Diageo 2019 interim results Investor Q&A transcript
Ivan Menezes & Kathy Mikells
31 January 2019 – 09:30am

Ivan Menezes: Hello everyone and thank you for taking the time to join Kathy and me on this call. I'm going to say a few words before opening it up for Q&A. We've delivered a strong set of results for this half. The results did benefit from positive phasing in both net sales and operating profit growth. But nonetheless the underlying results are consistent with our medium-term guidance of delivering mid single-digit net sales growth, and a 175 basis points of margin expansion for the three years ending June 2019.

Let me give you a few highlights. Growth was broad based across geographies and categories. Net sales growth in developed markets stepped up to 5.5%. All categories were in growth, except rum. And we continue to improve performance in our three focus areas. The scotch net sales were up 7%. Growth was broad-based, but led by a strong performance with Johnnie Walker, up 10%, which as you know is the bellwether of our scotch business. I'm very pleased with the performance in US spirits, up 4.7% on an organic basis.

And our focus now is to continue to deliver consistent performance in our biggest and most profitable market. Diageo India, although benefiting from a weaker prior year performance, also delivered a solid set of results with net sales up 12%, with good performance across our local and international brands.

Turning to margin, organic operating margin increased a 152 bps. And while we did benefit from some phasing of marketing spend and productivity-related costs, we are on target to deliver on our three-year guidance. Our productivity mindset is embedded in our culture and remains a key driver of building a simpler, more efficient and quicker-moving business. It also allows us to continue to reinvest behind our brands, while also expanding margins.

I am really delighted with the execution of our innovation plans in the half. Ketel One Botanicals and White Walker by Johnnie Walker being good examples of how we use innovation to recruit new consumers into our brands. Our delivery on cash has become stronger and more consistent over the last three years, allowing us to continue to invest in the business and return excess capital to shareholders.

Free cash flow was £1.3 billion in the half, over £300 million better than last year. We increased dividends by 5%, and we further enhanced our previously announced share buyback programme by £660 million.

Now, we are not complacent and while the underlying trends are strong, there are areas we can continue to improve. In the US, brands like Captain Morgan and Cîroc are underperforming. And on scotch, while I'm pleased with the overall performance, we still have more to do to improve in single malts and in some of our blended scotches, such as Windsor and J&B. Net revenue management is another area where we continue to develop and expand our capabilities.

Looking at the second half, as Kathy mentioned in her presentation, I do expect net sales growth to slow down. Our full-year organic net sales growth is now expected to be towards the upper end of our mid single-digit guidance, and improvement compared to last year. Opportunities for organic operating margin expansion in the second half will be limited, largely as a result of the phasing of marketing spend and productivity-related costs I mentioned earlier. But also because we expect continued inflationary pressures across our commodity costs. So we remain on track to deliver our three-year guidance of a 175 basis points of margin expansion.

Of course, there continues to be external macro uncertainties and volatility in a number of markets where we operate. And we are not immune to the potential impact of these. I am however pleased with the progress Diageo continues to make. We are a stronger business, more agile in spotting and addressing new trends, focused on building the long-term health of our brands, and ensuring we grow our business in a sustainable way.

Finally, let me take a moment to thank all our employees for their contributions in delivering these excellent results. And with that, operator, you can now open the line for questions.

Sanjeet Aujla: Hi, three questions please. Firstly, on the top-line slowdown you guided to for the second half, where do you expect that to be most pronounced? Secondly on the US, can you just talk about the performance of the portfolio brands that you've retained? Are those brands growing or still declining? And thirdly, just on Captain Morgan and Cîroc, can you just walk through some of the issues you’re seeing there? And the performance you're seeing, is that also reflected in underlying depletion? Or is there some destocking on those brands?

Ivan Menezes: Sure, hi Sanjeet. I’ll take the second and third and have Kathy come back on the top-line phasing. Kathy?

Kathryn Mikells: Yeah, so I'm happy to talk about the top line. I mean, look if you look at some of what we've delivered in the half, we did have some easier comps on a year-over-year basis. If you look at our North American business, last year North America was up roughly 2.5% in the first half. Obviously, we had an easier comp. They were up about 5% in the second half.

