Brunch-time call with the Presidents – Africa

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John O'Keeffe – President Diageo Africa

Hello everyone and welcome. It's great to be with you on this call today.

Last year, I shared the progress we were making on our strategy to drive consistent growth by growing beer fast and spirits faster, delivered through our execution priorities.

Today I will share with you why Africa continues to be an attractive opportunity and the progress we continue to make against our strategy in our key markets. You will have received a few slides earlier today which I will refer to during the call.

The medium to long term opportunity continues to be attractive with IWSR forecasting Africa to be the fastest growing total beverage alcohol region over 2016-21. This is driven by four strong consumer fundamentals: growth in LPA population, increasing incomes, per capita consumption below a quarter of other regions except for India and consumers aspiring to move to formal, safer drinks from a large informal sector.

In the short term, we are seeing a mixed macroeconomic environment in Africa with the Nigerian economy back in growth although the recovery is fragile, as consumers are still under stress due to high inflation and continue to look for affordability. Kenya is now mostly past the unrest linked to the presidential election. However, the South African economy continues to be weak and Ethiopia is currently experiencing social unrest due to political un-stability that we are currently monitoring.

Beer is big in Africa, almost 65% of TBA equivalent unit consumption, and Africa is expected to be the fastest growing beer region over 2016-2021. In recent years, value beer has been the fastest growing beer segment in markets like Nigeria and Kenya, as consumers look for value.

Spirits is about 25% of TBA consumption and a big opportunity. International style spirits and mainstream spirits are expected to grow faster than beer with a consumer shift to spirits over time. On the last call, I had shared with you that consumer studies in Kenya, Ghana and Cameroon showed that almost half of alcohol drinkers have consumed spirits in past four weeks. More recently, a consumer study in Nigeria conducted by Kantar TNS showed that the number of LPA+ population consuming spirits (including bitters), has increased by a third from 2011 to 2017.

We believe we are well positioned in key markets to access this opportunity. Our focus has been to expand participation across the price ladder in both beer and spirits to access consumers who cannot afford to drink premium core products regularly or wish to trade up. This allows us to rely less on the pace at which the middle class emerges given economic volatility, and more on accessing the opportunity here and now, as well as actively helping to shape the nature of the alcohol market in Africa in the medium to long term.

We have a strong presence in our key beer markets with strong share positions as you can see on slide 2, local manufacturing infrastructure and leading brands. Within EABL, we have the leading share position in Kenya and are number 2 in Tanzania and Uganda. The portfolio is led by our iconic premium beer brand; Guinness, our local mainstream beers; Tusker, Serengeti and Meta and value beers; Senator and Satzenbrau.

If you look at slide 3, we are the leader in spirits in Africa and are 3x the size of our nearest competitor according to IWSR. We have broadened our participation in spirits beyond international premium spirits by rapidly investing in mainstream spirits as well as primary scotch.

The broader strategy and the progress we have made to date is reflected in our recent growth profile. In F17, our beer organic net sales grew 3% and spirits growing double digit. While the headline growth of 2% was disappointing in the first half, beer grew 5% despite sales being flat in our biggest beer market of East Africa due to the political unrest in Kenya. Growth continued in mainstream spirits which grew volume double digit. However, in South Africa, mainstream spirits performance was relatively weak due to price increases and an increased competitive environment. International premium spirits had a weak first half due to temporary challenges within the third party distributor network in Cameroon and hard currency constraints in Ethiopia.

While I do expect performance to improve in the second half as we see Kenya and Cameroon move past the challenges of the first half, South Africa remains very competitive and Ethiopia is experiencing uncertainty due to the social unrest. And Nigeria will grow at slower pace as it cycles a strong second half last year.

I will now get into a bit more detail on the progress we have made against our strategy through executing against our priorities to:

- Keep our premium core brands vibrant while expanding participation across price tiers
- Strengthen our route to consumer to grow beer and mainstream spirits
- Innovate to create new consumer experiences
- Drive costs out to invest in growth
- And build our local talent base to sustain this growth.

