Diageo – Capital Markets Day – 9th May 2017 – Question and Answer transcript

1. Marketing – Using insight and measurement to drive brands performance
Syl Saller & Andrew Geoghegan

James Edwardes Jones: The marketing catalyst system seems to identify where marketing's working so you can put more resources behind it. If it's that new, what were you doing before?

Syl Saller: Before we would've been using econometric modeling and equity data in -- econometric modeling in our biggest markets and equity data as well as sales data to determine it. What's different about this is the ability to do it much more easily, much more consistently across brands with a comparable currency.

Chris Pitcher: Question not audible – question was about Scotch whisky and whether we could be more transparent about the individual whiskies in our blended scotch brands to help build the marketing story.

Syl Saller: So if I understand the question is why -- why are we not more transparent about what's in the blend. Increasingly, we are talking about what's in the blend. We have found that really works, for example, in that bartender work that I talked about with Johnnie Walker, which malts go into the blend because it's quite an impressive lineup.

But we don't get very specific about that because we feel that that is competitively sensitive, I mean our Johnnie Walker recipe is under lock and key. And what?.... one person in the world probably has access to it and that's Jim Beveridge, our master distiller.

Questioner: Question not audible

Andrew Geoghegan:

Yes, OK, so we're -- we are of course incredibly interested in the short term impact of marketing spend, because we know that that will typically double or triple over the long term. But we combine in the system not only understanding what econometrics and also macro data, but also brand equity, which we use to measure the long term way that we're building brands in our consumers mind.

We're interested in the mental availability that we create, the types of assets and memory structures that we create with the brand. So we combine the system which has both equity data and the short term understanding that we have from econometrics, which by media type, we're very clear on how it translates into long term.

Syl Saller: So let me elaborate and fill in what -- the -- the ability the catalyst gives us is -- is quite incredible, but it is not sort of push a button and get your answer. It still requires strategic judgment. So, big brands have advantage, typically. They'll show a faster return in the -- in the short term because you've built up people, brand awareness, what -- what Andrew referred to in terms of people understanding mental availability.

Something that's new will have a lower return. And so a typical conversation with the brand team is they'll say "oh, but it's going to return over the long term". And what we can do with catalysts is say OK, well we've been doing this for three years, let's look at the three year data, is it moving in the right direction? So there's strategic frameworks that are applied to the numbers to make sure that we're getting that balance between brands which are returning this short term, and brands which will take longer to get that level of return.

Trevor Stirling: Morning, Syl. So occasion based segmentation, to what extent can you make that compatible across countries and indeed the relevance for brands, I imagine that the occasions in India are very different from the occasions in the -- in the U.S., for example.

Syl Saller: Yes. The methodology is consistent across countries, so we have a lot of faith in that because it's been proven in the U.S. and Europe. The occasions will differ depending on the country and that's why we have to go country by country to establish this segmentation framework.

So you'll see when Deirdre talks about the U.S., it's going to be a slightly different language than we use in Europe. But there's -- there's harmony too that we find when you really step back and say is that one like that one?

Andrew Geoghegan:

Yes, now we have data from trade markets, what we've been able to find is there's power in understanding the local nuance, so what makes it culturally very distinctive. But actually when we aggregate back across the three markets where we piloted this work, we see there are five pretty consistent types of occasion, things like casual get together, big night out, those kind of things. And so it enables us to navigate with our global brands in a very consistent way, but actually activate in a very nuanced and local way.

Trevor Stirling: Thanks very much.

Sharon Rolston: Time for one more, Fernando?

Fernando Ferreira: Very interesting data and are in the -- the presentation of Baileys. But I was curious to -- to learn what -- what sort of data telling you about your vodka portfolio in the developed markets, especially around Smirnoff and Ciroc, if you could make two comments there.

Syl Saller:

Yes, Deirdre's going to talk on this at length, so I'll just give a top line answer. What -- what we see now is that our work -- I think what's really interesting in the U.S. is not so much the data side of that, we can look at the data side and we can understand some of the occasions. We're less advanced to this particular work on the U.S.

