Diageo – Capital Markets Day – 22nd May 2019 – Question and Answer transcript

1. Marketing – Ed Pilkington & Cristina Diezhandina

Laurence Whyatt:

Hi, it's Laurence Whyatt at Barclays. When you're talking about recruiting new consumers to your brands, particularly around the line extensions, how are you so confident that they are new to the brand? What sort of data do you look at and can you just run us through the process?

Ed Pilkington:

We track consumer data, so a great example would be Crown Royal Apple. Crown Royal Apple we know has extended the brand, especially into the African America community. So basically we have penetration data, we do surveys, we look at our overall data at the macro level. I gave a stat around Crown Royal at 33 million drinkers, we can break that data down by demographics, basically by - ethnicity, by age group, and then we just track that data on a regular basis.

But innovation is absolutely key as I said earlier. - If it's not going to a new occasion, or bringing in new users, or premiumising a brand we really shouldn't be doing it.

But Crown Apple is a fantastic example of taking us into a new space, the shot space and bringing a - a lot of new users.

Questioner:

Hi Ed and Cristina, can you just talk a little bit about how you're thinking about brand homes is evolving. So from the first Johnnie Walker Houses is opening maybe 10, 12 years ago, now to Johnnie Walker stores and how that thinking has evolved?

Cristina Diezhandino:

We've learnt so much from what we've done previously. The Johnnie Walker Homes for example, what we did previously informed a lot of what we're doing right now, because what we felt is we needed to represent in brand homes what we've learnt on - frankly consumers in general.

And that particular example is status is changing and from the world of very aspirational and frankly slightly intimidating world that we created, beautiful, but also like you needed permission to be invited, to a world right now that even though it's clearly aspirational it's a place that tells you this is a really premium product, this is a really wonderful experience to have, it's inviting. It makes you feel comfortable. And that is a huge learning that we took.

So when we opened up Madrid for example the biggest thing that we wanted to achieve is have people come through the doors rather than us having to bring them in. And gladly that's happened.

So we took a lot of time in designing that place, we hired best in class people, we designed the experiences; we designed the location of those experiences to inform the traffic within the store and also to maximise the dwell time. So that the experience is more engaging.

And everything that we're learning there we're going to be applying now in Scotland, even at a larger scale.

So our thinking has certain evolved and I'm sure it will continue to evolve.

Questioner:

Great, thank you very much a lot of great examples and obviously you're leveraging the Catalyst business very well. Can you talk a little bit about - and you touched on it, but a little bit more about how you've institutionalised you know some of the success, sort of - the sort of processes, playbooks, so that it continues to happen, best practices are shared and it continues to grow, so you know we have the confidence that this will keep continuing rather than necessary - necessary you know a couple of really nice one offs. So how is this all institutionalised?

Ed Pilkington:

So first of all when we launched Catalyst we did a global rollout and we trained very marketer. So there was a simple message, we developed a training programme; it was a day long training programme. We took every marketer out of their so called day job for a day, trained them, we had a group of experts. So as I say we've got a team of people centrally who are working and making sure that we've best practice, and by the way always looking at the what next and how we evolve it and making it better. So the first thing is training.

The next thing is our planning process, we have a pretty clear planning process where we need - we have data at the heart of it. So in most cases we start our planning in sort of - September time where we look at our strategies. Each brand for the annual planning will come and basically look at what's working, what's not working, what are the learnings. So we come with a big learning template.

All the data from Catalyst will come in around our growth drivers, so the growth driver model that we talked about. So each brand will turn up at the brand planning with this growth driver, here's the learnings; here's the ROIs, comparing ROIs over time.

The leadership team will then look at that, look at the brands, look at the growth drivers, etc, and that informs next year's planning. So there's rigor in the planning process and then that goes then into the rest of the year.

And then we have regular reviews on our brands where it's kind of incumbent on the brand teams as they come up to make sure they are using catalyst data in all that they do.

Cristina Diezhandino:

I think one of the - interesting things that has been established through all of this process is we have - and this is common language across our teams in the world, it's learning plans. And so you know to your point earlier of how to you ensure that this is a replicable model? Not only the framework has been established, but we have culturally established this idea of having access to the data, we now have learning plans really throughout.

Ed Pilkington:

And the teams now realise actually using data is the opportunity - if you want to grow your bit of the business, your brands, your opportunity, your innovation project, the best thing is to come with robust data because you're more likely to get funding.

Eddy Hargreaves:

Hi, it's Eddy Hargreaves from Investec. I just wondered whether you could give us some insight into the balance of your use of external agencies, or - or not necessarily agencies, but how much of your work is internal and how much external?

To what extent has that changed over; say the last two - two to three years?

And can you say anything about the sort of cost side of that?

Ed Pilkington:

So it varies, so we don't have a one - this is the model, we want to work with the best agencies in a cost effective way, so we are you know very cost effective in terms of how we work with our agencies. And it depends a little bit by what we are producing with the agency. So whether we're creating - creative, for example some of the work you saw with call it advertising type agencies, or through to media agencies.

Eddy Hargreaves:

Just an aggregate I mean really?

Ed Pilkington:

Yeah, it's difficult to get into the actual numbers, we're very effective in terms of what we're doing on our working and non-working spend at the moment. So you'll see data around that where we've - improved that and we constant look to improve that ratio.

We are doing some testing in house, so we've done a little bit of testing in house around some of our creative, just a little bit, but it's a test.

And I mentioned earlier, in terms of social and programmatic we've taken - that's just here in North America initially because it's the biggest media market, we have a team of about six people who basically do the social and programmatic buying.

The reason they do that to a cost element is basically it takes cost out of the media value chain, so that's why we're doing that. And because we have capability and we have the tools and we have the access to do that. The reason we don't go and by TV at the moment is it's much easier to buy TV through established TV buyers who have the contacts.

So it really is a little bit of horses for courses in terms of how we operate, but we have a big lens on cost in terms of how we operate, I can assure you.

Fernando:

Hi Fernando from Bank of America, is digital still taking the lion's share of your marginal marketing dollars, or are you scaling back a bit to focus on experiences like - like you showed the many examples here?

Cristina Diezhandino:

So truly the answer to that question is that when we planned the consumer touchpoints and how we're going to effectively take that creative work into consumers we will not target particular mixes of media. We will look at that particular market and what consumer landscape looks like and based on that actually define what the media mix should be. And so perhaps Ed you may talk about North America?

Ed Pilkington:

It varies by brand, if you've got a small brand that we're seeding you make have seen Cascade last night for example, which is a small innovation whisky brand here, a lovely brand, that is all about experiences - that's all about on the ground experiences in the right place in culture. This summer we'll be very active, sort of the picnic scene. So it's pretty much 100% around experiences.