Starting with Beer.

Our beer focus in Africa is to keep Guinness our flagship brand vibrant, strengthen our key local brands; Tusker, Serengeti and Meta, drive penetration into the value beer segment profitably and create new consumer experiences through innovation. We are also investing in the future of our beer business, building a GBP 100 million new brewery in Kenya to increase our capacity in an attractive market.

Guinness including Malta Guinness represents 45% of our beer business. Guinness returned to growth in the first half, growing net sales 3% with the brand in growth in three of its four largest markets; Nigeria, Kenya and Ghana, and gained volume share of the beer category in Nigeria, Cameroon and Ghana in the twelve months ending December 2017. The overall brand equity and awareness of Guinness continues to be strong. As you can see on slide 4, we are driving increased penetration in key markets with our focus on delivering a consistently high quality liquid at the right price and engaging consumers through the successful “Made of Black”’ campaign showcasing local heroes that have brought to life the Made of More spirit across Africa. We continue to tap into consumer interest in football and English Premier league through our pan Africa DSTV broadcast sponsorship, on trade activation, and consumer promotions like ‘Be a Front Row Fan’ in Nigeria, encouraging consumers to choose Guinness as their first beer of the evening. Thierry Henry, was the face of our football activation in Kenya and Nigeria in December generating tremendous consumer interest and we will be bringing him to Cameroon in May.

As we look forward, we will expand the Guinness portfolio in Africa to recruit, re-recruit and disrupt in premium beer. As a starter, we have launched Hop House 13 lager, West Indies Porter and Guinness Rye Pale Ale in Kenya and will be launching a limited time offer, Guinness Chocolate Stout, a chocolate infused stout that is a compliment of full-bodied richness of Guinness with sweet chocolate notes for an even smoother finish in Cameroon. And there is more exciting news to come on Guinness!

Malta Guinness our non-alcoholic malt drink and second largest beer brand in Africa, grew 9% in the first half with strong growth in its biggest markets of Nigeria, Ghana and Ethiopia as we launched a new campaign 'Fuel your greatness' and executed on pack consumer promotions supported by traditional and digital media and improved physical availability. We continue to see good success with the PET format in Ghana where we have added a second PET line and are in the process of setting up a PET line in Nigeria.

Let me now share the progress we are making on our key local brands. Today I will focus on Tusker in Kenya and Serengeti in Tanzania using slide 5.

Tusker returned to growth in the first half benefitting from the relaunch with a new brand purpose 'Here is to us' and new packaging (including limited edition packs) to elevate Tusker as the aspirational beer for Kenyan millennials. The relaunch was supported with rugby sponsorships and activation at happy hours. We also extended Tusker into the cider space with the launch of Tusker Cider which is off to a strong start.

Serengeti net sales doubled in the first half as we refreshed the pack, launched Serengeti Lite and leveraged the sponsorship of the Tanzania national soccer team to position Serengeti as the national beer of Tanzania.

Now, moving on to our participation in the value beer segment. As you can see on slide 6, we have been broadening our participation in value beer as we have seen consumers migrate to value beers in a number of countries. Value beers also allow us to recruit consumers from the illicit sector and the scale they provide improves the utilisation of our breweries and helps secure better input costs on raw materials.

We have built Senator in Kenya and Satzenbrau in Nigeria into scale brands selling over 3 million and 1 million equivalent cases, respectively. Satzenbrau performance was soft in the first half as the growth in the value beer segment and the brand has slowed due to price increases over the past 18 months. We are investing in reminding consumers that Satzenbrau has quality ingredients, is extra filtered and a smart choice supported by a national in bar promotion and the launch of a 32.5cl returnable glass bottle at an affordable 100 Naira price point. In Nigeria, as the value beer segment has slowed we have seen an increased consumer interest in value malts. Dubic malt grew almost four times in the first half and gained 4 pps of share in the malts category. We are also leveraging formats to drive recruitment and are testing a returnable glass format for Dubic Malt in Nigeria. Senator sales in the first half were impacted by the political unrest in Kenya which is now behind us and performance should improve in the second half.

