,250
April 2016	March 2017	30,312	14,129,266	$ 48.46	$ 47.30	$ 670
		252,204	45,905,542			$ 2,170

Liquidity

We continue to manage liquidity conservatively to meet current obligations, fund capital expenditures, maintain dividends, and repurchase shares from time to time while reserving adequate debt capacity for acquisition opportunities.

In addition to our cash and cash equivalent balances, we have access to several liquidity sources to supplement our cash flow from operations. One of those sources is our $800 million commercial paper program that we regularly use to fund our short-term credit needs and to maintain our access to the capital markets. During fiscal 2016, our commercial paper borrowings averaged

$331 million, with an average maturity of 29 days and an average interest rate of 0.42%. During fiscal 2017, our commercial paper borrowings averaged $576 million, with an average maturity of 31 days and an average interest rate of 0.69%. Commercial paper outstanding was $269 million at April 30, 2016, and $208 million at April 30, 2017.

Our commercial paper program is supported with available commitments under our currently undrawn $800 million bank credit facility that matures on November 20, 2018. Further, we believe that the markets for investment-grade bonds and private placements are accessible sources of long-term financing that could meet any additional liquidity needs. Although unlikely, under extreme market conditions, one or more participating banks may not be able to fully fund its commitments under our credit facility.

We have high credit standards when initiating transactions with counterparties, and we closely monitor our counterparty risks with respect to our cash balances and derivative contracts. If a counterparty's credit quality were to deteriorate below our credit standards, we would expect either to liquidate exposures or require the counterparty to post appropriate collateral.

As of April 30, 2017, we had total cash and cash equivalents of $182 million. Of this amount, $153 million was held by foreign subsidiaries whose earnings we expect to reinvest indefinitely outside of the United States. We do not expect to need the cash generated by those foreign subsidiaries to fund our domestic operations. In the unforeseen event that we were to repatriate cash from those foreign subsidiaries, we would be required to provide for and pay U.S. taxes on permanently repatriated earnings. See Note 13 to our Consolidated Financial Statements for further information about the taxes that would have been provided on the undistributed earnings of these foreign subsidiaries if not considered indefinitely reinvested.

As announced on May 24, 2017, our Board of Directors declared a regular quarterly cash dividend of $0.1825 per share on our Class A and Class B common stock. Stockholders of record on June 5, 2017, will receive the dividend on July 3, 2017.

We believe our current liquidity position is strong and sufficient to meet all of our future financial commitments. A quantitative covenant of our $800 million bank credit facility requires the ratio of consolidated EBITDA (as defined in the agreement) to consolidated interest expense to be at least 3 to 1. At April 30, 2017, with a ratio of 18 to 1, we were well within the covenant's parameters.

Off-Balance Sheet Arrangements

As of April 30, 2017, we were not involved in any off-balance sheet arrangements that have or are reasonably likely to have a material effect on our financial condition, results of operations, or liquidity.

Long-Term Obligations

We have long-term obligations related to contracts, leases, borrowing arrangements, and employee benefit plans that we enter into in the normal course of business (see Notes 4, 5, and 9 to our Consolidated Financial Statements). The following table summarizes the amounts of those obligations as of April 30, 2017, and the years when they must be paid:

Long-Term Obligations[1]

(Dollars in millions)	Total	2018	2019-2020	2021-2022	After 2022
Long-term debt	$1,965	$250	$ —	$ —	$1,715
Interest on long-term debt	1,058	53	103	103	799
Grape purchase obligations	35	12	15	7	1
Operating leases	48	17	22	8	1
Postretirement benefit obligations[2]	38	38	n/a	n/a	n/a
Agave purchase obligations[3]	4	n/a	n/a	n/a	n/a
Total	$3,148	$370	$ 140	$ 118	$2,516

1 Excludes liabilities for tax uncertainties, as we cannot reasonably predict the ultimate amount or timing of settlement.

2 As of April 30, 2017, we have unfunded pension and other postretirement benefit obligations of $322 million. Because we cannot determine the specific periods in which those obligations will be funded, the table above reflects no amounts related to those obligations other than the $38 million of expected contributions (including $30 million of expected discretionary contributions) in fiscal 2018.

3 As discussed in Note 4 to our Consolidated Financial Statements, we have obligations to purchase agave, a plant whose sap forms the raw material for tequila. As of April 30, 2017, based on current market prices, obligations under these contracts totaled $4 million. Because we cannot determine the specific periods in which those obligations will be paid, the above table reflects only the total related to those obligations.

We expect to meet these obligations with internally generated funds.

