

BROWN-FORMAN DISTILLERS CORPORATION

In early July 1978, W. L. Lyons Brown, Jr., president and chief executive officer of Brown-Forman Distillers Corporation, faced an important acquisition decision. The principal owners of Southern Comfort Corporation had approached Brown in May with an offer to sell the company at a price of \$94.6 million. In preparing his response, Brown was evaluating the feasibility of the asking price and the likely effects of the acquisition on Brown-Forman's share price.

As a leading producer, marketer, and importer of wines and distilled spirits (including the well-known Jack Daniel's brand), Brown-Forman (\$457 million net sales) was the fifth-largest distiller in the United States, after National Distillers (\$586 million), Seagram (\$2,018 million), Heublein (\$839 million), and Hiram Walker (\$875 million).¹ How Brown had chosen to position Brown-Forman among its competitors would affect the appraisal of Southern Comfort.

Brown-Forman: Financial Goals and Performance

In 1977, Brown-Forman's management adopted new long-range financial goals regarding: (1) hurdle rates for investment; (2) size of the capital budget through 1980; (3) target capital structure; and (4) dividend payout. The primary objective of these goals was to "increase the value of the stockholders' investment."²

The dividend payout ratio (all dividends paid divided by net income) was targeted at a range of 30% to 35%. Planned investment during the 1978 to 1980 period included \$86 million for advertising and promotion, \$39 million in barreled-whiskey inventory, and \$19 million in new plant and equipment. Regarding capital structure, the ratio of total debt to total tangible capital,³ 26.6% at the end of 1977, was viewed as offering "considerable flexibility in financing

¹ Net sales figures for all firms are from wine and distilled-spirits business lines only.

² 1978 Annual Report, p. 3.

³ "Total tangible capital" defined as the sum of all interest-bearing debt, deferred income taxes, preferred equity, and common equity less intangible assets.

investment opportunities with either debt or equity.”⁴ Finally, the target hurdle rate, calculated as the return on total capital employed,⁵ was set at 14% for new capital projects in the distilling industry and 12% for investments in projects already in place.

The 1977 annual report declared:

While we are pleased with our 1977 results, in order to improve our return on total capital employed, we will be selective in pursuing new capital projects and will concentrate our efforts on improving the profitability of our present business. Management will actively pursue investments in new capital projects that have an anticipated return of at least 14% after taxes on the capital employed. At the same time, we will continue our efforts to expand the most profitable operations of the company. With respect to other areas of our business, your management is taking steps through price increases and closer attention to asset management to improve profitability. If the returns of these operations do not attain a higher level, management will consider channeling the capital supporting them into more profitable projects, products, and acquisitions.

Exhibit 1 compares the financial performance of Brown-Forman with its largest competitors. The company had a relatively larger profit margin, higher growth rates, and stronger balance sheet than its major competitors. The 1978 annual report noted:

The Company’s balance sheet is strong due to continued close attention to asset management. Our low debt/equity ratio and the excellent financial performance in recent years places the company in a favorable position to assume higher levels of debt to finance acquisitions and other investment opportunities.

Value Line identified Brown-Forman as the “premier liquor company in the United States,” and noted that the firm’s major brands continued to grow despite a flat industry growth trend.⁶ The company was expected to earn \$2.45 per share in 1978 and to add another 15% to earnings per share in 1979.

Brown-Forman’s income statement and balance sheet for the year ending April 30, 1978, are given in **Exhibits 2** and **3**. In 1978, two classes of stock existed for the company: Class A stock had the exclusive voting right and was listed on the American Stock Exchange; Class B common had no voting rights, but was also listed. The Brown family held 74% of the Class A stock and 40% of the Class B, and also provided certain senior officers and directors of the company some of the Class A stock.

⁴ 1977 Annual Report, p. 15.

⁵ “Return” defined as the sum of net income (excluding extraordinary items), the after-tax cost of interest, the increase in deferred income taxes, and the amortization of intangible assets during the year. “Average total capital employed” defined as the sum of all interest-bearing debt, deferred income taxes, and preferred and common equity averaged at year-end.