And if you looked at the phasing overall of innovation in North America, right, with something like Ketel Botanicals launched in the fourth quarter of last fiscal. We had a more positive phasing I would say in innovation in the first half than we would expect to see in the second half. We talked a lot about our Chinese white spirits business, which continues to do really strongly, right. But it's a business that's getting larger and as it gets larger, the growth rate of that business obviously slows a little bit. We were pleased with the results in this half. It was up 22%.

We had strong mix in the half. So scotch was up 7%. Johnnie Walker was up 10%, right. So again a really strong half and in part, also favoured by some innovation. So those are some of the places.

I'd also mention in India, they're going to have national elections coming up in this half. And sometimes what we see with national elections is that there will be more dry days as a result. There's also sometime some operating changes that take place with some of the people that work in the plants associated with excise tax, sometimes end up having to help out with elections.

So that’s something, I’d say, right now that we're planning for, and potentially anticipating. And then again they had a pretty soft comparable in this half relative to last year. If you look at their comparable in the second half, India was up 16% year over year in the second half. So that just gives you a little bit of colour as we look across the globe, and some of the places that we'd expect to see a slowdown overall in the second half.

And I’ll turn it over to you, Ivan.

Ivan Menezes: Sure, on your two points on the US, the portfolio brands remaining, we actually don't refer to them as that anymore. I mean, the brands that were not core we disposed off. So what you need to look at in the US performance now is there's much more broad based consistency coming through. And you see the strong growth continue on Crown Royal, Bulleit. Tequila remains, both Don Julio and Casamigos doing really well. Scotch whisky was strong, Johnnie Walker and the malts. And then we had other brands and we don't break them out. But say a brand like Seagram's Seven is solid, is steady. It may be up a little, maybe down a little. But we view that as the core brand because it also plays a role in recruiting into whiskey.

So the US portfolio now is much healthier. And the momentum coming in the US is broad based. Though we do have issues, which is your third question, Sanjeet. Captain Morgan and Cîroc, we have work – there is some phasing issue in the Captain Morgan numbers. If you look at Nielsen and NABCA, they are the better, the offtake. They are slightly down. They're not minus 9% as we reported in the US spirits. So there is a bit of phasing and lapping of last year. But overall we have a full-court press from Captain Morgan to really get under building quality, sustainable growth back into the brand. It will take time. The rum category is pretty sluggish. The with-cola occasion is a tougher one right now. But just as we've done on other brands, like Ketel One, and you've seen even on Smirnoff, I feel good, we will take time to get Captain stabilised.

Cîroc is more challenging. In the US it is still coming off the flavour-dependent cycle, the big flavours which kind of take off and then fade. And our strategy is clear on Cîroc, which is we want a more stable business. Blue Dot, the core variant is stabilising. I'm pleased about that. But it will take us a few years to get Cîroc again into more stable shape. Overall on vodka though, I'm really happy. And you've seen the Ketel One numbers. Ketel One was up over 20%. Botanicals is bringing new consumers to the franchise and the core variant of Ketel One is in healthier shape. So we've got work to do on Cîroc and Captain Morgan. And we have a lot of focus behind it.

Sanjeet Aujla: Many thanks.

Olivier Nicolai: Hi good morning, Ivan and Kathy. Congratulation on these results. I've two questions on US and then one on Europe actually. So in the US, you've been increasing marketing spend now and it is clearly working. How should we think about marketing spend in – as percentage of your sales in H2 and more generally in the medium term? Are you going to be happy with the level of marketing spend, assuming whether you consider to increase it in H2 going forward? Or should we expect a further step-up?

The second question is regarding the growth of scotch in the US. So could you perhaps give us a bit more detail on the demographics of your scotch drinkers? Is it still mostly Hispanics, or does a brand like Johnnie Walker for instance have the reach?

And just lastly on Europe you've seen an exceptional growth in H1. Tanqueray seems to be one of the drivers there. Was this growth in gin only driven by UK and Spain, or was it more broad-based across the region? And would you expect the popularity of gin to gather momentum in the rest of Europe? Thank you.

Ivan Menezes: Sure. Thanks, Olivier. I'll ask Kathy to talk about the phasing of marketing spend. On scotch whisky in the US, scotch has a very healthy profile. Johnnie Walker skews a bit to the multicultural segments in the US, which is very positive because that's where the demographic growth is happening. So we do better in the Latino and Hispanic demographic. But the franchise is very broad-based. I mean, Johnnie Walker is a strong brand across demographic cuts. We grew 9% in the US. White Walker, which has been a phenomenal success of creating a buzz in culture, has also served to bring new interest into the brand, and bring new and younger consumers into the brand. And Blue Label continues to do really well across all demographics.