Critical Accounting Policies and Estimates

Our financial statements reflect some estimates involved in applying the following critical accounting policies that entail uncertainties and subjectivity. Using different estimates or policies could have a material effect on our operating results and financial condition.

Goodwill and Other Intangible Assets

We have obtained most of our brands by acquiring other companies. When we acquire another company, we first allocate the purchase price to identifiable assets and liabilities, including intangible brand names and trademarks ("brand names"), based on estimated fair value. We then record any remaining purchase price as goodwill. We do not amortize goodwill or other intangible assets with indefinite lives. We consider all of our brand names to have indefinite lives.

We assess our goodwill and other indefinite-lived intangible assets for impairment at least annually. If an asset's fair value is less than its book value, we write it down to its estimated fair value. For goodwill, if the book value of the reporting unit exceeds its estimated fair value, we measure for potential impairment by comparing the implied fair value of the reporting unit's goodwill, determined in the same manner as in a business combination, to the goodwill's book value. We estimate the reporting unit's fair value using discounted estimated future cash flows or market information. We typically estimate the fair value of a brand name using either the "relief from royalty" or "excess earnings" method. We also consider market values for similar assets when available. Considerable management judgment is necessary to estimate fair value, including making assumptions about future cash flows, discount rates, and royalty rates.

We have the option, before quantifying the fair value of a reporting unit or brand name, to evaluate qualitative factors to assess whether it is more likely than not that our goodwill or brand names are impaired. If we determine that is not the case, then we are not required to quantify the fair value. That assessment also takes considerable management judgment.

Based on our assumptions, we believe none of our goodwill or other intangibles are impaired. Further, we estimate the fair values to substantially exceed the carrying values of all of our goodwill and other intangible assets.

Pension and Other Postretirement Benefits

We sponsor various defined benefit pension plans as well as postretirement plans providing retiree health care and retiree life insurance benefits. Benefits are based on factors such as years of service and compensation level during employment. We expense the benefits expected to be paid over employees' expected service. This requires us to make assumptions to determine the net benefit expense and obligations, such as interest rates, return on plan assets, the rate of salary increases, expected service, and health care cost trend rates.

The assets, obligations, and assumptions used to measure pension and retiree medical expenses are determined at the beginning of the year ("measurement date"). Because obligations are measured on a discounted basis, the discount rate is a significant assumption. It is based on interest rates for high-quality, long-term corporate debt at each measurement date. The expected return on pension plan assets reflects expected capital market returns for each asset class that are based on historical returns, adjusted for the expected effects of diversification and active management (net of fees) of the assets. The other assumptions also reflect our historical experience and management's best judgment regarding future expectations.

Beginning in fiscal 2018, we plan to change the method used to estimate the service cost and interest cost components of net periodic benefit cost for our U.S. pension and other postretirement benefit plans. The new estimation approach will discount the individual expected cash flows underlying the service cost and interest cost using the applicable spot rates derived from the yield curve used to discount the cash flows used to measure the benefit obligation at the beginning of the period. Previously, we estimated these service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We believe the new approach will provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. We will account for this change in estimate prospectively, beginning May 1, 2017. The new approach will not affect the measurement of our plan obligations, but will generally result in lower service cost and interest cost in periods when the yield curve is upward-sloping. For fiscal 2018, we estimate that using the new estimation approach will reduce total service and interest cost by approximately $7 million when compared to the cost computed using the prior approach.

Income Taxes

Significant judgment is required in evaluating our tax positions. We establish liabilities when some positions are likely to be challenged and may not succeed, despite our belief that our tax return positions are fully supportable. We adjust these liabilities in light of changing circumstances, such as the progress of a tax audit. We believe current liabilities are appropriate for all known contingencies, but this situation could change.

Years can elapse before we can resolve a particular matter for which we have established a tax liability. Although predicting the final outcome or the timing of resolution of any particular tax matter can be difficult, we believe our liabilities reflect the likely outcome of known tax contingencies. Unfavorable settlement of any particular issue could require use of our cash. Conversely, a favorable resolution could result in reduced cash tax payments, the reversal of previously established liabilities, or some combination of these results, which could reduce our effective tax rate.