So if you take a big brand and a big brand is going to do scale comms, so it's going to be a bit part of the budget. It's going to deliver experience, it's probably got a big platform which is going to work around and then we're going to show up brilliantly in the on premise, the off premise, etc.

So it really does vary and depend on where your brand is at in the stage of development essentially. So you start with the brand, the consumers and work with that.

In the same way for example we never set targets within media for our where we spend our media; it does depend on the brand.

2. **<u>Scotch – John Kennedy</u>**

Simon Hales:

Thanks John, Simon Hales from Citi. Obviously a very good performance which you flagged in the first half of the year, I wonder if you could sort of give us an idea of how much of that improvement in growth was down to the - great success of White Walker? And maybe following on from that I think when you gave a similar presentation to this a couple of years ago, when you thought about the medium term growth aspiration for the Scotch category you thought around 6% is what you'd be targeting. Is that still a valid target, clearly the upper end of the range versus, you know, Group guidance for mid single digit?

John Kennedy:

I think on growth, I mean White Walker has been a big success, but what makes us feel good is that it's one of many successes. So, within Walker on its own, I mean Black Label growing at 10% and Blue Label at 12% is a very strong result.

On the local brands like Old Parr and Buchanan's we showed significant growth in H1, the primaries growing at 10%, the total malt portfolio growing at 5%. And geographically pretty balance. Makes us feel like we're firing on a number of cylinders, rather than just one.

And even with Game of Thrones and you know in terms of our - innovation plans, as we're heading for our 200th anniversary, we're not going to share all the details about everything that's coming, but we feel good about the pipeline of work that we've got to drive - to drive the brand next year.

On the guidance, I mean look we - you know what we've said and at the heart of our strategy is we want to win in International Whisky so essentially means our Scotch portfolio winning in that total market, which is growing. So, we're not issuing a specific number in terms of what that means, but we are measuring ourselves, you know each year as to whether we're tracking ahead of that target.

Questioner:

John, I was wondering if you could talk to your competitors that look at blended Scotch whisky as an opportunity where we've developed or the category has developed, whether that be US or Irish whiskies going on in, how do you compete against that given some of the rules of Scotch? Or does Diageo take a more holistic portfolio approach and is saying, yes US whisky is going to take a piece, or Irish, or whatever and you deploy more brands than your Scotch brands? Thanks.

John Kennedy:

I think the - you know the key thing that we look at is - if you ask consumers what's a blended whisky versus a malt, versus a Scotch, versus a bourbon, like the - the level of - detailed knowledge it tends to be relatively light. And what people respond to are brands that are aspirational, that connect to them personally and that show up where you know - strongly where they socialise.

And what we think when we look at our big marks, versus all of our competitors within Scotch and without, those are the key elements that we're looking at. And when we get that right we tend to succeed. And I think on Walker, you know with the connection and culture, the shift in serve that we've had in the last couple of years and the improvement in terms of the brand's total visual identify, you know we're seeing moves in terms of brand growth and equity score increases and recruitment.

So our goal is across total whisky to build powerhouse brands that are usually appealing to consumers. And what we find is generally if you do that you're going to win no matter where the whisky is made or what - what category it's in.

Within that we do feel like we should operate a full portfolio and obviously we have big strong brands in other categories and we've introduced new brands like Roe & Co in - into Irish whisky recently.

Questioner:

Hi John, when we compare Scotch to Cognac being another category with age statements, there is a significant difference in on the shelf price at similar statements. Do you think there are structural reasons why that should be maintained, or is there and opportunity to close that gap?

John Kennedy:

I think you know the - the hallmarks of quality and price that come through from the different categories are - you know have evolved over time. And you do see in Scotch whisky there is more - aged statement declarations. What we've learnt over time though is there are other ways to make sure that you are - you know cuing quality and prestige and the premium nature of the brands. And therefore, you shouldn't rely only on age as the - as the mark for that.

You've seen on our single malts we've had non-aged declared variants that have done well - as have the aged ones. You've seen - variants of Johnnie Walker that weren't driven by - by an age statement, but more by the packing cues and the story behind it.

So I think that as marketers we just need to use the richness of tools at our disposal to signal the quality and the premium nature of our brands and consumers will respond to a number of cues.

I do think age is important, but it's not the only cue in the game and we should be creative in terms of how we build those marketing messages.

Olivier Nicolai:

Olivier Nicolai from Morgan Stanley. Just could you give us your view on the single malt category in China and what is your plan there? Or is the focus more on Johnnie Walker Blue Label?

John Kennedy:

Johnnie Walker Blue is the heart of what we're doing but what we're also doing is we have Singleton is a very strong brand for us and it's got to significant scale and we'll continue to drive that. That tends to be in Taiwan and Mainland China. We're focused more on prestige and special releases at the highest end of the market where there seems to be an appetite there.

So there is a role for single malts, it's more focused on a couple of brands than in other parts of the world.

Just one interesting stat on the Chinese consumer of Scotch whisky. We've been tracking the interest in Scotch in duty free from the travelling Chinese consumer. And what we're seeing is there's three times higher level of interest in buying Scotch abroad now than there is Cognac. So, we think that's a good sign that this is a category that's on trend for the future. And another reason we should, hopefully, sustain growth.

Ed Mundy:

Hi John, Ed Mundy from Jefferies. The US is a part of your business where you under index in terms of Scotch, I think it's about 10% of your US business versus 25% at the Group level. If you're able to accelerate blended Scotch within the US how do you think about the interplay with Canadian Whisky and Crown Royal, do you think one is going to cannibalise from the other?

John Kennedy:

Well I mean we've seen very strong results for our Scotch whisky portfolio in the US in the last few years. So, it's clearly complementary rather than - one or the other. I think if you look at Johnnie Walker's performance it has been strong.

If you look at malts we're getting growth. We have a lower share in the US than the rest of the world. We tend to be very strongly represented at the most expensive level of the malt category, but not as big a share at the entry level. And just going back to the strategy we're talking about, for every market we're saying look do you have a strong player in each part of that market? And we think if we do that it will drive a bigger share of results in the US and other markets as well.

Robert Ottenstein:

Robert Ottenstein, Evercore ISI. I was wondering if you could talk a little bit about how you look at gender and race, have you been able to recruit more women to Scotch. And is this something that you look at on a global basis, or is it only you know on a local basis?

John Kennedy:

Yeah, well you know an effort led by our marketeers that started several years ago was really to make sure that all of our brand were what we call bilingual, which is - equally appealing to men and women, because the way the dynamics of socialising and society are going in most countries is there is more gender balance and there is an expectation that everyone is included.

So I think that's made a difference on all our brands, including ones that traditionally would have had a much bigger male franchise. And I think the work on Jane Walker which the US team led over the last couple of years is a nice representation of that.