We expanded our value beer portfolio in F17 with the launch of Ngule in Uganda and Azmer in Ethiopia. In the first half, we further broadened our participation leveraging regional insights to launch local beers, Royal Lager in the Benin region of Nigeria, and ƆDEHYEƐ beer in the Ashanti region of Ghana.

And we continue to innovate in the beer space with new beer and RTD offerings. In F17 we had launched Tusker premium cider in Kenya and Tappers Palms in Ghana; a crisp, sparkling drink with a refreshing taste of palm inspired by the iconic local palm wine drink. Tusker Cider already has about 2.5% share of beer category in Kenya with women being almost 70% of drinkers and we have expanded Tapper Palms to Nigeria recently.

Now moving on to spirits. We are making good progress on unlocking the spirits opportunity with our broad portfolio of international premium and mainstream spirits spanning across all price tiers. Spirits now contributes about a third of Diageo's Africa net sales.

International premium spirits despite being out of reach of most African consumers are an important part of our growth agenda. Within the international premium spirits category in Africa, scotch is the biggest category and we are the market leaders by far in scotch. As you can see on slide 7, we offer a full scotch portfolio across all price points with the strength of Johnnie Walker and our primary scotch Black & White, which has allowed us to create an affordable entry point into scotch. Let me bring our scotch activation to life with what we are doing in South Africa, our biggest scotch market and where we gained share in the first half. In a tough economic environment, we encouraged South Africa to Keep Walking through TV and digital communications. We painted South Africa Johnnie Walker Black by sampling consumers in the on and off trade and through pop-up activations. We reminded consumers that Johnnie Walker Blue Label is the ultimate gift to give and get when celebrating the special moments of progress in life. And we are also investing in Black & White to establish the brand as an entry point into scotch.

Reserve is a small part of our Africa spirits business today, but is growing fast. We have grown reserve brand net sales double digit for six consecutive years through F17 as we implement the global reserve operating model in Africa, using reserve ambassadors to build our reserve brands by seeding them in key cities in the most influential accounts.

I shared with you at our Capital Markets Day that mainstream spirits is an attractive opportunity. We have gone after it in a systematic and agile manner utilizing our beer presence to grow mainstream spirits faster and help shape spirits consumption in Africa. We continue to learn what it takes to continue to win in this space. You can see our current mainstream spirits portfolio on slide 8. Mainstream spirits contribution to Africa net sales has grown from under 11% in F16 to over 14% in the first half. Our strategy is to offer Aspirational, Affordable and Accessible products to consumers.

We are delivering on aspiration by leveraging our international and multi-market trademarks and our local jewels like Kenya Cane rum in Kenya and Waragi Gin in Uganda. We are premiumising local drinks such as in the bitters category with Orijin Bitters.

We launched locally manufactured Smirnoff X1, McDowell's No. 1 and a new flavor of Gordon's Gin in Nigeria in F17. In F18 we have extended Smirnoff X1 to Tanzania, expanded our primary scotch Black & White to Kenya, Cameroon and Uganda and Captain Morgan Gold was recently launched in Kenya.

Solid growth on Kenya Cane continued in the first half and we recently brought new news to the brand with the launch of a citrus flavour. And in Uganda, we launched a coconut flavour of Waragi gin to bring added vibrancy and accessibility to an otherwise homogenous and traditional category.
Mainstream spirits provide an affordable and safe alternative to value and mainstream beer, and informal or homemade alcohol. We have an asset light local manufacturing infrastructure, rigorous focus on costs through local sourcing and tramlining, and appropriate levels of marketing investment. As an example, in Nigeria, we have removed the outer carton on the 75cl bottle of McDowell's No. 1 for approximately 30% of the on trade volume, given the outer carton gets discarded in the channel and are moving to a single colour outer carton for the balance of the volume.