New Accounting Pronouncements

As discussed in Note 1 to the accompanying financial statements, we are currently evaluating the potential impact of several new accounting pronouncements to be adopted in the next few years.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Risk Management Framework

Success in business requires risk-taking, but we must balance risk and reward appropriately. Our enterprise risk management process is intended to ensure that we take risks knowingly and thoughtfully and that we balance potential risks and rewards appropriately. Our integrated enterprise risk management framework is designed to identify, evaluate, communicate, and appropriately mitigate risks across our operations. Within this framework:

- Our Board of Directors is responsible for overseeing our enterprise risk assessment and mitigation processes and procedures. The Board itself oversees some strategic enterprise risks and delegates responsibility for other risks to committees that report to the Board regularly on matters within their purview, and to management.
- The Audit Committee oversees policies and processes related to enterprise risk management, compliance with legal and regulatory requirements, and financial reporting and accounting control risks.
- The Compensation Committee periodically reviews our compensation policies and practices to assess whether they could lead to unnecessary risk taking.
- Our Enterprise Risk Management Committee, composed of managers from an array of levels, functions, and geographies, reports to the Board at least annually. It leads our risk management program globally, which systematically identifies and evaluates the major risks we face, identifies people responsible for managing each risk, ensures that risk mitigation plans are in place and, together with internal audit, verifies that mitigation plans are being followed.
- Our management Ethics, Compliance and Risk Team, comprising a number of senior executives and subject matter experts, meets throughout the year to address issues related to risk, ethics, and compliance; to coordinate the work of those areas; and to oversee the formulation and promulgation of company policies and the training of employees in compliance with them.
- Our Risk Management function identifies and assesses potential operational hazards and safety and security risks, and facilitates ongoing communication about those risks with the Enterprise Risk Management Committee and our executive leaders.
- Our Internal Audit Department evaluates the ongoing effectiveness of our key internal controls through periodic audit and review procedures.
- The Chief Ethics and Compliance Officer in our legal department helps ensure that all of our employees' actions globally comply with all internal policies and applicable laws.

Market Risks

We are exposed to market risks arising from adverse changes in foreign exchange rates, commodity prices affecting the cost of our raw materials and energy, and interest rates. We try to manage risk responsibly through a variety of strategies, including production initiatives and hedging. Our foreign currency hedging contracts are subject to exchange rate changes, our commodity forward purchase contracts are subject to commodity price changes, and some of our debt obligations are subject to interest rate changes. Below, we discuss these exposures and provide a sensitivity analysis as to how these changes could affect our results of operations. See Notes 6 and 8 to our Consolidated Financial Statements for details.

See Note 4 to our Consolidated Financial Statements for details on our grape and agave purchase obligations, which are exposed to commodity price risk, and "Critical Accounting Estimates" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of our pension and other postretirement plans' exposure to interest

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rate risks. Also see “Item 1A. Risk Factors” for details on how economic conditions affecting market risks also affect the demand for and pricing of our products and how we are affected by exchange rate fluctuations.

Foreign Exchange. The more we expand our business outside the United States, the more our financial results will be exposed to exchange rate fluctuations. This exposure includes sales of our products in currencies other than the dollar and the cost of goods, services, and manpower we purchase in currencies other than the dollar. Because we sell more in local currencies than we purchase, we have a net exposure to changes in the dollar’s value. To buffer these exchange rate fluctuations, we regularly hedge a portion of our foreign currency exposure. But over the long term, our reported financial results will generally be negatively affected by a stronger dollar and positively affected by a weaker dollar. We estimate that our foreign currency revenue for our largest exposures will exceed our foreign currency expenses by approximately $655 million in fiscal 2018. Foreign exchange rates also affect the carrying value of our foreign-currency-denominated assets and liabilities.

We routinely use foreign currency forward and option contracts to hedge a portion of our transactional foreign exchange risk and, in some circumstances, our net asset exposure. If these contracts remain effective, we will not recognize any unrealized gains or losses until we either recognize the underlying hedged transactions in earnings or convert the underlying hedged net asset exposures. At April 30, 2017, our total foreign currency hedges had a notional value of $1,188 million, with a maximum term outstanding of 36 months, and were recorded as a net asset at their fair value of $15 million.

As of April 30, 2017, we hedged approximately 77% of our total transactional exposure to foreign exchange fluctuations in fiscal 2018 for our major currencies by entering into foreign currency forward contracts. Considering these hedges, we estimate that a 10% increase/decrease in the average value of the dollar in fiscal 2018 relative to fiscal 2017’s effective exchange rates for our significant currency exposures would decrease/increase our fiscal 2018 operating income by approximately $18 million.

Commodity Prices. Commodity prices are affected by weather, supply and demand, as well as geopolitical and economic variables. To reduce price volatility, we use deliverable contracts for corn (in which we take physical delivery of the corn underlying each contract) rather than futures contracts or options.

Interest Rates. Our cash and cash equivalents ($182 million as of April 30, 2017) and variable-rate debt ($211 million as of April 30, 2017) are exposed to the risk of interest rate changes. Based on the net balance of these items as of April 30, 2017, a 1% increase in interest rates would result in a negligible increase in net interest expense.