But you see it inform all our work, including efforts behind the scenes where we're driving work to make sure that actually there's more women behind the camera creating the ads, directing and producing them, versus just in front of it.

So we think we're making a number of changes that we think are systemic that will help the brands that are more in tune with - basically I think a more balanced society.

Robert Ottenstein:

Are you able to share any numbers with us in terms of Scotch drinkers today being female and what it was maybe five or ten years ago?

John Kennedy:

I did pull some of the numbers in terms of results we've seen recently and just as an example like in Spain whisky consumption would be two thirds male, however as we've introduced Johnnie Walker White Walker, that went to 50/50 automatically and the age profile dropped.

And we didn't talk about Haig Clubman, but I covered that in the last presentation a couple of years ago. That brand is bringing in a significantly younger consumer and significantly more balanced between men and women than many other whisky brands. And we've seen that now in about half a dozen countries where we've launched.

So yeah I think we've - I mean we haven't figured it out everywhere, but I think we're making, you know, some real progress.

Caroline Levy:

Thank you. Caroline Levy at Macquarie. Can you talk about how you think about managing margin - within your portfolio? My understanding is geographically you want to invest heavily in the US because growth there is highly profitable. When you think about how you invest in Scotch, could you just talk about the thought process a little bit and the relative margin?

John Kennedy:

Well I think you know first of all Scotch is top of the list when it comes to driving gearing for the company, just because of the really attractive economics of the category. Therefore, and hopefully it comes through here, there is a disproportionate level of investment and focus that goes into Scotch whisky in all markets.

Now within that - in terms of mix, you know what we do see is because the trade up phenomena within the category there's huge potential - there's even greater growth potential for the highest margin products in the portfolio. Malts perform exceptionally well in that regard, Johnnie Walker again, absolutely super in terms of gearing.

So we drive investment and by the way White Walker was sold at a significant premium to Black Label as well. So in innovation and in terms of the existing marks, we are driving mix to the highest end of the category.

We do believe in participation at all levels. So we are in primary Scotch and what we say is for that sub segment we expect to be able to drive positive gearing over time.

The other piece is on price, you know we have an expectation that we will drive price over time, within markets through our net revenue management initiatives and be able to see the individual variants move forward, year on year on year.

And we have invested a lot in the data and analytics, Europe is a good example of that, where just recently I now have a dashboard for every customer in Europe and I can look at it down to a SKU level what their NSV per case is this year versus last year, whether we're making progress or not.

So we're investing a lot of energy to drive both price and mix to get gearing and Scotch would be absolutely essentially to that effort.

3. <u>India – Anand Kripalu</u>

Laurence Whyatt:

Hi Laurence Whyatt at Barclays. You still have a minority listing on the Indian Exchange, could you explain why it's an advantage to maintain that minority listing? Thank you.

Anand Kripalu:

For USL it's about 45% of the company that's listed, so it's reasonably large, per se. I think there's a lot of value first of all in being seen to be an Indian company. And I think that makes a big difference in our dialogue with the regulators.

Now while I said we made this transition from United Spirits to Diageo India, what we have done is we've changed the identity of the company to Diageo India. But our listed company is still United Spirits. Our back of pack is still made by United Spirits, because otherwise I'd have to go and re-register every SKU in every state if I changed the legal name of the company. And to do that compliantly would be a nightmare.

So we're changing the repositioning of the company and the optics of it, but we still want to be seen as the local company. When you talk to customers, you talk to the regulators, for them USL, is the identity of the company.

And I think it's important from a talent perspective and so on to reposition ourselves, but from just an ability to do business with customers and regulators on a regular basis - I think there's an advantage in being USL. And USL is that Indian company that's listed.

I think it also opens doors with Government when they know that minority shareholders in India can also partake in the industry and in the success of your company.

So you'll find many of the top CPG companies in India have retained listing despite having had majority multinational control for decades. They have retained listing partly I think for this reason.

Questioner:

Hi Anand, you talked a little bit about how the regulatory dialogue has evolved and you shared a bit of optimism on that perhaps smoothing out. So can you just talk a little bit about what's exactly changed in terms of your dialogue with the regulators?

Anand Kripalu:

So the change is that conversations are far more fact based, I think we've earned respect as an industry and certainly as a company, where you know we have a seat at the table when regulators are shaping policy. And we have found, like the case of GST, and just to put it into perspective I think we did 200 government meetings in the run up to GST to make sure that there would be no adverse impact on our company and on our industry.

And the fact that we were able to do that and influence them, means that they have a more open mind than they had in the past. So in that past I would say the industry were victims of regulations, right, and would scramble around when regulatory changes happened.

I can't say that, you know, we can shape it completely, but I think at least there is dialogue today and there's a better and more open dialogue in some states and less of a dialogue in other states and that's the process of evolution.

So I have found that the access that we have today to key regulators as well as senior ministers in the centre if far better than it ever was.

So, this is the example of, you know, somebody trying to break a rock, you've got to chip away, chip away and one day it'll part. And I think that is what we have to do with the regulatory environment in India.

Questioner:

Anand could I just follow up on that, you obviously referenced again the high import duties in India, we've been waiting for a very, very long time to see any sign of those coming down, perhaps India might be the new norm and leading the way given what's happening with import tariffs elsewhere in the world at the moment. But how are your conversations there evolving with Government, have they evolved at all over the last two to three years?

Anand Kripalu:

I can't say they've evolved, the conversations are happening, I think we have to also see what happens - if the UK is then looking soon for bilateral trade and whether there could be an opportunity there that comes up post Brexit. So that's a possibility.

And we have the UK India Business Council and food and drink, including alco bev, is one of the priority categories that they're working on as well.

So the dialogue is on. What we do know is that most categories earlier that had high tariff barriers in India have come down to 20, 30, 40. And we have got to believe that this will follow. But you know I can't really comment on anything more. All I can tell you is that used to be 300% and it's come down to 150, which is progress.

Questioner:

I'd love to have your outlook on the type of capital spending you might be able to do going over time. I assume that if the market develops as fully as you'd like it to you might have a chance to put a lot of money to work, could you give us some dimensions as to where you'd place that money?

Anand Kripalu:

Sorry I didn't fully follow the question.

Questioner:

Your forward looking capital spending plans as they exist now and as they might exist if the market opens up more forcefully?

Anand Kripalu:

Capital spending we have been trimming our manufacturing footprint and actually consolidating some of our old legacy factories and getting third parties to set up factories, right, which are fully dedicated for our business.

So our view is that it is better and more prudent for us to have an asset light model in a market like India. So the amount of capex we will need, even if the category explodes, which we believe it should explode in the fullness of time, that capex that we will need to deploy does not need to be enormous.

Many companies in India actually have a fairly low denominator in terms of capital employed, right, and deliver great ROCs because of that. So I think we'll just evolve this and see what's fit for purpose for an industry like ours.