On your question on gin in Europe, yeah, gin is – as you see in these numbers, I mean, we were up globally, what 28% – really strong. Both Tanqueray and Gordon's doing well. The growth in gin goes beyond Spain and GB. We are seeing it spread across Europe and indeed across the world. So markets like South Africa and Brazil have done very well. Australia is picking up. Mexico is strong.

And really, this lovely premium serve of gin and tonic in a proper glass with garnish, lots of ice is really moving into the early evening occasion. And our research would tell us a lot of the volume is coming from wine and beer. In Continental Europe, just back to Europe, we did grow double digits in gin in this period outside of Spain and GB. So strong and building momentum and our brands are really well positioned and both Tanqueray and Gordon's growing north of 20%.

Kathryn Mikells: And then just to talk about marketing phasing, so first, overall, I've clearly stated that we expect some of the phasing has moved to the second half. And so we expect an increase in marketing spend in the second half. And we've talked about some of the areas of focus for that spending. And clearly the US is one of those areas of focus. So I would say absolutely we're expecting to see further spend increase in the US.

If you looked overall in North America in the first half, overall A&P there absorbed about 60 basis points of margin. So again we would expect to be seeing heavier investment there in the second half. And I'd say we're really pleased with the results that we're seeing. And I would remind everybody that the US is our highest margin business. And we definitely want to continue to invest behind our brands. And we continue to have many brands in terrific price points and categories that have great momentum behind them. And we're going to continue to put more fuel behind those brands.

So if you think about brands like Bulleit, Don Julio and Casamigos, Buchanan's had a strong recovery in the half, we're going to continue to be investing behind those. And I've mentioned Crown which is just a huge brand in the US. It’s another brand that will continue to up our investments.

Ivan Menezes: I think part of what gives us more confidence in making these investments is the quality of marketing is much stronger. And our measurement of effectiveness with catalyst gives us more confidence to – as we see momentum and opportunities to invest more behind the brands, we're doing it with more data-based analytics and evidence that we have confidence in the returns.

Olivier Nicolai: Thank you very much.

Fernando Ferreira: Morning, Ivan and Kathy. A few questions from me please. The first one, the acceleration in price mix we saw to 4%, up from 2.5% in fiscal 2018. Was that already helped by the net revenue management strategy that you recently put in place, or did you have some one-off benefits from EM pricing there as well?

The second question in US vodka, if you can talk about how much more leeway do you see for Ketel Botanicals and what sort of halo effect is that launch having on the core Ketel brand, please? And then third, a question on margins to Kathy. You just talked about the acceleration of marketing that you expect in H2. But apart from that, are there any other moving parts that will slow the margin development in H2 in order to reach your guidance? Thank you.

Ivan Menezes: Okay so let me take the first two and Kathy will take the third. The price mix, I am really pleased with the price mix that came through in the half, the 4% on the back of volume of 3.5%. Again, it's broad-based if you look across the regions. We have a lot of focus on building NRM[?] capability and team, and investing behind it in the last 12 to 18 months. And yes, there are some benefits there. But there's more to do, so I would not – I've talked about before, I'd say NRM capability to truly get it to world class will take us another 18 months. But we're making steady progress. It is a very high area of focus for our management teams around the world. The data is better. The analytics are better. And we undoubtedly did get some benefit from that in this 4%.

On US vodka and Ketel One, what I'm pleased about on Ketel One Botanicals is, it is bringing a disruption to the spirits space in the US. So at – the core serve of Ketel One Botanicals is in a wine glass. As you know, we have three varietals, with soda and a garnish. It's 73 calories, sugar free, GMO free, everything free, and it's delicious. And the growth and the programming we're doing against the brand is to really go at the wine occasion, and in the on-trade and at home. So far we are seeing it work well. I would describe this as a brand that's still very new. And we really want to keep the focus on building it sustainably and seeing it continue to grow.