Item 8. Financial Statements and Supplementary Data

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REPORTS OF MANAGEMENT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Our management is responsible for the preparation, presentation, and integrity of the financial information presented in this report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States, including amounts based on management's best estimates and judgments. In management's opinion, the consolidated financial statements fairly present the Company's financial position, results of operations, and cash flows.

The Audit Committee of the Board of Directors, comprising only independent directors, meets regularly with our external auditors, the independent registered public accounting firm PricewaterhouseCoopers LLP (PwC), with our internal auditors, and with representatives of management to review accounting, internal control structure, and financial reporting matters. Our internal auditors and PwC have full, free access to the Audit Committee. As set forth in our Code of Conduct and Compliance Guidelines, we are firmly committed to adhering to the highest standards of moral and ethical behavior in our business activities.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is also responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

As of the end of our fiscal year, management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of April 30, 2017. PwC has audited the effectiveness of our internal control over financial reporting as of April 30, 2017, as stated in their report.

The Company acquired The BenRiach Distillery Company Limited (BenRiach) in a purchase business combination during fiscal 2017. Based on SEC staff interpretive guidance for newly-acquired businesses, management excluded BenRiach from its assessment of our internal control over financial reporting as of April 30, 2017. BenRiach is a wholly-owned subsidiary whose total assets and total net sales represented approximately 4% and 1% respectively, of the related consolidated financial statement amounts as of and for the year ended April 30, 2017.

Dated: June 14, 2017

By: /s/ Paul C. Varga
Paul C. Varga
Chief Executive Officer and Chairman of the Company

By: /s/ Jane C. Morreau
Jane C. Morreau
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Stockholders
of Brown-Forman Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Brown- Forman Corporation and its subsidiaries at April 30, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2017 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it presents excise taxes in fiscal year 2017.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management’s Report on Internal Control over Financial Reporting, management has excluded The BenRiach Distillery Company Limited (“BenRiach”) from its assessment of internal control over financial reporting as of April 30, 2017 because BenRiach was acquired by the Company in a purchase business combination during fiscal year 2017. We have also excluded BenRiach from our audit of internal control over financial reporting. BenRiach is a wholly-owned subsidiary whose total assets and total net sales represent 4% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended April 30, 2017.

/s/ PricewaterhouseCoopers LLP
Louisville, KY
June 14, 2017

BROWN-FORMAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions, except per share amounts)

Year Ended April 30,	2015	2016	2017
Sales	$4,096	$4,011	$3,857
Excise taxes	962	922	863
Net sales	3,134	3,089	2,994
Cost of sales	951	945	973
Gross profit	2,183	2,144	2,021
Advertising expenses	437	417	383
Selling, general, and administrative expenses	697	688	667
Gain on sale of business	—	(485)	—
Other expense (income), net	22	(9)	(18)
Operating income	1,027	1,533	989
Interest income	2	2	3
Interest expense	27	46	59
Income before income taxes	1,002	1,489	933
Income taxes	318	422	264
Net income	$684	$1,067	$669
Earnings per share:			
Basic	$1.62	$2.63	$1.72
Diluted	$1.60	$2.61	$1.71

The accompanying notes are an integral part of the consolidated financial statements.

BROWN-FORMAN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)

Year Ended April 30,	2015	2016	2017
Net income	$684	$1,067	$669
Other comprehensive income (loss), net of tax:			
Currency translation adjustments	(114)	(23)	(73)
Cash flow hedge adjustments	32	(17)	—
Postretirement benefits adjustments	(30)	(10)	33
Net other comprehensive income (loss)	(112)	(50)	(40)
Comprehensive income	$572	$1,017	$629

The accompanying notes are an integral part of the consolidated financial statements.