⁶ This and following quotes are from *Value Line* April 14, 1978, p. 350.

Brown-Forman: Product Market Strategy and Performance

“The production of distilled spirits is a relatively straightforward task. It is marketing skill that is critically important to the survival and growth of firms in this industry,” said William Street, senior vice-president. Brown succinctly stated Brown-Forman’s product-market strategy in a presentation to the New York Society of Security Analysts on June 29, 1978:

The company’s marketing philosophy is to produce and sell high-quality products which retail at prices generally at the upper end of the price scale within whatever category the product is sold. The company is a strong believer in heavy advertising support in order to build brands which have long life cycles with generally higher margins than are found on brands whose consumer appeal is based on price and shorter life cycles.

Brown-Forman’s product line included many well-known brands, which were categorized into three groups (see **Exhibit 4**).

Outside observers suggested that Brown-Forman’s special competence was in building brand franchises. For example, the company purchased the Canadian Mist Brand from Barton Brands, Inc., in 1971, “Because we had no significant brand in the Canadian Whiskey market and perceived significant growth in that market,” said Brown. By 1978, it was Brown-Forman’s largest brand and grew 11.5% during 1977 versus 3.1% for all Canadian whiskeys. A second example would be the company’s investment in the Bolla and Cella brands of Italian wines. The preeminent example of the firm’s ability to build premium brand franchises was, however, Jack Daniel’s Tennessee whiskey. Brown commented:

Jack Daniel’s’ compounded annual growth rate over the last five years has been between 10% and 15% and yet we know from tests in certain markets where we’ve allowed free supply both this year and last, that the growth has jumped to between 25% and 40%. I believe we can state without equivocation that Jack Daniel’s has the strongest and most loyal consumer franchise of any product in the industry.

What are the reasons for this phenomenal success? Number one, it has been our long-term marketing philosophy that top quality deserves the highest price, and over many years, Jack Daniel’s has been the highest priced American whiskey of any significant volume on the market. The brand is probably the only one which by policy has never granted quantity discounts of any kind. The fact that there has been a supply shortage from time to time has added to the mystique surrounding the label, and no doubt has been a factor contributing to long-term sales growth ... Jack Daniel’s is a unique product.... Our advertising over the years has emphasized the character of the distillery and the whiskey it produces.... Finally,

the most exciting thing for us for the long term is that the big increase in demand, which is on the top of the normal 10% to 15% compounded annual growth, is coming primarily from the youth market ... the corporation sees a very healthy, long life cycle ahead for this brand.

A new marketing thrust on the Jack Daniel's brand had been to increase penetration of foreign markets. This campaign would require an expanded marketing organization overseas.

Whereas skillful branding and product positioning could improve the sales performance of a particular product or product group, another factor, product-line mix, would also affect the sales growth of the company in the long run. **Exhibit 5** suggests how demand for distilled spirits had changed during the previous ten years. Regarding the near future, *Value Line* expected sluggish industry growth overall, although "mystique" brands such as Jack Daniel's would continue to grow:

The spirits companies are beset with a number of problems. While the shift to non-whiskeys is firmly entrenched, the white goods (vodka, gin, rum, and tequila) aren't as profitable.... Since the overall liquor market hasn't gotten significantly larger, sales penetration by any one product type has come at the expense of another category.

Retail liquor prices have advanced about 15% over the last decade while the consumer price index rose 75%. Plainly, the industry has been reluctant to raise prices and has preferred to absorb cost increases because of the sluggish volume.

Southern Comfort

The object of Brown-Forman's acquisition interest was Southern Comfort Corporation (Consolidated) and Caligrapo, Inc., producers of Southern Comfort, a unique liqueur. By industry definition, a liqueur is a distilled spirit that contains more than 2 1/2% sugar by volume. Generally, a liqueur is produced by adding a syrup or concentrate to an alcohol base. The concentrate gives the liqueur its distinctive flavor. Southern Comfort's concentrate was mixed by a secret formula owned by Caligrapo Inc. Caligrapo sold the concentrate to Southern Comfort, which purchased alcohol and mixed, bottled, and marketed the liqueur. Southern Comfort employed 22 salespeople; its sales in 1977 were about \$64 million (see **Exhibits 6 and 7**).