Questioner:

You referred earlier about the competitive environment getting far more aggressive, what is it, is it mainly from an international players point of view, is it new local competitors?

Anand Kripalu:

I would say both, all the international competitors are there in the market today and everyone is seeing the WEF Bain study, they know what the opportunity is in the market. But also local players are getting more ambitious, getting more aggressive. And also beginning to play in the more premium segments of the category.

So, the positive side is that I think the category in those segments is going to grow faster because there will be more investment, but there will be more challenges.

And I think the pace of renovation, innovation, brand evolution needs to accelerate, because people are catching up. We showed the industry what could be achieved through renovating brands, now everyone is doing that, everyone is trying to, you know, improve their packaging and improve their product offer.

So we need to just stay a step ahead of that and that's what I really called out.

4. <u>US Spirits – Deirdre Malhan</u>

Questioner:

Deidre, thank you for the presentation. Could you give us an idea as to how we're building confidence that the sustainability of innovation that you showed in that chart, which turned positive year to date this year, will actually sustain as opposed to, maybe, we probably just got lucky with a couple of really good launches that have gone ahead?

Deirdre Mahlan:

Yeah, I think it was mentioned earlier, but that we have shifted our innovation strategy to move more to recruit and disrupt, which were more sustainable platforms for brand growth because they access new categories or new consumer occasions.

So, for example, say, five years ago, a significant amount of our innovation in the US was re-recruit. And that would be something where we're just bringing new news to the consumer, same category, same occasion. So, another flavour on Smirnoff, for example.

The shift to really focus the development of our innovation to recruit and disrupt creates a more sustainable platform. So, Crown Royal Regal Apple was a totally new consumer occasion. It had a very small cannibalisation effect because it was a new occasion. Same thing with Ketel One Botanicals, which is accessing volume from another category.

So, this is an opportunity for us. And, when we're thinking about ideation and liquid development, we are focused on premium plus innovation as well as recruit and disrupt, which have more sustainable platforms.

It doesn't mean that re-recruit isn't good and important to bring new news to our brands. It's just the re-recruit, for example, like the limited time offers, that creates, and continues to create, excitement and supports the trademark, but the recruit and the disrupt is where you're actually lifting the entire performance of the business on a more sustainable basis.

Nadim Rizk:

Yes, this is Nadim Risk, Fiera Capital. The question is on margins. If I look back five plus years, the margins in the US have expanded significantly. Maybe you could tell us what were the main drivers behind that margin expansion, and why your margins are significantly higher than a lot of the other competitors in the US, and how sustainable that is?

Deirdre Mahlan:

First, yes, we did have a significant expansion in margin for a number of years. That was being driven by productivity gains, by pricing and by mix, sorry, premiumisation or mix.

We have a premium plus portfolio, and so we have a good collection of brands at premium plus price points, which allows higher margin.

We also have scale benefits across our cost base, which I believe also creates a good margin enhancement for our business.

So, the reason why, you know - I can't speak to why our competitors' margins are what they are. I can say that we feel confident in our margins.

You'll have noted that our margins have dropped back a bit as we've invested ahead against our brands, and this was a deliberate move by us because we really felt that we needed to utilise those consumer assets and really build the equity of our brands so that we can sustain that growth over the long-term.

As you pointed out, our margins were still very strong, and we continue to believe that they'll remain strong.

Judy Hong:

Thank you. Judy Hong from Goldman Sachs. So, I think you talked a lot about making targeted investments and reallocating resources to generate higher returns. I'm just curious where you stand on the overall spend level today, and whether you think that there are areas where you are underinvesting, perhaps, either by brands or categories. Thank you.

Deirdre Mahlan:

We have done a lot of work in the past two years, really, to assess whether or not we have the right level of investment. We've significantly increased our share of voice in media. I think I mentioned we increased our media spend by 60%. We feel good about that spend. We continue to evaluate where we need to spend. We've increased our reinvestment rate by a full two percentage points, and actually feel good about the level of investment that we have.

That's something that we're going to invest in and continue to evaluate every year, depending on what the competitive environment is.

So, if we believe that we need to really ensure that the attributes and benefits of our brands need to be heard more, we'll amplify it and we'll spend more. But, I feel good about the levels of investment that we have.

Questioner:

Deidre, I think you mentioned industry pricing has got a bit better in the last few months. Can you just elaborate on that? What's driving that, and also pricing across Diageo's portfolio, meaning pure pricing?

Deirdre Mahlan:

I'm just looking at pure data. If we look at the data across the market over the last three months, we are seeing improved pricing. My view is it's showing up mainly in a lower intensity of promotional activity rather than top-line price.

We are seeing some pricing across aged liquids, including whisky and tequilas, and that would be supporting some of the pricing. So, that is what I think has driven the industry.

We are seeing positive movement. It varies month to month, but is in positive territory, which is encouraging because it hasn't been in the past.

In terms of our own investment, I mean we make price adjustments and price increases and evaluate promotional activity on a regular basis, and we aim to, you know, support our brands, as we invest in our brands, to be able to take prices where the competitive environment is appropriate. So, that's something that we evaluate on an on-going basis, and we will continue to look to seek value through both efficient promotional activity and pricing where appropriate.

Questioner:

Over the last years, your pricing has been quite muted and, you know, given the investments you've put through to the portfolio, do you feel more confident about pricing perhaps becoming a bigger driver of your top-line over the next few years?

Deirdre Mahlan:

Yeah, I think sometimes the net number can be a bit deceiving.

We had some - in some specific states, in some specific categories, mainly vodka, we had to make some price adjustments that we felt were appropriate. I think, in some ways that masked where we were actually taking price across other categories.

So, it is true, it's been muted overall, but we thought that was appropriate given what the competitive environment on that was.

Now, as we've increased the investment in our vodka brands, we're feeling more confident about our overall pricing positioning, and, actually, we're now looking at, through our net revenue management programme and capabilities, we're looking at things across categories to make sure the indices are right. But, frankly, I, overall, feel more optimistic about the pricing environment in the market right now. That could change, but, right now, I'm feeling more optimistic.

Questioner:

Thank you. There's an argument, and some historical evidence, that, in the US, you have these long generational waves, Brown Spirits to White Spirits to Brown Spirits. Do you believe that that way of thinking has any credence going forward?

Do you take it into account as you look at long-term brand capital allocations over the next five years? And do you see any, perhaps, early signs that these, kind of the Brown Spirits' renaissance maybe slowing down or that something else is emerging?

Deirdre Mahlan:

Yeah, I mean, of course we look at long-term trends. You know, we look at them routinely. We are in a business that has aged product. It's really important for us to understand long-term trends historically and going forward.

That said, I remember, in business school, one of the first things they taught us is prior experience is not a good predictor of the future. So, for that reason, we're very focused on continuing to access consumer insights and really staying vigilant about what's happening in the marketplace.