BROWN-FORMAN CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

April 30,	2016	2017
ASSETS		
Cash and cash equivalents	$263	$182
Accounts receivable, less allowance for doubtful accounts of $9 in 2016 and $7 in 2017	559	557
Inventories:		
Barreled whiskey	666	873
Finished goods	187	186
Work in process	116	119
Raw materials and supplies	85	92
Total inventories	1,054	1,270
Other current assets	357	342
Total current assets	2,233	2,351
Property, plant, and equipment, net	629	713
Goodwill	590	753
Other intangible assets	595	641
Deferred tax assets	17	16
Other assets	119	151
Total assets	$4,183	$4,625
LIABILITIES		
Accounts payable and accrued expenses	$501	$501
Accrued income taxes	19	9
Short-term borrowings	271	211
Current portion of long-term debt	—	249
Total current liabilities	791	970
Long-term debt	1,230	1,689
Deferred tax liabilities	101	152
Accrued pension and other postretirement benefits	353	314
Other liabilities	146	130
Total liabilities	2,621	3,255
Commitments and contingencies		
STOCKHOLDERS’ EQUITY		
Common stock:		
Class A, voting, $0.15 par value	13	25
Class B, nonvoting, $0.15 par value	21	43
Additional paid-in capital	114	65
Retained earnings	4,065	4,470
Accumulated other comprehensive income (loss), net of tax	(350)	(390)
Treasury stock, at cost (59,143,000 and 70,540,000 shares in 2016 and 2017, respectively)	(2,301)	(2,843)
Total stockholders’ equity	1,562	1,370
Total liabilities and stockholders’ equity	$4,183	$4,625

The accompanying notes are an integral part of the consolidated financial statements.

BROWN-FORMAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

Year Ended April 30,	2015	2016	2017
Cash flows from operating activities:			
Net income	$684	$1,067	$669
Adjustments to reconcile net income to net cash provided by operations:			
Gain on sale of business	—	(485)	—
Depreciation and amortization	51	56	58
Stock-based compensation expense	15	15	14
Deferred income taxes	6	10	(10)
Other, net	9	2	2
Changes in assets and liabilities, excluding the effects of sale and acquisition of businesses:			
Accounts receivable	(50)	8	6
Inventories	(102)	(127)	(86)
Other current assets	(30)	(57)	12
Accounts payable and accrued expenses	64	29	(17)
Accrued income taxes	(58)	7	(11)
Noncurrent assets and liabilities	19	(1)	2
Cash provided by operating activities	608	524	639
Cash flows from investing activities:			
Proceeds from sale of business	—	543	—
Acquisition of business, net of cash acquired	—	—	(307)
Additions to property, plant, and equipment	(120)	(108)	(112)
Acquisition of brand names and trademarks	(4)	—	—
Computer software expenditures	(1)	(2)	(3)
Cash provided by (used for) investing activities	(125)	433	(422)
Cash flows from financing activities:			
Net change in short-term borrowings	183	80	(122)
Repayment of long-term debt	—	(250)	—
Proceeds from long-term debt	—	490	717
Debt issuance costs	—	(5)	(5)
Net payments related to exercise of stock-based awards	(14)	(17)	(10)
Excess tax benefits from stock-based awards	18	15	—
Acquisition of treasury stock	(462)	(1,107)	(561)
Dividends paid	(256)	(266)	(274)
Repayment of short-term obligation associated with acquisition of business	—	—	(30)
Cash used for financing activities	(531)	(1,060)	(285)
Effect of exchange rate changes on cash and cash equivalents	(19)	(4)	(13)
Net increase (decrease) in cash and cash equivalents	(67)	(107)	(81)
Cash and cash equivalents, beginning of period	437	370	263
Cash and cash equivalents, end of period	$370	$263	$182
Supplemental disclosure of cash paid for:			
Interest	$27	$41	$48
Income taxes	$375	$430	$266

The accompanying notes are an integral part of the consolidated financial statements.

BROWN-FORMAN CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY
(Dollars in millions, except per share amounts)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	AOCI	Treasury Stock	Total
Balance at April 30, 2014	$ 13	$ 21	$ 81	$ 2,894	$ (188)	$ (789)	$ 2,032
Net income				684			684
Net other comprehensive income (loss)					(112)		(112)
Cash dividends ($0.605 per share)				(256)			(256)
Acquisition of treasury stock						(462)	(462)
Stock-based compensation expense			15				15
Stock issued under compensation plans						23	23
Loss on issuance of treasury stock issued under compensation plans			(15)	(22)			(37)
Excess tax benefits from stock-based awards			18				18
Balance at April 30, 2015	13	21	99	3,300	(300)	(1,228)	1,905
Net income				1,067			1,067
Net other comprehensive income (loss)					(50)		(50)
Cash dividends ($0.655 per share)				(266)			(266)
Acquisition of treasury stock						(1,107)	(1,107)
Stock-based compensation expense			15				15
Stock issued under compensation plans						34	34
Loss on issuance of treasury stock issued under compensation plans			(15)	(36)			(51)
Excess tax benefits from stock-based awards			15				15
Balance at April 30, 2016	13	21	114	4,065	(350)	(2,301)	1,562
Cumulative effect of change in accounting principle (Note 1)				10			10
Stock split (Note 11)	12	22	(34)				—
Net income				669			669
Net other comprehensive income (loss)					(40)		(40)