Southern Comfort was owned by the estate of Francis E. Fowler, Jr., while Caligrapo was owned directly by his heirs, principally his sons, Francis G. Fowler, III, and Philip F. Fowler. Francis E. Fowler, Jr., had owned Southern Comfort for many years until his death in 1975.⁷ His sons managed the St. Louis company largely from California, where both they and their father

⁷ Following the death of Francis E. Fowler, Jr., an independent appraisal in 1977 deemed the fair market value of the common stock of Southern Comfort to be \$120 per share for estate and inheritance tax purposes.

had chosen to live in recent years. Despite absentee management, the company was regarded as well-run and efficient. Plant visits by Brown-Forman employees revealed modern equipment.

Southern Comfort had enjoyed above-average growth in shipments (see **Exhibit 8**), which was consistent with the general rise in the consumption of liqueurs shown in **Exhibit 5**, but surprising in light of market surveys that over half of Southern Comfort's consumers viewed it as a whiskey. Thus, compared to the slow growth of whiskey as a class, Southern Comfort's performance was arresting. It was attributed in part to rock and roll singer Janis Joplin, who preferred Southern Comfort. Strengthened channels of foreign distribution also accounted for growth in export sales. Among marketing professionals, it was considered a very strong brand. Southern Comfort had never been sold at a discount by its manufacturer. Its performance notwithstanding, Brown believed that the brand had not been aggressively marketed.

Through an intermediary, the Fowler brothers had approached Brown-Forman to solicit their interest in buying Southern Comfort Corporation and Caligrapo, Inc, for \$94.6 million. Subsequently, Brown-Forman learned that, in recent years, two other major distillers had entertained the possible acquisition of Southern Comfort and had rejected it at that price. At the time of approaching Brown-Forman, the Fowlers were discussing acquisition with no other potential buyers. They seemed sincerely interested in selling to Brown-Forman, primarily because of a perceived fit of Southern Comfort with the Brown-Forman product line. Also, Brown-Forman resembled Southern Comfort in broad outline: a family-run business with a Southern heritage and a record of superior performance.

The Fowlers indicated a willingness to accept cash for the two companies. Through an intermediary, they also suggested two other features of the acquisition. First, Southern Comfort Corporation owned some real property unrelated to the operations of the company. The Fowlers offered to repurchase that property at book value, about \$5.9 million, after the acquisition. Second, they proposed that the acquisition be consummated after January 1979, when they expected Congress to lower the tax rate on capital gains.

Brown contemplated financing \$20 million of the purchase price with cash and financing the balance with bank debt. He estimated that up to \$70 million could be borrowed at a nominal rate of 8 3/4% repayable over seven years semiannually, starting the following year. The company would be required to maintain an average compensating balance of 7% on the amount to be borrowed.

Because the proposed transaction would be taxable to the Fowlers, Brown-Forman could write up the value of the assets to the purchase price paid. Brown-Forman's finance department estimated that the purchase price could be allocated as follows:

\$55.0 million	Intangible assets (amortized over 40 years)
12.2	Property, plant and equipment (depreciated over 20 years)
<u>27.4</u>	Current assets
\$94.6 million	Asking price

Fundamentally, however, the attractiveness of the acquisition would rely on the strength of the cash flow from operations. A small team of executives developed a series of revenue, cost, and volume assumptions, which are summarized in **Exhibit 9**. The recent price history of Brown-Forman's common stock is given in **Exhibit 10**.