So, in general, I think it is true, historically, if you look at the data in a particular way, that there have been periods where certain categories have either been in favour or not in favour.

I mean, the consumer tends to always look for what's relevant and interesting, and we see some of that happening today.

So, I think that those suppliers that have the broadest available assets, which we do, across many categories, and have the right insights will win regardless of which category's going to be in favour. And that's the approach we're taking.

Nico von Stackelberg:

Hi. Nico von Stackelberg from Liberum. Could you please help me identify which occasions are particularly vulnerable to cannabis? So, you've probably already seen some occasions that are under threat.

And then, secondly, Diageo continue to be reticent to say that they'll grow above the industry growth rate in the US, so is that still the case, that you do not expect to outgrow the industry? Thanks.

Deirdre Mahlan:

Okay. First, with respect to cannabis, I'm not going to speak about the specific occasions on cannabis. I will just say cannabis is very new in this country with respect to the regulatory environment, and I think everyone is just continuing to watch and evaluate what's happening. And we're doing the same. So, I won't say any more about it than that.

With respect to the industry growth rate - what I have said, and this might be a good question to end on, is that we feel confident in the performance of our business, and we're going to continue to invest to ensure that we can grow our business on a sustainable basis going forward. And so I'll leave it at that.

5. Beer – John O'Keefe and Mark Sandys

Nico von Stackelberg:

Hi. Nico von Stackelberg, Liberum. One of your competitors is getting tax breaks in Africa for using local ingredients, and it also helps make beer more affordable for the people so they can trade out of illicit trade. It's a nice win win win. Are you getting those same excise breaks, and if not, why not? I'm just trying to understand why you're not doing that.

John O'Keeffe:

Yeah, no, we're getting very significant breaks. And, in fact, you know, I believe we've got best in class, use of local raw materials, and, therefore, I feel that we're quite competitive in the amount of breaks that we're accessing.

And, in fact, we've been quite active in both shaping the regulatory environment, but also adapted our supply stream in order to benefit from that, both in West and East Africa.

Nico von Stackelberg:

Great. Thanks.

Andrea Pistacchi:

When you look at the beer map you were showing earlier, and where you are with Guinness, there are quite a few important beer markets which are really premiumising where you're not present, for example, most of Latin America. What is the issue there? Is it difficulty in finding the right partners given the consolidation of the market or anything else?

Mark Sandys:

Latin America, if I take that one - we have a long-standing business in the Caribbean where we've been for a long time, particularly in Jamaica and in the other markets around there.

We've recently signed a partnership in Mexico, and looking at how we can also find new partners across Latin America following the model that we have successfully in Europe, for example, in our partner markets business, and then out across Asia as well.

Question:

Can I just ask about Stout within the US market? I think, a while back, it was, you know, pretty negative, and it's gone back towards mid-single digit growth. Other than the Baltimore Brew, what's really driving that, and do you think that's sustainable?

Mark Sandys:

I think the driver of that is what John referred to as that flight to flavour. So, that Premium Speciality segment growing rapidly, that was a global figure, but you would see the same taking place in the US. And you know we're sharing some figures with you recently about how better beer is growing much ahead of mainstream beer, and, again, that lines up more premium, more flavourful.

Some of that is IPA, some of that is Stout, but it's that shift out of kind of lighter beer towards more flavour. And we're benefiting from some of that.

There's also a lot more that we're going after in terms of that growth as well.

Question:

The shift towards Craft has been going on for, you know, at least a decade or so. What's really got Stout going again as a sub category within Beer?

Mark Sandys:

I think we have a hand in some of that, but, also, one of the things I find really interesting, actually, is, if you look the most awarded, or the most rated beers on any of the beer rating websites, you'll often find stouts are up there as the most sought after beers. Sometimes that's in terms of kind of barrel age stouts and niche and rare offerings.

What we're trying to do within Baltimore is to take that to a slightly broader audience.

There's a great history, actually, of barrel aging on that site. We used to barrel age rum there for years and years, and now we're trying to do the same with Guinness.

We had our first release of Guinness aged in bullet barrels last year. 5,000 cases went extremely quickly at extremely premium price points.

And I think it's that depth of stories that's there within Stout that's enabled that to grow.

Tristan van Strien:

Thank you. It's Tristan van Strien from Redburn Partners. We've seen a lot of erratic pricing behaviour in Africa in beer over the last two years, since September 2016. Do you see that changing in the markets like Tanzania, South Africa and Nigeria, and how's that environment evolving?

And, maybe related to that, your decision to launch Guinness Gold as a lager in the Premium category that’s shrinking quite a bit, what's your thinking around that?

John O'Keeffe:

Yeah, thanks, Tristan. Look, I think pricing has been relatively muted across Africa. I think what we're seeing is a real divergence between oil producing and non-oil producing countries.

So, I think oil-producing countries, like Nigeria and Ghana, Southern Sudan, I think the consumer's still quite distressed and, therefore, I think it's very difficult for pricing to get away.

I think, in non-oil producing countries, we're seeing more robust pricing again. So, you know, countries, particularly on the eastern side of Africa where oil is less dependent, I think pricing has been coming through on that.

I think our decision to launch Guinness Gold is because, even though Value beer is still growing because of that consumer distress in Nigeria, we've actually seen Premium tip back into growth, which is very encouraging for us, because we haven't seen that in a while in Nigeria. And the fact, you know, that Beer category in Nigeria was in decline up until Christmas time, and now it's just tipped back into growth.

So, we're seeing some encouraging signs, albeit the macros are still difficult in Nigeria, that the consumers are beginning to shake it off now. And so we think it's quite timely for us to enter with a brand that's now priced with Heineken.

Early days, but off to a good start. We've just launched that in just Lagos to start with. Thanks, Tristan.

Eddy Hargreaves:

It's Eddy Hargreaves at Investec again. Can you describe the trends across your portfolio in terms of women drinkers? You know, to what extent has - has that proportion increased over the last two or three years, and any difference between Africa and the rest of the world?

Mark Sandys:

Good question. If I start with Africa, actually, Guinness has a very high percentage of female drinkers in Africa. Cameroon is the market around the world that has the most number of women drinkers of Guinness. 45% of our drinkers in Cameroon are female.

You might have seen, running on some of the TVs out there, we have an ad running - which is about the Captain of the Cameroonian Women's Football Team, for example, as well. That's true at different levels across all of our African markets, actually, and it's partly how we get such a broad based penetration within Africa.

It's fair to say that, with Guinness in the developed world, we're more skewed towards a male consumer, but one of the things we see differently around Craft Beer and around the way that we show up in places like the Baltimore Brewery and in the Open Gate Brewery in Dublin, is that's much more of a mixed gender group. And that's quite deliberate from us. That's something that we're going to do more broadly.