We are offering accessibility across price points, category opportunities and formats. In Cameroon, local bottling of Black & White in the cube has allowed us reposition it at a much more accessible price point.

Good progress on mainstream spirits.

Let me now talk about three priorities that I have not touched on namely, how we are strengthening our route to consumer, driving out costs and most importantly, our people.

We continue to strengthen our RTC with a focus on improving distribution, direct coverage and in outlet execution. We are enabling this with the right incentives and investing in salesforce capability and automation. Although, by its nature our RTM approach needs to be tailored by market, let me share what we have done in Nigeria as a good example of what we're broadly doing in Africa. Through a combination of moving our sales force to a geography based coverage model and simplifying call objectives, over the last year we have increased our average weekly account coverage by 50%. Sales force activity optimisation has resulted in the average daily time in trade increasing by about 90 minutes and average account calls per day increasing by over 40%, per salesperson. We have also strengthened our sales force incentives to drive appropriate focus on the most important execution KPIs and have improved the capabilities and the effectiveness of our sales force through rigorous training programmes and extensive use of automation. 100% of our sales force have handle held devices enabling us to track and reward their performance. We are working with fewer bigger distributors and have deployed a Distributor Management System which is providing seamless visibility of inventory, depletions and trade spend information, which in turn is enabling trade spend and supply chain efficiencies. And we are utilising our beer route to consumer to build spirits consumption in the on trade, a channel where consumers have traditionally primarily consumed beer. All of this is resulting in better outlet execution with improvements in distribution, visibility and activation.

Driving costs out through our productivity programme continues to be a key priority and we continue to make good progress. Africa is delivering its share of Diageo's GBP 700m productivity savings goal. In F17, savings delivered through the five productivity work streams and price increases helped offset the impact of high inflation and negative mix to deliver organic operating margin expansion of 60bps. Let me share the progress we have made on each of the work streams.

We have made good progress on embedding net revenue management (NRM) capabilities with Nigeria, Kenya and South Africa further along and already using the NRM tools to drive benefits. We are seeing NRM benefits being delivered through a combination of price increases, trade discount efficiencies, improving trade spend effectiveness and expanding the use of formats.

Our focus in supply on running our breweries more efficiently, right sizing our brewery workforce, excellence in procurement of inputs and logistics efficiencies have resulted in our organic COGS/eu (at constant mix) growing at less than half the pace of inflation in both F17 and the first half of F18, following two years of COGS/eu reduction. We continue to focus on sourcing locally with about 76% of third party raw materials sourced locally in our key markets in the first half, up from 47% in F13.

Marketing efficiencies are being delivered from media agency rationalisation, eliminating spend on POS with low return on investment and reducing non-working spend. Marketing Catalyst tool has been deployed to Nigeria, Uganda, Kenya and South Africa, where it is being used to make better investment decisions and improving return on investment. Ghana, Cameroon and Ethiopia are coming on board by the end of this fiscal.

Organisational effectiveness and zero based budgeting for indirect spends resulted in overheads reducing as % of net sales in F17 and further again in the first half of F18. Through our organisational effectiveness work we will have increased our average span of control by almost 50% by the end of F18 and have removed 3 layers across the organisation. These changes are enabling us to speed up decision making across our markets.

We continue to drive an everyday focus on cash. Our consistent focus on cash has reduced Average Working Capital as % of NSV and in the first half it improved by close to 100bps vs the end of F17.

So, as you can see we are going after costs and cash in a big way.

We are also guaranteeing our plans with the right people and capabilities. We are doing this through building our local talent base and driving gender diversity. Our 2020 goal is to have 35% women in leadership positions in all our markets. Over the last 12 months, the country leadership teams have become more gender balanced with women comprising over 40% of the leadership teams in Nigeria, Ghana, Uganda and Ethiopia. We have also increased the local African talent in leadership positions, currently 70% of our general managers are African and 82% of in market executive teams are African.