Exhibit 1

BROWN-FORMAN DISTILLERS CORPORATION

Comparative Financial Data, 1978

	<u>American Distilling</u>	<u>Brown- Forman</u>	<u>Heublein</u>	<u>National Distillers</u>	<u>Publicker Industries</u>	<u>Seagram</u>	<u>Hiram Walker</u>
Beta	1.41	1.10	1.71	.79	1.63	1.04	.65
Marginal Tax rate	.30	.50	.49	.47	.40	.46	.50
Debt/Equity	1.14	.247	.55	.34	.84	.53	.20
<u>Debt - Cash</u> Total capital	.50	.11	.28	.16	.44	.32	.12
Assets/Equity	2.46	1.37	2.16	1.65	2.04	1.76	1.43
Sales/Assets	1.66	1.46	1.80	1.35	1.49	1.22	1.04
Profit/Sales	.012	.073	.035	.052	.005	.038	.069
Price/Earnings	9.4	8.2	9.6	6.5	NMF	8.8	7.7
Dividend Yield at 4/14/78	NIL	.043	.056	.08	NIL	.042	.062
Self-sustaining Growth rate	.049	.102	.053	.079	.015	.041	.054
1978 expected Sales growth	.02	.09	.06	.08	.04	.07	.06
<u>Market value</u> Book value	.46	1.26	1.53	.79	.63	.75	.77

Notes: (1) The long-term geometric mean risk premium (calculated as the difference between the return on the market portfolio and the long-term return on government bonds) was 5.7%. The arithmetic mean risk premium was 8.7%.

(2) The yield to maturity of 10-year U.S. Treasury bonds (a proxy for the *ex ante* risk-free rate) was 8%. The yield on 90-day U.S. Treasury bills was 7.08%.

Source of market premium: R. G. Ibbotson and R. A. Sinquefeld, *Stocks, Bonds, Bills, and Inflation: The Past (1926-1978) and the Future (1978-2000)* (Charlottesville: Financial Analysts Research Foundation, 1977), Exhibit 28.

Source of financial ratios: *Value Line*, April 14, 1978.

Source of betas: "Security Risk Evaluation," Merrill Lynch Pierce Fenner & Smith, Inc., April 1978.

Exhibit 2

BROWN-FORMAN DISTILLERS CORPORATION

Consolidated Statements of Income
(Expressed in thousands except per share amounts)

	<u>Years Ended April 30,</u>	
	<u>1977</u>	<u>1978</u>
Net sales	\$396,176	\$457,071
Cost of sales	<u>274,733</u>	<u>310,539</u>
Gross profit	121,443	146,532
Selling, advertising, administrative, And general expenses	69,714	76,395
Other income (expense):		
Write-off of intangible asset	-	(2,300)
Miscellaneous, net	<u>1,760</u>	<u>1,314</u>
Earnings before interest and taxes	53,489	69,151
Interest expense	<u>6,249</u>	<u>5,804</u>
Income before taxes	47,240	63,347
Taxes on income	<u>23,500</u>	<u>32,100</u>
Net income	<u>\$ 23,740</u>	<u>\$ 31,247</u>
Earnings per common share	<u>\$ 1.85</u>	<u>\$ 2.45</u>

Source: 1978 Annual Report.

Exhibit 3

BROWN-FORMAN DISTILLERS CORPORATION

Consolidated Balance Sheets
(In thousands of dollars)

	<u>1977</u>	<u>April 30</u>	<u>1978</u>
<u>Assets</u>			
Cash	\$ 9,354		\$ 8,875
Short-term money market investments	36,171		20,797
Accounts receivable, trade	40,446		59,759
Inventories	148,794		167,142
Other current assets	<u>1,380</u>		<u>1,030</u>
Total current assets	236,145		257,603
Investments in associated companies	6,494		6,554
Property, plant, and equipment, at cost:	74,229		81,010
Less accumulated depreciation	<u>38,384</u>		41,709
Net property, plant, and equipment	35,845		39,301
Other assets	4,716		6,360
Goodwill, franchises, brands, and Trademarks	<u>21,671</u>		<u>18,787</u>
Total Assets	<u>\$304,871</u>		<u>\$328,605</u>
<u>Liabilities and Stockholders' Equity</u>			
Current portion of long-term debt	\$ 5,000		\$ 5,000
Accounts payable and accrued expenses	32,213		39,361
Accrued taxes	6,659		11,475
Deferred income taxes	<u>2,759</u>		<u>1,650</u>
Total current liabilities	46,631		57,486
9.3% serial notes, less current portion, \$5,000 Due each September 1, 1979-1988	60,000		50,000
Deferred income taxes	<u>1,226</u>		<u>2,894</u>
Total liabilities	107,857		110,380
<u>Stockholders' Equity</u>			
Capital stock:			
Preferred 40¢ cumulative, 1,177,948 shares Authorized and outstanding	11,779		11,779
Class A common stock, voting, issued shares, 4,020,634	1,206		1,206
Class B common stock, non-voting, issued shares, 8,888,105	2,667		2,667
Capital surplus	91,146		91,146
Retained earnings	94,138		115,349
Less common treasury stock, at cost (Class A, 61,742 shares; Class B, 261,377 shares)	<u>(3,922)</u>		<u>(3,922)</u>
Total stockholders' equity	197,014		218,225
Total liabilities and stockholders' equity	<u>\$304,871</u>		<u>\$328,605</u>

