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Brown-Forman's Family Control Produces Top Long-Term Results at Low Risk

With 70% of voting shares controlled by the Brown Family, **Brown-Forman Corp.** has been able to focus on long-term results, not simply dancing to the short-term interests of Wall Street.

But that doesn't mean shoddy results.

In the last fiscal year, the company achieved a growth in net sales of 17%, "far above our normal rate of growth," **Paul Varga**, chairman/ceo, told the annual meeting. Some of that was influenced by foreign exchange and the acquisition of **Casa Herradura**, Varga acknowledged. But, he said, "our organic growth rate last year of 8% is about our normal long-term growth rate."

Noting that gross profit was up 14%, Varga commented: "You can see the impact of the rising cost of grain and fuel in the gap between 17% growth in sales and 14% growth in profit.

"Our gross margin is 52%, our operating margin is 21%," return on invested capital was 17% "which we expect to rise as we pay down borrowing costs" associated with acquiring Casa Herradura, Varga said.. "Our shareholder return of 8% growth is excellent. It's slightly below our long-term rate, but both the Standard & Poor's 500 and our competitive index declined 4% to 5%" last year.

Three Factors Influenced Results

Fiscal 2008 results were influenced by three major factors, Varga said.

First was the acquisition of Casa Herradura. "At this time last year, all of the transition work was ahead of us. We had a tremendous amount of work to do: A public company buying a private company, making sure the systems worked together. We had to understand their trade practices, credit policies, inventory levels. But it put us on a launch pad for future growth," Varga said.

Second was the retirement of five senior executives "all at once. We miss the people, but it gave us the opportunity to promote a lot of people within the company and to bring in new people who could bring us new thoughts and new ideas."

Third was the economy. "We did see in the consumer environment – the most important thing we look at – some softening, some tightening of consumer spending, some shifting where people are drinking."

Most of Brown-Forman's investing traditionally "has been very far in the future, five, 10 or 15 years." But, Varga said, "we were able to tighten our belt: We invested very well in our brands, but at a lower level. We shifted funds from on-premise to off-premise. I think it had an impact in the second half, which is why we were able to post excellent financial results."

Passing \$3 Billion

The executive noted that last year, for the first time, Brown-Forman passed the \$3 billion sales mark, a result of the Herradura acquisition and growth in business overseas.

"For the first time, **Jack Daniel's** went over 10 million equivalent cases, and **Gentleman Jack**, which was relaunched in the last 15 months, was the fastest growing brand at Brown-Forman last year."

“The long-term view of building products from scratch will be part of our future,” he said.

Varga turned his attention to Finlandia, which the company acquired a few months ago. “When we bought it, it was 1.7 million cases. Now its 2.7 million cases. A UK trade magazine recognized Finlandia as the fastest growing spirits brand in the world, Varga said.

“You need people and investment to do this,” he added. “Our operating investment has grown to \$1 billion from \$402 million.” Look at a chart showing Brown-Forman’s operating investment, and what you see, Varga said, “is a steady, consistent growing investment. It’s grown at 9% a year. Even when we tighten our belt, we still have a great consistent track record.

‘Impressive Shareholder Returns’

“What this leads to in total shareholder return is impressive. Your investment is in good hands here,” he said, adding: “Looking back 20 years, you see a wonderful story of value creation and growth.

“But the question we ask ourselves is: What will the next five or 20 years look like? “

Varga said Brown-Forman is in a growth industry, and has only a small sliver of the spirits industry’s total sales, “so there’s tremendous room for growth.”

He added that over the past 20 years, despite all the mergers and acquisitions and consolidations, “the top 25 companies in spirits have remained below 30% share. So we think there is tremendous opportunity for growth.”

Growth for Brown-Forman is likely to come from overseas. “Twenty years ago, we weren’t in nearly as many countries or in areas where we have opportunity. We went from 80% of our sales in the U.S. to more than 50% of our sales being overseas.

“We have balanced where growth has come from, and we see Brown-Forman becoming more diversified, both in terms of geography and portfolio,” he said.