Let me close by saying, we are making good progress on our strategy, to grow our beers fast, and spirits faster through the disciplined execution of our priorities. We are leaning forward into the opportunity and are well set up through the investments we have been making:

- We have been investing through the cycle in broadening our beer and mainstream spirits portfolio, investing in both our existing brands and innovation
- We have invested in capacity; establishing local production for mainstream spirits and new formats, and are building a new brewery in Kenya
- We are investing in capabilities and technology to further strengthen our RTC
- We are also expanding into white spaces e.g. launching Guinness in Ethiopia and mainstream spirits in Tanzania
- We are driving costs out aggressively to enable reinvestment in the business and margin expansion.
- And we are investing in having the right talent in place.

All of this gives me the confidence that our Africa business in the medium-term will deliver organic net sales growth that is accretive to Diageo’s medium term guidance.

Thank you and now I’d like to open the session up for any questions that you may have

Q&A

Sanjeet Aujla: Hi, John. A couple of questions, please. Firstly, can you just discuss a little bit more the pricing environment in South Africa? Are you seeing increased pricing aggression within spirits or more from the beer category or both?

And secondly, across -- more broadly across for South Africa -- can just give us your assessment of the competitive dynamics you're seeing, please, particularly with because we're a couple of years into the ABI-SAB integration. Thank you.

John O'Keeffe: Thank you. Your second question was across Africa or South Africa?

Sanjeet Aujla: Across Africa.

John O'Keeffe: OK, so look, I think let me start off by talking about South Africa. I think you're asking about the pricing environment there. I would start off by saying the macroeconomic weakness is still present and still evident. We've got low consumer confidence in South Africa and there is pressure still on the consumer. We took prices across our portfolio last year and the previous year, which the competition didn't follow. And so we've seen an increased competitive environment. And as a result, we've made some adjustments in order to remain competitive. I think you're seeing quite a competitive environment with the consumer still under pressure and therefore, the ability to take price being relatively difficult.

In terms of the competitive dynamics, what I would say is, Sanjeet, that, look, Africa because it's got such a strong opportunity, it has always been incredibly competitive and intense. And I would expect that to remain certainly there with SAB on the continent and it will be there with ABI now and I don't see that competitive intensity changing any time in the near future. However, what I would say is that as we deploy our total beverage alcohol across Africa, I'm feeling very confident that we're now getting traction with that strategy and you're seeing that in the performance numbers that are coming through.

Sanjeet Aujla: Sure. Just a follow-up on the South Africa pricing; you talked about making some adjustments there. Have you made all of the adjustments that you needed to or is it perhaps more about to come in H2 and F19?

John O'Keeffe: I'm not going to comment specifically on pricing in the immediate future.

What I would say is that we had to of course correct in the first half in order to remain competitive. I'm now feeling very good about the progress we're making. We have gained share with our scotch portfolio in South Africa; it's at a historical high. Feeling very good about the brand equity of Johnnie Walker. J&B is going from strength to strength. And as I mentioned in my script, we have broadened our portfolio to include activations against Black & White.

We've just launched this month Haig Clubman which is going to really add further vibrancy to the scotch category. I am feeling good about our performance within that category and our share growth within that. I think in terms of mainstream spirits, I think as that rubs up against the beer environment, which is competitive. However, we have strengthened our growth drivers against Smirnoff 1818 and we are just breaking with a new above-the-line campaign this month and I'm looking forward to seeing the brand equity on that brand continue to grow.

Sanjeet Aujla: Thank you, John.

John O'Keeffe: Thanks, Sanjeet.

Olivier Nicolai: Hi. Good afternoon, John. Just a couple of questions, please. On Nigeria, just to stay on this topic, do you still expect the down trading to continue in the next quarter, next few quarters or next year or so? And what would be your split in your business just looking at the beer part between value brands like Dubic and mainstream and then premium with Guinness?