We have a great Guinness and Food Festival coming up in Dublin in the summer. And, again, that's around 50/50.

We're seeing, interestingly, in the Open Gate Brewery in Dublin, one of the biggest groups of visitors that we get is first dates coming there.

John O'Keeffe:

And I think the other thing I would add is, certainly in Africa, the increase in penetration of Spirits we think is a very positive thing for a whole host of reasons, including the fact it's got, I think, offerings and drinks that are much more suitable to female consumption, and we're seeing that in our numbers coming through actually on the Spirits data.

And you can see, I think, in many ways, in Africa, a lot of the choices were very male-centric up until recently, and we're seeing, certainly in the new court of drinkers coming through, that being much more balanced.

So, I think there's still a way to go, some of that's culturally driven, but I think, as we make broader offerings available, and as we broaden to TBA, into Spirits, I think that will pull more choice for women into that as well.

Robert Ottenstein:

Given the very attractive profitability of the business that you discussed at the beginning, you know, the iconic nature of the brand, the brand that, you know, is very on-trend in many ways, is there perhaps an argument to be made that Diageo, as a whole, should be perhaps a little more assertive in terms of growing Guinness globally, you know, in other markets, a little bit more focus, a little bit more muscle outside of - of US and Africa and a few countries in Europe?

Mark Sandys:

Well, we're very clear that we want to grow share in the markets where we're competing. That plays out in different ways in the markets that we're directly operating versus in our partner markets.

But, in a number of those partner relationships, we have a very strong track record. At the moment, for example, enjoying great growth in a market like Malaysia, which has a very long relationship with Heineken over there.

In the terms of the markets where we're directly operating, it actually comes back in some respects to what Ed was talking about this morning of how we allocate our investments, and Guinness, alongside our Spirits brands, needs to demonstrate that it will return its investment.

And what we see is, in Europe, Guinness and our Beer brands are amongst the highest of our ROIs that we get within Catalyst, and that's why we continue to invest buying them.

Question:

Hi John. Competition has been stepping up across Africa in recent years. Despite that, you've still managed to maintain, and keep a strong position in Kenya, your biggest market there, and keep competition at bay. What have you done so well in that market to prevent competition from getting in?

John O'Keeffe:

We do have competition in Kenya, there's another brewer in Kenya as well. And I think what we've done in the last couple of years is we've actually used innovation to quite good effect.

We've innovated our main brands, like Tusker. Guinness is now almost as big as Tusker in Kenya. We've laddered down, very successfully, to really increase the size of the pie, which is back to that illicit point with Senator. Senator now is one of our biggest beer brands in Africa based on the success in sourcing from illicit in.

And then, interestingly, for us, in Kenya, the big opportunity we had was in Spirits, and, you know, our share of Spirits was sub-50% a couple of years ago, and now it's getting close to 60%. And, again, that was driven by us leaning quite hard into the mainstream Spirits opportunity into that level where the emerging middle class are really looking to enter, but, unfortunately, the IPS brands are just out of their reach. And, I think, we have brought a lot more innovation into that space, and that's really increased our share within TBA, but primarily within Spirits.

So, I think a lot of it, it has been a kind of a restlessness, actually, from the team in Kenya, and some very strong innovation across both the Beer and the Spirits business.

6. <u>Final CMD Q&A – Ivan Menezes and Kathy Mikells</u>

Trevor Stirling:

Hi Ivan and Kathy, Trevor Stirling, Bernstein. Tito's has been a phenomenal success in the US. Do you see any sign of that momentum slowing or and indeed perhaps more worryingly any sign of it getting traction in other markets and what can you do to pre-empt that success?

Ivan Menezes:

I would say it’s an incredible brand, very strong, continuing to do well, on trend. It is showing up in more places internationally and we’re very aware of it. We’ve got a lovely portfolio in vodka internationally. I mean Ciroc is very healthy outside the US. Ketel One as you saw is the bartender trending vodka so we’re very focused on making sure of our vodka leadership outside the US, we establish these premium and ultra premium and super premium brands, particularly Ciroc and Ketel One.

Trevor Stirling:

If you look back is there anything you’d do differently in the US if you could have somehow slowed the growth of Tito's?

Ivan Menezes:

It’s very hard Trevor. I’d say that there is an element of cultural moment and serendipity in terms of how brands sit and take off. Tito's have done a phenomenal job so all hats off to him and the way he has built this brand.

But once brands gain momentum and they hit the cultural zeitgeist, right, of the craft credentials and it’s not like the whole world of vodka isn’t trying to do something right. Which is the lovely thing about this business because we've got some of those brands which are doing phenomenally well and it's not so easy.

You don't kind of create a product and do advertising about better functional delivery or something. So as we look forward we want more than our fair share of the development of the next generation of brands.

And that's what we're much more attuned and equipped to do I'd say both organically, acquisitions, distil benches, that's our goal. We really want to make sure we get our share of the development of new brands in the next 10, 20 years, 30 years.

Trevor Stirling:

Thanks very much Ivan.

Analyst, Morgan Stanley:

This morning we talked about the strong growth of gin in Europe and that was clearly a massive highlight in in your last results. What are the barriers in the US for gin to take off?

Ivan Menezes:

You heard Deirdre and Ed talk about, they're going to try and stoke the Ginaissance in the US. I'd say Tanqueray is the brand to do it. So we will be doing some things trying to get it going. I'd say till we see it there's no point speculating.

There are some different new answers in the way the gin market has developed and operates here. What we are doing with Ketel One Botanicals and Smirnoff Infusions is playing into that territory.

The quality of tonic historically has been terrible. Tonic is polarising, gin is polarising. I mean that's why vodka has had the huge surge. So there are some dynamics in the US consumer historically, I'm not saying it won't change. But we'll see. We certainly are going to try to be the instigator of getting it going in the US and we'll test and learn our way through that.

Kathy Mikells:

And in the meantime certainly we're seeing gin really start to take off in places like Mexico and Brazil and South Africa and Australia. So even though gin hasn't taken off in this market that we're sitting in, we are seeing it really pick up momentum in a handful of other markets and we're absolutely getting behind that.

Ivan Menezes:

And you are seeing some trends in the leading edge bars with bartenders and mixologists. There is a level of interest developing at the top end of the market but it's very early so we'll need to see in the next few years.

Nico von Stackelberg:

Hi, Nico von Stackelberg from Liberum. I just want to ask about your buyback. I saw the shares briefly touch an all-time high today. And as you consider your buyback are you assessing the valuation of Diageo and would you consider a special dividend instead of a buyback if the share price remains high?

Kathy Mikells:

Yeah so that's a - a great question. So, we're always assessing what we view as the intrinsic value of Diageo relative to what we're repurchasing in shares, looking to drive value obviously by repurchasing shares at a lower price point than what we would view intrinsic value to be. And that's a conversation that we have with our Board regularly.