The second point I'd make is the impact on the base brand is positive. As you know, Ketel One was struggling the prior years. And we've stabilised base Ketel. It is now more visible in the on-trade. We're getting the bartender love and advocacy this brand has always enjoyed, coming back. And so the overall franchise is in much healthier shape. And I would expect this growth to continue. But we've got to really continue to build the ritual and the occasion one drink at a time, particularly in the on-trade. And that's where a lot of our focus of our teams in the US is behind. So feeling good about it.

Kathryn Mikells: And then Fernando, just to talk again about phasing. So I talked about mix, kind of top-line mix overall and I mentioned marketing and the phasing heavier into the second half. The other things I would point to is we've obviously seen inflationary pressure in cost of goods sold. We do not expect that to abate at all in the second half. And then something like agave, I'd say we haven't seen the peak of that inflationary pressure yet.

And then I had mentioned in my presentation overall that we don't ex-item productivity costs. And we're expecting heavier costs associated with just the day-to-day productivity efforts that we're making in the second half. So we had some favourability in the first half, again just from phasing. And even if I looked at underlying benefits coming out of overheads on productivity, just how the benefits are phasing, we were a bit first half heavy relative to second half, obviously still chasing productivity and everyday efficiency. It’s really hard. Spending in the second half is not just about creating benefits in the second half. It's programmes that'll be continuing beyond our guidance for fiscal 2019. So that's some of the other drivers.

Fernando Ferreira: Great, thanks a lot.

Simon Hales: Thank you. Morning, Kathy. Morning, Ivan. So two or three questions for me as well. I wonder if I could just stick with the margin discussion and then just go back to North America and the outlook of the margins there as we go through the second half. I mean, clearly organic margins were down a little over a 110 basis points in the first half. I hear you in terms of ongoing input cost pressure continuing, maybe higher marketing investments as well as you’re starting to lap sort of tougher comps on areas like Ketel One now. But as we look forward, White Walker should still be helpful. How do we think about the moving parts for H2 specifically on US margins? And should we be forecasting full-year margins to be as weak as they have been for the first half in that region?

And secondly, if you could talk a little bit more about White Walker. I mean, how big a contributor was it overall to Johnnie Walker's performance in the first half? And how do you see the development of the brand in the second half? And did you get a big benefit in H1 from the gifting occasion around Thanksgiving and Christmas and that wouldn't repeat in H2? Or is it a broad-based consumer occasion you're seeing that brand sold into?

Ivan Menezes: Okay, I'll deal with White Walker and ask Kathy to comment on your margin-phasing question in the US. White Walker was designed to really bring new consumers and bring new energy to the Johnnie Walker franchise, given the enormous global following that *Game of Thrones* has. And I am really very proud of the way this product was conceived, crafted, the packaging, the liquid. And the global launch plan, it is probably the best example of how we've launched at one time around the world with significant scale in impact. And we got tremendous social media buzz with that launch and continue to get.

As it relates to its contribution, I think the way to think about it, Johnnie Walker without White Walker still did very well. And we had really good momentum on Black Label and Blue Label, and even Red Label stabilised. So the underlying brand is healthy. A lot of White Walker has been incremental in terms of the volume it’s created. And it's clearly helped the brand equity.

The final season of Game of Thrones hasn't started yet. So as we go into H2, we clearly see lots of occasions for these ardent fans of *Game of Thrones* to enjoy our beautiful whiskey. Not just on White Walker, but hopefully you've seen the really amazing line of malts that we've introduced as well. So we should see some continued impact on sales coming through from both White Walker and the lineup of malts in the second half.

Kathryn Mikells: And then just to get into a bit more detail about North America. As you mentioned, operating margin is down a little over a 100 basis points in the half. And the two places that’s coming from is they are seeing [cost]pressure and inflationary costs, right. So gross margins were under pressure in the half, and then we've up-weighted marketing, right. So that consumed about 60 basis points of the margin in the half. Those two things are going to continue into the second half. And so absolutely, as you think about the second half, we would expect to continue to see pressure from both of those things come through in North America.

Simon Hales: Okay, that's it. Thank you.

Edward Mundy: Morning, Ivan. Morning, Kathy. Morning, everyone. Three questions from me please. Kathy, going back to your earlier comments that in the second half you're going to be booking more productivity implementation costs ahead of, I mean, the continued programmes that are going to extend beyond fiscal 2019. At this stage, are you able to talk about the margin profile once the 175 bps has been achieved?