Acceptable and Moderate Risk

Brown-Forman may be a public company, but with 70% of voting stock held by the Brown Family, “we work hard to produce excellent returns from acceptable and moderate risks,” Varga said. That means:

- Consistency of investment.
- Diversifying investments and bets. “We try to spread it out so if one country goes south for a couple of years, we have other countries that are doing well.”
- Conservative debt posture, which leads to an excellent credit environment.
- “We operate by consensus. We get together and challenge each other.”
- “Family control gives us a long-term perspective. The rewards are superior growth in returns, strong cash flow so when we see an opportunity we can go for it.
- All this, Varga said, “lets us perpetuate our independence as a company.”

Before Varga spoke, **Garvin Brown**, the company’s presiding chairman of the board of directors, remarked that Varga “has been a critical champion in efforts to embrace Brown Family shareholders beyond just employees and directors, putting family and board dynamics on a footing that is stable for the fifth and sixth generations.”

Frederick Wildman to Boost Staffing 50%

Frederick Wildman & Sons will increase staffing 50% for the next year, **Richard Cacciato**, president/ceo, said.

Wildman’s portfolio includes more than 50 brands from around the world including wines from the top six import categories: Italy, Australia, France, Argentina, Chile and Spain.

The portfolio will now be divided into two divisions: National brands—wines which have volumetric potential and broad market appeal—and Fine Wine, a division focusing more on boutique-oriented properties from the above-mentioned countries as well as Portugal, South Africa, Austria and Germany.

National Brands

The National Brands division is now operating with Sales Directors based in four strategically located markets—East, Midwest, South and West/Southwest.

A group of regional managers has been added to each Divisional Sales Director’s territory in order to cover the entire 50 States and its vast network of distributors. The brands represented in the National Brands division are: Folonari, Trapiche, Jindalee, Melini and Santi.

Additionally, a National Sales and Marketing Manager will be hired by the end of the year to oversee the overall activities of the National Brand group.

Fine Wines

The Fine Wine Division presently has two Divisional Managers—an eastern and a western divisional director. Each will supervise a group of regional managers covering the entire country and will also report to a National Sales and Marketing Manager to be hired in the very near future.

Wildman plans to hire a Director of Education to inform and train the trade on the core activities of Wildman's Fine Wine and National Brands. Serving both categories, the national accounts division now has two managers handling both coasts with a director envisioned for early '09 to oversee national activities.

Focused Approach

“A ‘focused approach’ is the theme here,” says Cacciato, “and by providing more pinpointed attention to individual brands—volume or fine wine—we will be able to target, not only our prime customers--our wholesalers--with more quality and contemplated management, but also offer a more approachable and astute sales environment.”

Scheid Vineyards to Open Tasting Room in Monterey

Scheid Vineyards said it will debut its newest tasting room on legendary Cannery Row in Monterey, Calif., this Fall.

Located at 751 Cannery Row at Intercontinental The Clement Monterey, Scheid Vineyards' 2,000 square foot tasting room will be open daily. The tasting room features a stylish design of coffered ceilings, recycled hickory floors, rich mahogany paneling and vintage stucco walls that are reminiscent of the history of Cannery Row, yet offer a modern twist of contemporary design.

Open daily, Scheid Vineyards Cannery Row will provide tastings of **Scheid** wines and **Scheid Reserve** wines, educational classes on winemaking and blending, and day trips to the vineyard, as well as an expansive retail marketplace featuring a gourmet selection of local charcuterie and cheeses from the Culinary Center of Monterey.

Scheid Vineyards produces small lot, artisan wines from 10 estate vineyards in the heart of the Monterey County wine country. These diverse sites span an array of soils, microclimates and sub-appellations, enabling Scheid to unite a broad varietal experience under one label. Only the finest vineyard blocks are chosen and only the best lots are selected for bottling.

Beam Global Takes Drink Smart Website Global

Beam Global Spirits & Wine, Inc. said it is taking its **drink smart** website global with the launch of a redesigned, multi-lingual site at www.drinks mart.com. The website offers a platform for consumers to learn about the responsible consumption of alcohol in German, Spanish, French and English.

Why HFCS May Accelerate Weight Gain

One of the reasons people on low-carbohydrate diets may lose weight is that they reduce their intake of fructose, a type of sugar that can be made into body fat quickly, according to a researcher at **University of Texas Southwestern Medical Center**.