And you heard me talk about kind of future capital allocation and I said annually our Board is going to make the decisions around what the size of that is right, and also what the vehicle is. So that's an active conversation that we have with our Board.

Laurence Whyatt:

Hi Laurence Whyatt at Barclays. You've done some significant cost savings over the past few years. Have there been any with unintended consequences that you've had to roll back?

Kathy Mikells:

I'd say there's always testing and learning. You know I've done some things where I downgraded a job and said that didn't work; I need to upgrade the job. But overall we're always focused on doing things in a way that's sustainable for the future.

Many times I've talked to investors and said you know it's - it's not easy but many times companies will show up and say we're going to cut kind of 10% of our workforce in the next 90 days right, and it's possible to do that. It's very difficult to do that and then sustain those kinds of benefits.

So you know in my presentation I was very focused on trying to talk about how we look to drive change across the business in a way that's really sustainable. And as I look forward over the next couple of years for where more efficiency gains are across the business, I'd say more of that's going to come from intelligent technology deployment.

We have centralised a lot of our activities into shared services. That is helping us, you know, to start to standardise more of our processes which is what we need to then apply more intelligent automation to them which I showed you in the video that you saw.

So as I look forward I'd say the way that we're going to go after incremental efficiency gains is going to be a bit different than we have over the last three years, that shouldn't be surprising. But we're absolutely going after it in a way that's sustainable for the business.

Ivan Menezes:

I would just add that if you look at our productivity and efficiency and cost savings drive, the thing I'm really proud of, everything the consumer touches, sees, enjoys, packaging, liquids, advertising, engagement, has only gone up in quality, only gone up.

And one of the guiding posts in all our cost efficiency programmes which the team has done a really good job with, we haven't compromised, we've only improved the quality that the consumer experiences. And you see it on all our brands.

Where we've driven the efficiency has been in things that the consumer doesn't see or value and that's been something I give the team a lot of credit for getting that balance right. And that - that's been I'd say a key hallmark of the efficiency productivity drive in the company.

Laurence Whyatt:

Thank you. And if I could just have a quick technical question on your guidance, do you think you have any announcement obligations in year on either the mi- single digit top line or five to seven organic profit growth?

Kathy Mikells:

I'm not sure I understand the question.

Laurence Whyatt:

If at any point in the year you think you are going to exceed or - be below your guidance, do you think?

Kathy Mikells:

Okay thanks, you know we typically give incremental colour at the beginning of each fiscal year to help to give you kind of a little bit more guidance on within a midterm period of time what are we thinking for the next year.

So when we get to our July preliminary results we'll try and give you a bit more colour on how are we thinking about fiscal '20.

And then I would say certainly we're always under the obligation if we have some big new material information to disclose it to investors on a timely basis.

Laurence Whyatt:

Thank you.

Tristan van Strien:

It's Tristan van Strien from Redburn Partners. Kathy I just wonder, I know it's a non-IFRS and it's a non-gap measure but your decision to change the organic growth measure next year, you currently have probably the best operating practise in terms of how you measure organic growth within staples by taking this year's rates, current rates. You're now going to change it to last year's rates which basically calculates organic growth which includes the inflationary benefit before the currency mechanism corrects. What is your thinking in doing that because your inflationary economy so basically going to contribute more to this measure now?

Kathy Mikells:

Yeah I think what's important for people to remember is we only use those organic calculations to give you kind of year - year on year change right. And today we have what I would say is a very inefficient practice which is we have management reporting internally kind of done one way, and external organic reporting done a different way.

So I'd say that creates quite complex processes for us internally and it really isn't best practice just from a management perspective in lining up how you're measuring things internally to how you're measuring things externally.

Now importantly I wouldn't make the change if I thought the change was going to materially move how we have been reporting those year on year changes on an FX neutral basis right.

So in my talking points I mentioned we have back tested this right, to give ourselves the confidence that there really isn't a material difference in terms of creating that FX neutral measurement on a year on year basis, based on whether we're using current rates and then changing the prior year rates or doing it the other way around which is what we intend to change too.

But it's going to drive real simplification and efficiencies internally and I think it does line us up to a much better practice in terms of having that symmetry to how we're measuring things internally and how we're measuring them externally.

Tristan van Strien:

Can I just ask how far you back tested this because if I look at your period when you went through Venezuela would have looked really good you know? If I look at the Nigerian devaluation, all those markets basically would have added 40, 50 bps a year.

Kathy Mikells:

Yeah. And so again it's just on what that year on year change is and we back tested it five years already. So I feel very good about the change and that it isn't going to be material. And we'll talk to you more about that as we get into fiscal '20.

Nadim Rizk:

A question I guess to both of you. This is Nadim Rizk, Fiera Capital. If I look back five to ten years ago obviously margins have improved significantly, even organic growth has improved in the last few years. But it all came while return on capital has significantly deteriorated, where we were talking, low 20s down to now 15, 16.

How sensitive is the organisation to ROIC or other capital measures versus growing both top line and dollar profits versus ROI?

Kathy Mikells:

So I would say the organisation looks at a whole host of holistic financial measures in terms of how we make our decisions and how we run through management reporting kind of month to month, quarter to quarter. And return on invested capital is clearly one of the KPIs we focus on. We showed it up here on the page and I'd say I've been really pleased to see our return on invested capital improving over the last couple of years.

Now some of the key things that can move return on invested capital kind of more materially right is big FX movements in any given year. And then occasionally when we do something like the acquisition of USL right, we put a big asset onto our balance sheet relative to the initial income that we get from that asset.

So we always have to keep in mind that we've got to invest for the future, and some investments are not immediately accretive to ROIC, but it doesn't mean that they're not the right investments to make for the future and to make sure that we have what we need to execute our strategy.

But it's certainly one of the metrics that we're focused on, very consistent you know with what I talked about in terms of driving efficient growth and value creation.

Nadim Rizk:

So would you be satisfied with where the return on capital is today, the overall company?

Kathy Mikells:

Well look I would say our return on in capital is way above what our weighted average cost of capital is. So it isn't as if we're making investments that we don't think are going to earn a return above that.

Would I like to see our return on invested capital a bit higher? Sure, but I've been very pleased with the gains that we've been making. So I would say you know the way for us to continue to improve return on invested capital is getting back to that virtuous circle in terms of really driving strong, top line growth right, both organically and absorbing whatever comes through in terms of FX in any given year, continuing to drive efficiency every day across the business and making sure that we're smartly investing.

So I would say our recipe for how we're operating the business should naturally give us strong returns on invested capital.

Question:

Kathy when you benchmark Diageo across CPG where does Diageo stand in terms of data analytics and user technology? Are you in the forefront relative to peers or …?