The second question is around shipments and depletions at the group level. Clearly, you're being very open about some of the one-off benefits and some of the timing issues in the first half. But are you able to give us a number of what you think the underlying depletions were relative to that 7.5 revenue number.

And then the third question is on Casamigos. Are you able to provide what the growth was in the first half in the US?

Kathryn Mikells: Okay, so let's start with a couple of the questions, the first question specifically.

Ivan Menezes: The H2 productivity one.

Kathryn Mikells: So on productivity, we don't ex-item productivity. I guess the way I would think about it is about £1 million of expense translates into roughly kind of 15 basis points of margin for us. So just as you think about that expense, now you are getting into how do we think about it beyond fiscal 2019? And I would say it's too early for us to look to guide.

But for us productivity was really never about achieving a certain level of savings in this three-year period. It was about embedding productivity in the day-to-day ways of working and expectations across the company. And I would say we feel really good about where we're at with that. And obviously we don't consider it to be a programme as opposed to just everyday efficiency.

Ivan Menezes: And the other two, shipments and depletions are broadly in line. So there isn't a phasing impact because of that. The phasings are more that compares versus last year, right. East Africa, Kenya had a very tough time in F18 H1. So you see a bigger number in East Africa this year. So that’s more of what's happening in the phasing.

On Casamigos, we don't disclose the number at the brand level. I can tell you it's extremely healthy. And I think if you look at Nielsen and NABCA, you will see what 90% growth rates. So we're very pleased with the growth in Casamigos. And it's certainly delivering very much to our expectations. And the momentum continues to build. The brand is very healthy. It's still got a lot of runway for growth. And the equity builds, the consumer franchise continues to build very nicely.

Edward Mundy: Okay, thank you.

Nico Von Stackelberg: Hi, good morning. Just on the US spirits growth rate, you're probably growing in line with the market. Are you committing to growing in line with the market from here? If not, why not? And the next question is on your interest income of about £102 million. Say we annualise this to £204 million, £204 million on the balance of £1.5 million[?] is about 13%. So it seems like some cash is locked up in emerging market subsidiaries. Are you having problems repatriating this cash or just sort of what's the strategy here? It's about 5% of your underlying earnings. Thanks.

Ivan Menezes: Okay I'll take the first one and have Kathy deal with the others. US spirits, as you saw in these results, we grew broadly in line with the market. However, it's just one period. And I would say our goal is to really create quality, sustainable growth at or ahead of the market. And no, I'm not going to declare that yet. I want to see several periods of performance come through before we say that. And as I said before the US – I mean, in these numbers US spirits grew 4.7%. I mean, we've every year improved the growth rate. And we're focused very much on quality, sustainable growth. I am not interested in getting accelerated growth that we can’t sustain.

So we don't need to commit to growing ahead of the market. I mean, the US will perform in line with Diageo, delivering its mid single-digit top-line growth guidance. But I'm really pleased with the performance. And if you go under the numbers, what you will see in the US is the quality and breadth of the performance in the portfolio is much healthier. You will also see our marketing is working much better, which we've up-weighted. And you will also see innovation is playing a much more strategic role in recruiting new consumers to the business. And the shift we've made in innovation is also playing well.

Kathryn Mikells: And then I think your question was really about emerging markets and the level of cash that we keep in emerging markets, where obviously inflation and interest rates are higher. We don't really have any particular issue or concern about emerging market cash. We do periodically repatriate cash. Obviously, we had strong emerging market growth in the half with emerging market's sort of top line of roughly 10%. And we make sure we have enough cash in those markets for the operating liquidity that we need. But no particular challenges there.

Nico Von Stackelberg: Okay, thanks.

Mitch Collett: Thanks. I guess with scotch doing 7% growth, it’s perhaps a bit unkind to focus on the ones that aren't doing well. But Ivan, yourself said that there were a few brands within scotch perhaps not delivering what you want them to. I think Buchanan's and J&B as well as Windsor are still soft. Can you talk about what your plans are to accelerate those three?

Then I noticed a couple of your local stars had very positive pricing and actually quite weak volume. Specifically I'm talking about Yeni Raki and Ypióca. Can you talk about how we should think about those brands going forward?