And just second question on South Africa, could you please give us a bit more details on UNB and what's the growth of this business and do you have any synergies with your spirits portfolio there? Thank you very much.

John O'Keeffe: OK, let me start with the second question on UNB. One of the opportunities in South Africa is driving penetration in the main market. I believe there are 2 ways of achieving this. Firstly is targeting the tier beer drinker with mainstream spirits like Smirnoff 1818 and Gilbey's gin. The second is to target illicit liquor category with brands like our sorghum beers and this is with the roll out UNB plays. We have absolutely achieved synergies on the procurement and talent side and back office across both businesses and UNB is performing in line with expectations.

In terms of your first question across the down trading across Africa, I would say that whilst we are seeing broadly a macroeconomic recovery taking place, I would say that recovery is still very fragile. And if you take a country like Nigeria with double-digit inflation, we are still seeing consumers under a lot of stress, still seeking value brand. And I would say that's true of all the oil producing countries across Africa. I think the non-oil-producing countries are more resilient and the consumer is more confident. That's in relation to the consumer.
In terms of the role that value beer plays, if I take Nigeria, for example -- it's about 25 percent of our beers today. And I think value beer would continue to play a role because I think the consumer will continue to look for value, I think there's still a role for value beer to drive out efficiencies within the breweries. But I would like to think that as the economies continue to recover, that we will see some trading up also taking place.

Olivier Nicolai: Thank you very much.

John O'Keeffe: Thank you.

Laurence Whyatt: Hi, John. Thanks very much for the question. Just on your gross margins, with the focus on more value brands, can we see a continuation of the decline in margins or is that expected to be compensated for by the more premium offerings or premium spirits or perhaps the cost savings?

John O'Keeffe: Hi, Lawrence. Thanks for your question.

Look, we have a huge focus on productivity across the P&L. We will also leverage pricing to offset inflation and adverse mix impact from growing value beer. We will be seeing faster growth in premium beer, mainstream spirits and international premium spirits, all of which will drive positive mix. Over time, you would expect to see our margins improve.

Laurence Whyatt: And would you expect that in the near term or is that something that's not going to be able to materialize soon?

John O'Keeffe: Over time, you would expect to see that happening, Lawrence, is what I would say.

Edward Mundy: Hi, John. Hi. Three questions, please.

I think you mentioned during your opening remarks you expect performance to improve in the second half. Just want to make sure I understood it or heard that correctly. Is that both top line and bottom line performance?

And then the second question, I think you mentioned that you expect Africa over the medium term to be accretive to Diageo's medium-term growth, which I think is 4 to 6. I think back in the May capital market event, you had guided to high single-digit growth over the medium term. Perhaps I'm reading into this too much, but is this a slight talking down of medium-term growth objectives or am I being over-analytical here?

And then the third question is around regulation; are there any regulatory hotspots that we should be aware from an excise tax perspective?

John O'Keeffe: OK, thanks, Ed. Let me deal with those questions in turn.

And let me talk about the H2 outlook in a bit more detail. I expect performance to improve in Kenya and Cameroon as we move past the challenges of the first half. South Africa, as I mentioned, will remain competitive and Ethiopia is experiencing some uncertainty due to the social unrest. Nigeria will continue to grow, but at a slower rate as they cycle was a very strong H2 last year.

Beer had a very strong H1 growing 5 percent notwithstanding the fact that our biggest beer market, Kenya, actually declined. And whilst spirits declined 1 percent as we had a weak half due to some of the temporary challenges within a third-party network in Cameroon and hard currency constraints in Ethiopia, I would expect both beer to continue to grow and spirits performance continue to improve as we move past some of those challenges. That's kind of what I would say about H2.

In terms of our guidance, I would say that I'm not talking down the medium term net sales growth expectation; I'm clarifying and just stating that we will be accretive to Diageo's growth in the medium term.