Source: 1978 Annual Report.

Exhibit 4

BROWN-FORMAN DISTILLERS CORPORATION

Product Line Information

<u>Share of Market</u>		1977 Industry % Sales <u>Growth 1977</u>	Sales Growth
	<u>American Spirits</u> (53% Brown-Forman sales)		
NA	Jack Daniel's Tennessee Whiskey	NA	NA
3%	Old Forester Bottled in Bond Bourbon Whiskey	+4.4%	2.9%
NA	Old Forester Kentucky Straight Bourbon Whiskey	NA	2.9%
7.2%	Early Times Kentucky Straight Bourbon Whiskey	2.0%	2.9%
	<u>Imported Spirits</u> (24% B-F sales)		
10.5%	Canadian Mist Canadian Whiskey	+11.5%	+3.1%
NA	Ambassador Scotch Whiskeys	NA	+0.2%
NA	Usher's Green Stripe Scotch Whiskey	NA	+0.2%
NA	Pepe Lopez Tequila	NA	NA
NA	Old Bushmill's Irish Whiskey	NA	NA
NA	Martell Cognacs	NA	NA
	<u>Wines & Specialties</u> (23% B-F sales)		
4.6%	Bolla Italian Wines	+32.5%	+37%
3.3%	Cella Italian Wines	+77%	+37%
NA	Cruse French Wines	NA	NA
NA	Veuve Clicquot French Champagnes	NA	NA
NA	Noilly Prat Vermouths	NA	NA
NA	Anheuser German Wines	NA	NA
3.2%	Korbel California Champagnes	11%	NA
6.1%	Korbel California Brandy	NA	+15.2 ¹ %
NA	Bols Liqueurs and Brandies	NA	+9.0%

¹ 5-year percentage increase, 1971 to 1976.

Sources: Company estimates and *Liquor Handbook* (New York: Gavin-Johnson Associates, 1982), p. 74.

Exhibit 5

BROWN-FORMAN DISTILLERS CORPORATION

Consumption Changes by Types
Of Distilled Spirits

Product type	<u>Case Shipments</u>	
	1966 to 1971 % <u>Change</u>	1971 to 1976 % <u>Change</u>
Total distilled spirits	+22.2	+ 9.8
American whiskeys	-4.6	-21.9
Blends	-7.3	-29.2
Straights	+ 0.9	-14.7
Bonds	-29.1	-36.4
Other	-26.2	+106.7
Scotch	+54.5	+ 8.2
Canadian	+70.6	+31.5
Gin	+18.9	+ 4.3
Rum	+77.1	+43.2
Brandy	+41.3	+15.2
Cordials, liqueurs	+44.1	+45.5
Vodka	+51.6	+55.1
Prepared cocktails	+30.3	+116.5
Other	+328.9	+97.7

Source: Liquor Handbook, Gavin-Johnson Associates, 1982, pp. 44 & 74.