And then finally ready-to-drink had a pretty big acceleration reaching 16% organic sales growth. I think last year it was 4%. You say in the release that North America and Europe are doing well. But can you give a bit more colour on what you're doing to accelerate your performance within ready-to-drink? Thanks.

Ivan Menezes: Sure, on scotch first, Mitch, I'd say – I mean, Buchanan's I'm pleased about, Buchanan's grew 7%. So we're seeing that brand return to healthy growth. Our big issues are Windsor in Korea where I don't see it getting better easily. I mean, we're growing share in a declining category. That occasion is very challenged, and will continue to be difficult. So we are not assuming we can turn around the occasion and that segment of the market in Korea.

J&B is as you know has been tough in the last few years. We've got a new work, new campaigns and growth drivers in place particularly in Iberia. It's early days. I mean, they've just been in the last couple of months. We're investing behind the brand. We'll have to see. It's too early to say we will get J&B back into growth. But we certainly are focused behind it.

And then we've got other elements of scotch where we can do better. I mean malts still only grew 5.5% in these numbers. And we ought to be doing a lot better in malts. So we've got other parts of the portfolio which can still accelerate.

On local stars, I think what you're seeing in Turkey and Brazil is really the inflationary and excise impacts on value versus volume. Both environments are tough. Turkey is a tough environment.

Duties keep going up. The affordability of raki is getting tougher. But in spite of that, I'd say our business in Turkey is – we grew 10% in the half. The scotch business is really healthy, growing over 20%. But what you're seeing in volume and value in both those markets are inflationary conditions and tougher consumption affordability issues on raki in Turkey.

RTD acceleration, it has been driven a lot by the US and Europe. The self-serve phenomenon in the US is really strong and Smirnoff is benefiting from that. We don't take the view that RTDs will be a sustained, fast-growing business. And so while we're getting the growth, we're clearly enjoying it. But we’re certainly not counting on it to sustain or accelerate there. The trends in RTDs tend to be more volatile and that's the approach we are taking strategically, and ensuring our core spirits brands and beer brands perform better. But really happy with the growth in RTDs.

Mitch Collett: Okay, understood. Sorry, just on Buchanan's and again it's probably unfair to be disappointed with 7%. But I was looking at the 10% and 16% you did in 2016 and 2017 and the step down in growth there. And can I ask one quick point of clarification? When you say mid-single-digit, can I just confirm that’s 4-6%. Or is there a mid single digit that ends with a 7?

Kathryn Mikells: No, I can absolutely confirm 4-6%, and that’s what it’s been the whole time.

Mitch Collett: Okay, thank you.

Operator: Thank you. We'll now take our next question from Chris Pitcher of Redburn.

Chris Pitcher: Hi, good morning. A couple of questions. So the first one Ivan, I mean, you set the target to build Diageo to deliver reliable organic sales growth. Now reliability comes in both directions. And while this is obviously a very good performance, it is outside of that range. Are you comfortable that the performance in the US has built a higher base? Or should we start to become more accustomed to more volatile innovation-led growth in the United States? Because that was one of the targets you did set was to try and become less volatile around new innovations.

And then the second question is the incremental marketing spend that you're looking to put in. The shape of that, is that going to be on advertising or is this more in-house, the nature of that marketing? And how are the returns on marketing expected to change over the medium term? Thanks very much.

Ivan Menezes: Okay apologies, I don't know what happened there. The lines got cut off. So Chris, in regard to your first question, Kathy is going to answer it.

Kathryn Mikells: Yeah, so I think Chris you were asking us about how we think about reliability and then specifically how we think about the US and innovation and how we kind of strategically consider that. So the way we think about reliability is what we're producing over the course of the year. And I think you've heard us say today that we expect for the full year that will be within the range of the mid single digit, sort of 4-6% that we've talked about. And we've acknowledged that we expect it will be at the higher end of that range. So a half year sort of period is relatively artificial. That's how we think about it.

And then we talked about innovation a lot in the US. And that a number of years past, we've taken a bit of a different approach which we've called more depletion led. Which is about how we see the inventory initially associated with inventory in the US to make sure we're getting that consumer signal, in terms of how those innovations are actually doing in the marketplace. The US industry is a more innovation-led industry. And you can see – we really look to target our innovations either to re-recruit, recruit or disrupt. And we're trying to do I would say fewer and bigger innovations and making a fair amount of progress on that.