Kathy Mikells:

So, I certainly would say as we now look at the data and information we have to evaluate A&P spend as an example, I think we're absolutely at the forefront now.

It's going to depend on different areas. You know we're a company that's not quite at the same scale as some of the other companies that certainly we would and you would consider us to be in terms of peers. So there's some technologies that won't come into I'll call it economic solution for us because our scale hasn't been large enough.

I feel very good about what we're driving in data analytics across the company right. I think everyone has access to data. In some ways I'd say we probably all have access to too much data these days.

It's really taking that data right and using it in a way that's really pragmatic and impactful for the business and hopefully, you know, you've heard today and you saw a little bit in the digital showcase last night how we're taking that data and using it in a real tangible way, to look to drive competitive advantage in the business.

Question:

Do you think that's the best way to recreate some barriers relative to smaller competitors?

Kathy Mikells:

So I would say that's the way that we look to help maintain a competitive edge in the marketplace.

Question:

Ivan what do you consider the biggest risks out there? You've mentioned sort of where you're unhappy about Captain Morgan and some of the other brands, but what are the biggest risks out there for you?

Ivan Menezes:

I would say it is around staying on top of the disruptive forces and ensuring we are very attuned with a good radar to understanding how they're moving. And this could be things like consumer behaviour shifting, consumer attitudes, how they socialise. I went through the list - this morning.

And what I feel good about the company, and in fact this is an area with the Board we spend a fair amount of time with our strategy team, is really diving into these and understanding the implications in a way where we because change brings threat or opportunity.

And where - while the core business is now in better shape, we're creating the capacity to really stay much closer to what some of these shifts would be. And whether it's the base of ecommerce in China or tracking Cannabis here, I mean all of that is I would say getting more attention and focus, or our ability to deal with volatility. So I'd say that's one.

The second broad area and I'm pleased with the focus both us and the industry is putting on it, is the role of alcohol in society. I mean we've got to be very front footed, very proactive in ensuring we play our role in reducing alcohol harm and misuse.

And on that front too I mean a lot of the trends are very positive in terms of how they're moving on heavy episodic drinking, drink driving, underage drinking. So I'd pick out those two areas.

And it's certainly something that as a management team and with the Board we spend a good time on to make sure we stay ahead, particularly of disruptive shifts that might happen.

Question:

Congratulations on reducing your T&E expenses by 35%, but that - however that makes me think of overall US corporate T&E for all companies and how the ability to - to expense T&E went away with the tax reform bill in 2017.

Given how much business was affected by China's gift - crackdowns a few years back I - I'm curious whether you're seeing any effect of the - the tax changes on T&E in your US revenues?

Kathy Mikells:

Yeah so I would have said no, we're not at all really seeing any effect. I mean you have to realise that T&E is a pretty small amount of our spend across kind of our total spend. And while tax reform had different impacts on different companies, I would say we didn't take tax reform into consideration and what is it that we do with our T&E spend.

And the biggest reductions that we were able to achieve in T&E was really all the travelling that we were doing to talk to each other across - across the globe. You know we don't want to reduce T&E when it's about salespeople kind of meeting customers.

And so through some of the new tools that we have, I mentioned Zoom which is really inexpensive video conferencing, you know that really helps to enable a much richer experience kind of virtually for us to connect across the globe.

Question:

Sorry I think I must have asked that question wrong. I'm more concerned about -

Ivan Menezes:

The demand for our products.

Question:

Non-Diageo T&E spend.

Ivan Menezes:

No it's not a big factor. We haven't felt an impact on it. And I'll tell you when it happens actually. China is a good example, when the whole shift in gifting and entertaining took place in China, what we have today is a much healthier business because it's based on personal spending and personal consumption.

So in markets which historically, and Japan in the old days had it, Korea has it to some extent, China had it, but in the US it's not an issue. I mean 80% of our business is at home entertaining and the on trade so it hasn't impacted us.

Question:

You've been pretty pragmatic in terms of managing the portfolio over the last few years with bolt on acquisitions but disposals as well. Are there room for more disposals? Do you see further non-core assets in the portfolio?

Ivan Menezes:

I'd say we - we never say it's done, but for the most part if you look at what we've done the core businesses which were non-core, non-strategic I'd say we've dealt with. Will there be fine tuning here and there? There could be but I'd say with this last piece in the US I feel very good about the portfolio we have now.

Andrea Pistacchi:

When you look at your margins around the world where you think they should be, where they are, US, Africa etc. where do you see - where do you see opportunities? Africa is the one region that stands out where margins are quite significantly below where they were a few years ago.

Ivan Menezes:

If you look firstly at the last couple of years, what I'm pleased with is the improvement in emerging market margins that have come through in fiscal '18 and you see it also in our first half results. That has been very deliberate in terms of our strategic focus and in part has enabled our ability to invest, step up the investment in North America and scotch and Europe as well.

Firstly all businesses have the route to margin improvement over time, but some of our emerging markets where we took the big hits, like Nigeria has gone through a dramatic shift and the impact it's done to margins, those will rebuild but we want to rebuild them in a quality way.

I was having a conversation I think at lunch. We don't want to do kneejerk reactions and pull out of markets because some of these markets come back. And most of them do. And so we want to make sure we do it in a sensible way.

But there is more opportunity still in Africa and in the emerging markets. Anand talked about India where we still want to ensure we keep getting that steady margin improvement.

Andrea Pistacchi:

And if I may linked to this I mean five, ten years ago it was all about thinking of where the reinvestment is going. Five, ten years ago it was all about emerging markets. In the past three or four years big focus as you were saying on the US and Europe. Is the future a bit more balanced?

Ivan Menezes:

Yeah I think one of the distinguishing factors of investing in Diageo is we've got attractive developed markets for spirits with our position there. Clearly the US by far and Europe as well. And we've got the runway of demographics and penetration and the shifts - in the emerging markets coming through.

Now the emerging markets are going to be more volatile and I think we're savvier in terms of just getting that balance right. We haven't talked much about Europe today but if you look at the Europe performance it's very impressive.

I feel it is a distinguishing factor for our company is we've got attractive, profitable, developed market growth and we have the long-term runway in emerging markets with the volatility.

And so what we are trying to balance here both in portfolio and in geography is to work all of that in a way that we can drive more resilient consistent performance because we will be hit by things in emerging markets, it's just a question of when and where.

And so we need both to work and I think we're getting the balance right and as you pointed out we are expecting better margin expansion in the emerging markets to come through where we had gone backwards in places like Africa due to some of the shocks we had in important markets there.

Okay, well thank you again very much for spending the time with us. We really appreciate the interest in the company. We hope to continue to be good stewards of your capital and I hope you got a good feel for where we are and where we're going and got to meet members of our team here. So thanks very much again.