Dr. Elizabeth Parks, associate professor of clinical nutrition and lead author of a study appearing in a current issue of the *Journal of Nutrition*, said her team's findings suggest that the right type of carbohydrates a person eats may be just as important in weight control as the number of calories a person eats.

Current health guidelines suggest that limiting processed carbohydrates, many of which contain high-fructose corn syrup (HFCS), may help prevent weight gain, and the new data on fructose clearly support this recommendation. HFCS is a key sweetener in many soft drinks.

Surprising Speed

“Our study shows for the first time the surprising speed with which humans make body fat from fructose,” Dr. Parks said. Fructose, glucose and sucrose, which is a mixture of fructose and glucose, are all forms of sugar but are metabolized differently.

“All three can be made into triglycerides, a form of body fat; however, once you start the process of fat synthesis from fructose, it’s hard to slow it down,” she said.

In humans, triglycerides are predominantly formed in the liver, which acts like a traffic cop to coordinate the use of dietary sugars. It is the liver’s job, when it encounters glucose, to decide whether the body needs to store the glucose as glycogen, burn it for energy or turn the glucose into triglycerides. When there’s a lot of glucose to process, it is put aside to process later.

Bypassing the ‘Traffic Cop’

Fructose, on the other hand, enters this metabolic pathway downstream, bypassing the traffic cop and flooding the metabolic pathway.

“It’s basically sneaking into the rock concert through the fence,” Dr. Parks said. “It’s a less-controlled movement of fructose through these pathways that causes it to contribute to greater triglyceride synthesis. The bottom line of this study is that fructose very quickly gets made into fat in the body.”

Though fructose, a monosaccharide, or simple sugar, is naturally found in high levels in fruit, it is also added to many processed foods. Fructose is perhaps best known for its presence in the sweetener called high-fructose corn syrup or HFCS, which is typically 55% fructose and 45% glucose, similar to the mix that can be found in fruits. It has become the preferred sweetener for many food manufacturers because it is generally cheaper, sweeter and easier to blend into beverages than table sugar.

For the study, six healthy individuals performed three different tests in which they had to consume a fruit drink formulation. In one test, the breakfast drink was 100% glucose, similar to the liquid doctors give patients to test for diabetes – the oral glucose tolerance test. In the second test, they drank half glucose and half fructose, and in the third, they drank 25% glucose and 75% fructose. The tests were random and blinded, and the subjects ate a regular lunch about four hours later.

Changing Lunch

The researchers found that lipogenesis, the process by which sugars are turned into body fat, increased significantly when as little as half the glucose was replaced with fructose. Fructose given at breakfast also changed the way the body handled the food eaten at lunch. After fructose consumption, the liver increased the storage of lunch fats that might have been used for other purposes.

“The message from this study is powerful because body fat synthesis was measured immediately after the sweet drinks were consumed,” Dr. Parks said. “The carbohydrates came into the body as sugars, the liver took the molecules apart like tinker toys, and put them back together to build fats. All this happened within four hours after the fructose drink. As a result, when the next meal was eaten, the lunch fat was more likely to be stored than burned.

“This is an underestimate of the effect of fructose because these individuals consumed the drinks while fasting and because the subjects were healthy, lean and could presumably process the fructose pretty quickly. Fat synthesis from sugars may be worse in people who are overweight or obese because this process may be already revved up.”

Don’t Eliminate Fruit to Lose Weight

Dr. Parks said that people trying to lose weight shouldn’t eliminate fruit from their diets but that limiting processed foods containing the sugar may help.

“There are lots of people out there who want to demonize fructose as the cause of the obesity epidemic,” she said. “I think it may be a contributor, but it’s not the only problem. Americans are eating too many calories for their activity level. We’re overeating fat, we’re overeating protein; and we’re overeating all sugars.”

Some data were collected at the University of Minnesota, where Dr. Parks worked before joining the UT Southwestern faculty in 2006.

The work was supported by the **National Institutes of Health**, the **Cargill Higher Education Fund** and the **Sugar Association**.

Study Links Energy Drinks, Risky Substance Use

Frequent energy drink consumers (six or more days a month) are three times as likely as less frequent energy drink consumers or non-consumers to have smoked cigarettes, abused prescription drugs and been in a serious physical fight, according to a new study published online in June in the *Journal of*

Adolescent Health.