One of the things innovations can really do for us is recruit new consumers to the brand. And we will constantly talk about Crown Royal Regal Apple which in its 5th year since we launched it, right. It was up double digits in the half. And obviously we spent a lot of time on the call talking about Ketel One Botanicals and how that is recruiting new consumers to the brand. So that's a place where I would say we feel really good about our overall expertise. And if you look at any latest four weeks results in the US, we constantly perform really well in terms of those lead tables and how we do on innovation.

Ivan Menezes: Great, thank you. Next question.

Trevor Stirling: Morning, Kathy and Ivan. So three questions from my end. So Ivan, there's clearly lots of very bright spots and very strong overall performance. If you had to pick out two or three areas that really pleased you most, what would they be?

The second question probably for Kathy, on the coupon Kathy you guided going into the year to a coupon of 3.3%. And now that guidance is at 2.5% to 2.8%. I understand gains on FX swaps have been a large element of that. So if you look forward to F20, would you expect the coupon to be closer to the original 3.3% guidance?

And final question on the theme of price mix. I saw there's some very strong regional price mixes. So for instance, the Andean region was up 49%, South Africa plus 14%. So is that basically pricing to offset local inflation and to adjust for currency exchange rates?

Ivan Menezes: Hi, Trevor. I'll take the first one. I'd say the areas I am pleased about actually are our priority areas. So US spirits and the quality of steady growth improvements coming through on the US business. The second is scotch and particularly Johnnie Walker. I mean, it's been a standout performance from Johnnie Walker at 10% growth. And as I talked about earlier, it's not White Walker. The health of the brand is really good and strong. And then the third to me would be India.

And just seeing the continued, sustained improvement in quality of top line and steady operating margins for coming through. We're now in the mid teens in these results.

So these were the areas we needed to show the improvements. And really those would be my highlights.

Kathryn Mikells: And then overall talking about just our effective interest rates. So you're absolutely right. It's come in better this year than we had originally guided to. And a big part of that is that the swap portfolio has done really well.

The other thing I would point to is when we guide this at the beginning of the year, we do look at the yield curve. And the fact that we have a part of our portfolio in floating and what that's going to do. And I would generally say the interest rate environment has been more neutral than we expected it was going to be at the beginning of the year.

So I'm not going to guide into fiscal 2020. But certainly, we've seen outsized positive benefits from swaps as we've sat here in the half. And I've told you in terms of the overall guidance on effective interest rate going into the second half, that we don't expect that to repeat to the same degree. And then we'll just have to see where the yield curve is at in terms of the rest.

And then you asked the question specifically about price mix. And you had pointed to and I would certainly point to inflationary pressures in certain markets. The other thing I would point to is sometimes we have tax changes in markets. And then we are looking to take price up to offset those tax changes. Ivan had mentioned earlier in the call that Raki would certainly fall into that category. And in Colombia, if you went back in the period of time, we would have been looking to take price increases because they had a change in tax regime there as well.

So those are some of the things that would influence pricing as well as the other thing you mentioned which is negative foreign currency movements. We would over time look to take pricing to offset that.

Trevor Stirling: Great, thank you very much indeed, Kathy.

Kathryn Mikells: Thank you.

Chris Pitcher: Hello, Ivan and Kathy. Sorry about the technical problem. So there was a second question I asked. It was about the marketing spend and the step-up. Can you give us a feel for the mix of that spend? I mean, I am assuming this isn't standard advertising. Are you spending in higher return areas of marketing, you are taking more in-house? Can you give us a feel for how that spend is likely to be spent? Thanks.

Ivan Menezes: Sure. Firstly, I mean, we're spending against our priorities. You would see both the US and Europe where we have the confidence behind the growth drivers and momentum where we're spending more. So a big brand like Crown Royal, we are up-weighting our marketing spend.

So to your point, actually a lot of – there is a big step-up in media that we are making kind of across Diageo. So media has a bigger weight. But again brand by brand, I think what we're getting good at, Chris, now is the understanding across what we do in media, what we do experientially, what do we do on-trade, where we are investing in brand ambassadors and activation armies, what we’re doing with our innovation on a particular brand. We’re just getting better at how we deploy the resources. But there is a big step-up in media.