I think your third question, Ed, was about regulatory kind of hotspots, I think. I guess I would point to a number of different things. It's always quite fluid in Africa. We've seen a Nigerian excise increase announced, which is due to kick in, in June. Obviously, there's some election cycles that we are keeping high up on our radar in 2019, particularly. Always difficult to call, but we'll monitor those elections closely. There are some well-publicized proposed regulatory changes in South Africa, a whole series of potential measures that's currently under review with the health ministry and has been for some time. They would be the kind of broad regulatory hotspots that I would be calling out at this point in time.

Edward Mundy: Thanks, John. And I appreciate you don't have a crystal ball and a lot of what you're doing here is to for the play through the cycle in terms of appealing to a much wider audience rather than just the premium end of the market. But do you have a sense as to when the cycle will pick up and you should get back to that type of medium-term objective?

John O'Keeffe: Look, I would say a few things. We are seeing the macros improving but it's fragile. Sub-Saharan Africa growing around 2 percent GDP. It's still well off the days of 7 or 8% but I think it's moving along the right way with currency stabilizing and inflation also stabilizing. I think that macro environment is getting more positive. However, I would caution to say that it is fragile and the consumer is still very distressed.

And so our strategy is to broaden our participation ladder down into value beer, while remaining very confident with our investment in our premium beer market. And then also, laddering down from International Premium Spirits [IPS] and reserve into mainstream spirits. So that we can access the opportunity here and then. Because even when the macroeconomic environment is very strong pre-2014, the vast majority of consumers couldn't afford to drink IPS regularly. And so that's why I feel our broader participation strategy, which I just alluded to, is the right strategy to have not just when times are tough, but through the cycle and it will also pay dividends as consumers come back in the upturn.

Richard Withagen: Yes, good afternoon. There are two questions, please.

First of all, what are you doing to build a model of future gross margin expansion in Africa? I think, John, you touched upon it already a bit talking about mix, but what else is there?

And then the second question is what is the role of digital in your commercial strategy in Africa? Is that a general approach across the continent or is that one that is more adapted to the local needs? And perhaps you could give some examples of what you're doing.

John O'Keeffe: OK so first question. I've already spoken at quite length on how we are pulling the productivity levers quite hard and how we are pulling costs out of the business. I've also mentioned that we are taking price where the consumer can absorb it and we've taken price in a number of markets in the last 12 months. We are also leveraging NRM, looking not just at pricing but promotions, formats, mix and trade terms -- all of those to help improve the mix for our business going forward. That's just a little bit more detail on the margin question.

In terms of Digital, yes, I feel that we are increasingly on the front foot in digital. Not just on the consumer end and you'll see that we have done a pan-African Facebook activation, which has been incredibly successful for us and we will be repeating that. We're also increasingly using digital at the consumer level. In fact, most of our under the crown promotions are digitally enabled across Africa.

We're also bringing digital to our commercial teams and again, I mentioned in my script upfront that we now have pretty much across Africa deployed salesforce automation and at the back end of that into distributor management systems and also getting our distributors more digitally enabled. I think from a holistic perspective, if I would think about digital, I think we've made quite a lot of progress in the last 12 months not just with the consumer but also with our salesforce and our distributor partners.

Richard Withagen: All right. Thank you.

John O'Keeffe: Thanks, Richard.

Milena Redzic: Hi. Good afternoon, John. Thank you for the presentation.

John O'Keeffe: Hi.

Milena Redzic: Two questions from us, please. The first one on Kenya. The country seems to have reached political stability; do we expect tax situations to have stabilized as well? And when can we sort of expect the return to more normalized underlying growth?

And then the second one on Nigeria, if you could talk a little about the pricing environment you see currently and what sort of volume shares you'd expect going forward.