Exhibit 6

BROWN-FORMAN DISTILLERS CORPORATION

Southern Comfort Corporation and Subsidiary

Income Statement

(For the years ended December 31)

	<u>1976</u>	<u>1977</u>
Net sales	\$ 57,308,426	\$ 64,183,392
Cost of sales	<u>40,909,265</u>	<u>45,814,353</u>
Gross profit	16,399,161	18,369,039
Selling, administrative, and general Expenses	<u>9,446,120</u>	<u>10,193,517</u>
Income from operations	<u>6,953,041</u>	<u>8,175,522</u>
Other income (expense):		
Royalties on Canadian sales	329,804	355,940
Interest	(186,210)	(62,283)
Rental property, net	(141,457)	111,329
Other, net	<u>(5,237)</u>	<u>2,466</u>
	<u>(3,100)</u>	<u>407,452</u>
Income before income taxes	6,949,941	8,582,974
Provision for income taxes	<u>3,453,400</u>	<u>4,211,512</u>
Net income	<u>3,496,541</u>	<u>4,371,462</u>
Earnings per common share	\$ <u>59.67</u>	\$ <u>79.95</u>

Source: Annual Report.

Exhibit 7

BROWN-FORMAN DISTILLERS CORPORATION

Southern Comfort Corporation and Subsidiary
Consolidated Balance Sheets, December 31

<u>Assets</u>	<u>1976</u>	<u>1977</u>
<u>Current Assets:</u>		
Cash	\$ 750,108	\$ 1,341,190
Accounts receivable	12,305,064	12,118,758
Inventories	6,554,342	7,365,841
Prepaid expenses	<u>59,218</u>	<u>35,952</u>
Total current assets	<u>19,668,732</u>	<u>20,861,741</u>
 <u>Property, at cost:</u>		
	4,933,708	5,556,624
Less: Accumulated depreciation	<u>2,105,195</u>	<u>2,439,268</u>
	2,828,513	3,117,356
Investment in rental property, less accumulated Depreciation of \$171,996 and \$106,878	<u>1,673,585</u>	<u>1,614,633</u>
Total property, net	4,502,098	4,731,989
<u>Display Silver, at cost</u>	<u>152,297</u>	<u>152,297</u>
	<u>\$ 24,323,127</u>	<u>\$ 25,746,027</u>
 <u>Liabilities and Stockholders' Equity</u>		
<u>Current Liabilities</u>		
Notes payable to bank, unsecured	\$ 2,350,000	\$ --
Current portion of long-term notes payable	858,461	62,067
Federal spirits and rectification taxes payable	4,933,465	7,096,549
Accounts payable and accrued expenses	1,489,093	1,076,973
Dividends payable	8,493	8,343
Income taxes	<u>572,571</u>	<u>738,279</u>
Total current liabilities	<u>10,212,083</u>	<u>8,982,211</u>
<u>Long-Term Notes Payable, less current portion</u>	<u>1,297,894</u>	<u>35,827</u>
<u>Deferred Compensation Payable, less Current portion</u>	<u>51,200</u>	<u>--</u>
 <u>Stockholders' Equity:</u>		
Preferred stock, no par redeemable at \$10, \$.50 cumulative outstanding 33,374 and 33,974 shares	169,870	166,870
Common stock, \$1 par, authorized 170,000 Shares, issued 120,000 shares	120,000	120,000
Retained earnings	<u>19,011,274</u>	<u>23,363,049</u>
	19,301,144	23,649,919
Less: treasury stock, at cost, 66,214 And 65,437 common shares	<u>6,539,194</u>	<u>6,921,930</u>
	<u>12,761,950</u>	<u>16,727,989</u>
	<u>\$ 24,323,127</u>	<u>\$ 25,746,027</u>

Source: Annual Report.