Kathryn Mikells: And then the last thing I'd say, Ivan earlier talked about the catalyst tool that we use. I mean, that and the fact that we keep plying more data and information into that tool which is a predictive analytical tool. And it enables us to run a lot of different what-if scenarios. That helps us just in increasing our confidence in terms of exactly what we're putting more spend to ensure that it's delivering good returns for us. So that's been really helpful.

Ivan Menezes: Anymore?

Toby Huntson: Hi there. Thanks for the question. I just wanted to ask in terms of the leverage relative to the 2.5 to 3 times band that you want to operate in. From my numbers, it looks like you're sort of be edging up towards the bottom end of that band sort of 2.4, something like that, by the end of the summer if you do the buybacks. So I was just wondering if you recognise that sort of figure. And then in terms of additional bond debt issuance, are you expecting to do a bit more given the increased size of the buyback? Thanks.

Kathryn Mikells: Sure. So overall, I think when we've guided from the beginning of the year we said we expect to end the year within our leverage range of 2.5 to 3 times. Now obviously there's always a number of things that are a bit harder to predict, FX being sort of one of them, but that's what we're expecting. And it's obviously part of the reason that we increased the share repurchase programme, bringing it up to £3 billion in total in terms of the total year programme.

And then overall in terms of bond issuance, we do expect to do something in the second half. And we did a very efficient euro bond issuance in the first half. But if we look at overall, I would say how our debt comes due over time, we're a regular participant in the market place.

Toby Hunston: Okay, thanks very much.

Brett Cooper: Good morning, a question for you on Botanicals in the US. It may not be an easy answer. But I mean how important is the lower calorie, lower ABV component of the brand? And then how exportable to other brands or idea – is that idea, either whether it's within the US or to other markets? And then a second question on I guess pricing. In light of commodity pressures, gross margin pressures we're seeing for Diageo and for others, can you talk about the pricing environment I guess in different parts of the world? Thanks.

Ivan Menezes: Sure, Brett, I'll handle Botanicals. I'll ask Kathy to talk about pricing. The proposition of Ketel One Botanicals was put together very much against the trend of holistic people caring about the ingredients in the drink, caring about the calories and gluten-free, sugar-free as I talked about earlier. And our marketing against the brand and the way those liquids have been crafted is very much going at that space. Vodka soda, as you know in the US, is a big source of consumption largely because of the calorie, carb, gluten aspects of it. And here we have a product that's a lot more delicious.

And it is playing to that trend. We expect, as I mentioned, a lot of the growth we see is coming out of the wine occasion, white wine in particular. And we will continue to build that. We do see this trend more broadly around the world and we will be looking at rolling out Botanicals into more markets as we get into the second half.

Kathryn Mikells: And then overall in terms of pricing, I would describe pricing in the developed markets, especially Europe and the US, as is overall relatively muted. But you really have to take it on a category-by-category, brand-by-brand basis to get underneath it and understand what's going on. So, as an example, in the US there has been some pricing in Tequila. It's not keeping up yet with what we're seeing in terms of the inflationary costs. And there's more pricing opportunities in I'll call it the upper end of the portfolio. So premium, super premium, ultra premium than they are in standard brands. In the US rum and vodka, particularly as categories, have not had positive pricing. So that's how you can think about things now.

If I take a step back, I'd say we're obviously investing more behind our brands. The equity behind our brands is improving. And over the longer term, we would expect that to put us in a more positive position from a pricing perspective. And we've talked a lot about NRM and building capabilities there which is not just about headline price, right. That's also about making sure that our trade promotional spend is efficient and effective because we can ultimately get net pricing improvements to the extent we make efficiency and effectiveness adjustments there. It's about pack sizes, right. It's about mix as well as not just price. So there's a lot of tools that we're building that will help in this area over time.

And then, if you look at some of the bigger markets, in India in the last fiscal, we had a lot of positive price that was somewhat unusual for that market. So while we're really pleased with the overall results in India, we're not getting as much price there this year. And then in emerging markets, I'd say it's really on a case-by-case basis.

Ivan Menezes: Great. Well, thanks everyone. We're going to draw it to a close. That was the last question on the call. I appreciate everyone's interest in Diageo and your support. Kathy and I look forward to meeting many of you over the next few days as we go into our roadshow. And thanks again, thank you very much.