They reported drinking alcohol, having alcohol-related problems and using marijuana about twice as often as non-consumers. They were also more likely to engage in other forms of risk-taking, including unsafe sex, not using a seatbelt, participating in an extreme sport and doing something dangerous on a dare. The associations with smoking, drinking, alcohol problems and illicit prescription use were found for white but not black students.

The study is important because, over the last decade, energy drinks – such as **Red Bull**, **Monster**, and **Rockstar** – have become nearly ubiquitous on college campuses. The global market for these types of drinks currently exceeds \$3 billion a year and new products are introduced annually.

Two new research reports by RIA Research Scientist **Kathleen E. Miller**, Ph.D., a researcher at the **University at Buffalo's Research Institute on Addictions** (RIA), examine the relationships between energy drink consumption and risk-taking in college students and secondly, "toxic jock identity" -- characterized by hypermasculinity and risk-taking behaviors among college-age athletes.

Teens a Concern

Miller's research validates and expands upon existing concerns about energy drink consumption: "The principal target demographic for energy drinks is young adults aged 18-25, but they're nearly as common among younger teens," she explains. "This is a concern because energy drinks typically contain three times the caffeine of a soft drink, and in some cases, up to ten times as much. They also include ingredients with potential interactions such as taurine and other amino acids, massive doses of vitamins, and plant and herbal extracts."

In the first set of results, Miller identified links between energy drink consumption, risky substance use, and sexual risk-taking.

Two thirds of the energy drink consumers in Miller's study had used energy drinks as mixers with alcoholic beverages.

"It is widely, but incorrectly, believed that the caffeine in energy drinks counteracts the effects of alcohol, so students will have the energy to party all night without getting as drunk," Miller says. "While the combination may reduce perceptions of intoxication, it does not reduce alcohol-induced impairments of reaction time or judgment."

Toxic Jock Identity

In the second set of results, published in the March/April issue of the *Journal of American College Health*, Miller looked at energy drink consumption and "toxic jock identity."

"For many people, being an athlete is an important part of who they are," Miller explains. "Some go a step farther, though, and come to see themselves as 'jocks.' For them, sport is wrapped up in a larger identity that also emphasizes hyper-masculinity and a willingness to take excessive risks." Unlike an athlete identity, a jock identity can be considered "toxic," according to Miller, because it's associated with a wide range of risky or problem behaviors, including problem drinking, sexual risk-taking, interpersonal violence, academic misconduct, delinquency and even suicide attempts.

Red Bull to Measure, Reduce Greenhouse Gases

Red Bull North America, Inc. said it retained **ClimateCheck**, a consulting firm, to measure greenhouse gas (GHG) emissions produced by its U.S. operations. The initial assessment will enable the company to continue measuring and tracking emissions moving forward.

By first quantifying and locating its emissions throughout most of its U.S. operations, Red Bull North America will be able to implement strategies that will lead to a decrease in GHG emissions. ClimateCheck is also evaluating the emissions produced by all of Red Bull North America's air and ground shipping throughout the country. This project augments Red Bull's major investment in large hybrid trucks added to its fleet – an effort to minimize the emissions from ground transportation.

ClimateCheck will also measure emissions from RBNA's annual corporate travel. With air travel in the U.S. contributing at least 4% of the carbon dioxide emissions (and growing), decreases in this area will make a major impact.

PepsiAmericas to Buy Back 10 Million Additional Shares

PepsiAmericas directors authorized repurchase of an additional 10 million common shares. The authorization is effective immediately and does not have a deadline. The Company has approximately 127 million shares outstanding.

The company also declared a third quarter dividend of 13.5 cents a share, payable Oct. 1, on stock of record Sept. 15.

Who & What

Ralph D. Aguera, vp-trade relations, **Brown-Forman**, has been selected as the 2009 **American Beverage Licensees Top Shelf Award** honoree. The Top Shelf Award recognizes those who have demonstrated excellence over their careers in the beverage alcohol industry and have a successful history of positive influence on their communities. It is the highest honor given by ABL and will be presented to Mr. Aguera at the Top Shelf Award Banquet at the 7th Annual ABL Convention on March 2, 2009 in Las Vegas, Nevada.

PepsiAmericas, Inc. elected **Wahid Hamid**, 49, Senior VP-Corporate Strategy for PepsiCo, to the company's board of directors.

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