John O'Keeffe: OK, let me talk about Kenya first. Yes, we are seeing Kenya settle down. It's a lot more stable and I think it's now essentially past the unrest that was linked to the election. Critically, we're seeing the government is now starting to issue funds to the counties across Kenya, which is a key enabler to economic growth across the region. And so we are seeing our business recover in the second half and each month is getting stronger as that economy stabilizes. And I think as with many emerging markets, things tend to come back as fast very often as the decline. I think Kenya, we're on a good recovery path and the business is stabilizing as the economy starts to stabilize.

In terms of pricing in Nigeria, I think we have seen price movement in Nigeria in the last 12 to 18 months. I think that's one of the reasons why you see the value beer segment, which had some very significant growth over the past 3 years and is now by far the biggest beer segment, has slowed down and certainly, we've seen Satzenbrau, our brand within that, slow down. That's what I would say on Nigeria. I think we are now beginning to characterize it as us being on a margin recovery path. However, the currency did fall quite dramatically and it will be a while yet before we fully recover margins in that market.

On your last question, I'm not going to comment on the volume growth in Nigeria specifically, but really, what I will say about Nigeria is that I think we have moved very quickly from few years ago from a very premium beer-centered business to a full price participation beer business where mainstream beer and value beer is now playing quite a big part of our business. However, we continue to grow our beer business, our Guinness business and our premium brands. And then I've been very encouraged by the pace at which we have gone after the spirits opportunity in Nigeria rapidly laying down capacity and laying out quite a strong portfolio and that business is beginning to go from strength to strength.

Milena Redzic: OK. Thank you very much.

John O'Keeffe: Last question, please.

Chris Pitcher: Hi, John. Thank you very much for taking the question.

Just in terms of exploring the movement into local spirits, could you give us some examples of maybe a market where The Cube hasn't worked and why that was the case? And then as you establish local distilleries -- the economics there to go down another price point within spirits, I remember in London you showed where your mainstream spirits were positioned versus value beer -- I'm wondering whether you've got the opportunity to go further down the food chain there?

And can you just say where you are in terms of these sachets in the operation?

John O'Keeffe: Yes, OK.

Look, the great thing about The Cube is that I think it's a good news story, right? We are fully operational and have been for some years with The Cube in Nigeria. And really, the point of The Cube is it's a low investment way of entering a market with spirits to test the market. And then you want to test it like we've done in Nigeria you can then invest with confidence in putting in a fixed spirits line, which is exactly what we've done in Nigeria. We've installed The Cube in Cameroon where we have launched local production of Black & White and that is off to a very strong start.

And there is another territory that we're shortly going live with The Cube, but I'm not in a position to announce it just yet. If we ever do come across a time when we find The Cube hasn't worked, we are able to lift it and drop it into another country. But thankfully, so far, we've had great success with The Cube and with our mainstream spirits strategy.

I think your second question was talking about our ability to actually drop down a price point from where we're playing. I think we want to stay in the space where we're dealing with aspirational products and where local Africa consumers are feeling very good about putting a bottle of local spirits – whether it's Origin Bitters or Gordon's Meringue or Smirnoff X1 -- on the table in front of their friends and family.

That's the space that I want to stay in. And we know that, that space is accretive to our margins across Africa and that we can get after that with our portfolio and get after that in a low CapEx way. I'm not really interested in dropping down into what I would call the lower-priced spirits category; I think our right to win is very strong in the upper mainstream spirits segment.

I think the third question was on sachets. Look, I am packaging-agnostic and I think where sachets are available and where they're legal, we will participate in that. And the reality is that to participate in mainstream spirits, sachet is a go-to format in many countries. Specifically the countries that we're operating in right now would be countries like Uganda and Nigeria and they're the bulk of the countries where we're in that format.

Hopefully, that gives you, Chris some more detail that you're looking for.

OK, thanks, operator. Let me just to make a few closing comments. I just want to thank you for taking the time to join. Let me just say that Africa represents an exciting opportunity. The progress we are making against our strategy to grow our beers fast and our spirits faster gives me confidence that we will deliver against this opportunity. Thanks again.

I'm going to close the call now. Thank you and goodbye.

END