Exhibit 8

BROWN-FORMAN DISTILLERS CORPORATION

Historic Data: Case Shipments
Of Southern Comfort Corporation

<u>Calendar Years</u>	<u>U.S. Domestic</u>	<u>Export</u>	<u>Canada</u>	<u>Total</u>
1958	109,347	2,380	5,635	117,362
1959	123,928	2,528	6,000	132,456
1960	145,667	2,621	6,707	154,995
1961	149,998	2,778	7,166	159,942
1962	168,063	3,409	7,505	178,977
1963	182,220	4,746	8,225	195,191
1964	210,331	5,569	9,600	225,500
1965	269,687	9,662	12,540	291,889
1966	332,719	8,937	15,518	357,174
1967	381,457	12,253	18,408	412,118
1968	443,993	16,024	19,484	479,501
1969	524,171	15,945	23,334	563,450
1970	541,832	20,784	26,923	589,539
1971	617,201	39,031	36,129	692,361
1972	684,115	61,184	48,478	793,777
1973	716,798	190,678	61,828	969,304
1974	829,341	232,795	70,407	1,132,543
1975	850,778	189,123	85,141	1,125,042
1976	904,993	291,185	95,070	1,291,248
1977	1,047,896	303,916	111,566	1,463,378
20-year compound growth	11.9%	27.44%	16%	13.45%
5-year compound growth	8.8%	37.8%	18.2%	13%

Source: Southern Comfort Corporation records.

Exhibit 9

BROWN-FORMAN DISTILLERS CORPORATION

Assumptions Used in Southern Comfort Cash-Flow Forecast
In dollars except for case volumes [in units] and expenses [in \$000]

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Profit per case</u>											
U.S. domestic											
Revenue	\$49.62	\$50.62	\$51.42	\$52.42	\$52.92	\$53.92	\$54.92	\$55.92	\$56.92	\$57.92	\$58.92
Cost of goods	33.52	34.10	34.75	35.41	36.14	36.93	37.78	38.70	39.70	40.77	41.93
Advertising	4.07	4.01	3.80	3.68	3.83	3.89	3.92	3.97	3.33	3.18	3.37
Selling											
Regular	.55	.58	.59	.60	.61	.62	.63	.63	.65	.67	.70
Transition	.71	.34	.15								
Export											
Revenue	19.21	20.32	21.50	22.55	23.21	23.80	25.16	26.15	27.15	28.15	29.15
Cost of goods	7.08 and increases at 8% annually thereafter.										
Advertising	1.44	1.38	1.37	1.37	1.37	1.36	1.37	1.37	1.37	1.37	1.37
Brokerage	2.75	2.76	2.75	2.85	2.72	2.69	2.68	2.67	2.67	2.67	2.67
Selling exp.	.05	.05	.05	.06	.06	.06	.06	.06	.07	.07	.08
Canada											
Royalty	3.48	3.48	3.48	3.48	3.48	3.48	4.00	4.00	4.00	4.00	4.00
Concentrate											
Profit	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55
<u>Case volumes (in thousands)</u>											
U.S.	1,140	1,225	1,315	1,410	1,510	1,615	1,725	1,835	1,923	1,984	2,015
Export	325	350	380	405	425	445	463	480	490	500	500
Canada	115	125	138	150	160	170	180	190	200	210	220
<u>Corporate level¹</u>											
G&A Expense	1,665	1,800	1,944	2,100	2,268	2,449	2,645	2,857	3,086	3,332	3,599
Transition	430	380	180								
Settlements	400	400	400	400							
Interest expense ²	113	122	132	142	154	166	179	194	209	226	244

¹ For forecasting purposes, investment to maintain plant and equipment could be expected to be offset by depreciation expense, but there would be some additional investment in working capital as sales grew.

² On seasonal borrowings for working-capital financing. Analysts at Brown-Forman viewed this item as virtually an operating expense and considered including it in their forecast of free cash flows.

Source: Brown-Forman Distillers Corporation estimates.

Exhibit 10

BROWN-FORMAN DISTILLERS CORPORATION

Stock Price Data

Brown Forman

	<u>Class A</u>	<u>Class B</u>	<u>S&P 500 Index</u>
1/3/78	19.875	20.000	93.82
2/1/78	19.750	19.375	89.93
3/1/78	20.500	20.500	87.19
4/3/78	21.875	21.250	88.46
5/1/78	23.500	23.750	97.67
6/1/78	24.750	24.875	97.35
6/2/78	24.875	25.000	98.14
6/9/78	25.625	26.375	99.93
6/16/78	26.375	27.000	97.42
6/23/78	26.000	26.500	95.85
6/30/78	25.625	24.875	95.53

Source: *ISL Daily Stock Price Record*, Standard & Poor's Corporation.