Our insight work tells us on Smirnoff, for example, that people are looking not only for messages around our inclusivity positioning, but also around quality and Deirdre's going to show you some of that work. On Ketel and Ciroc, we're understanding that people -- that there's much more of a female skew to Ketel, so we need to get after that. And on Ciroc, we need to build the core brand to equal the power of our massive flavour launches, so it's not quite in the space of this data the work that we're doing in the U.S. But you'll hear more from Deirdre, on that.

Fernando Ferreira: Thank you.

2. Diageo US Spirits
Deirdre Mahlan

Mark Swartzberg: JW red you called out as not doing as well as the larger trade mark. Could you give us any details on why it's not doing well? And what your plans are?

Deirdre Mahlan: Yes, I think it's fair to say that we've not invested in Johnnie Walker Red for some period of time, our focus in the US has been on more premium variants of Johnnie Walker. We have through the consumer insight that we've done, both and in particular in the multi-cultural consumer, we saw an opportunity and in fact other markets, Mexico for example, had done some work on Johnnie Walker Red with success. We tested it and have seen a really good response on a sampling programme for Johnnie Walker Red and ginger, which we call "Johnnie ginger", and we're going to expand that nationally because we think there's a real opportunity to build on the strength of the consumer focus on whiskeys at the moment.

Mark Swartzberg: And the up weighting you mentioned in spending for the second half in entirety of the US portfolio. Can you give us a sense, is Johnnie Walker a disproportionate beneficiary of that….just trying to get a sense of where that up weighting is going?

Deirdre Mahlan: It's against the core brands so I would say Johnnie Walker, Smirnoff, and Captain Morgan were the primary recipients.

Eamonn Ferry: Correct me if I'm wrong but I believe you previously said that your ambition was to exit F17 in line with market or above. Is that still valid?

Deirdre Mahlan: Yes, I think that given super premium vodka, so Ciroc and Ketel One performance, has been weaker than we expected so we don't anticipate exit at the same rate as the industry growth rate – we'll still be a bit behind.

Eamonn Ferry: And as we look to F18, how do you feel about your growth rate compared to the market?

Deirdre Mahlan: So, I certainly don't have a crystal ball but my goal will be to get back to industry growth and of course as the market moves on we'll get a sense of that. But that certainly is our plan, to get back to or exceed market growth in F18.

Simon Hales: Could you just confirm that you're now happy with the price points in core within the US and maybe price points of high end vodka and how you think about that? And secondly, you referenced the portfolio brands, what are you doing there strategically to try and stem that decline?

Deirdre Mahlan: On the pricing, we had made comments about this and you'll have been able to see this in the industry data, we did make some adjustments to pricing on the core in F16 and the first part of F17 and to get our brands back in line with our own brand strategy. I just want to be clear, we did not reposition our brands, we just brought them back. If you recall we had taken successive price increases for a couple of years which were not followed by the industry so we were outside of our own strategy. And we made those adjustments and they are made. So I'm not expecting further pricing adjustments relative to that point.

And with respect to pricing more generally, we evaluate that on an ongoing basis and take price when we think it is appropriate.

On portfolio brands what we have done is, we now have…and we have had data, but I would say our insights on our data have improved. We have significant amount of data where we have better information on elasticities. So we have been able to make some adjustments again on the value brands where we had taken successive price increases for some time. Where we saw the elasticities would be where we have made adjustments. So that's one piece.

We have effectively segmented the portfolio into 3 different categories. One where we believe there is opportunity to invest above the line and make progress. A second where we need to make sure we have the right occasion and the right price. And a third where we're effectively just monitoring and maximizing them for value. So we believe that looking by breaking them down and being really clear how we are approaching each of those groups that we are going to improve the ultimate trajectory.

Andrea Pistacci: Slightly more general question on the pricing environment in the US,
in the past 12 months more or less pricing seems to have softened slightly with a bit of less pricing also on brown spirits. Do you see anything structural in this or you are optimistic that pricing will resume and when?

Deirdre Mahlan: I don't think, I don't know if anything structural. There has been no a lot of inflation in the US, there has been quite a lot of competition in some of the categories and as you have mentioned, there's pricing across some brands and categories, it's not like there is no pricing, so I don't see that there's a structural shift in the US market and certainly it would be way too early to conclude that based upon the last couple of years shift in particular because as you mentioned prices coming through just depends on which brand and category it's at.

Mitch Collett: I was just interested in the timing of your up weighted marketing investment. When was that made? Because the industry data certainly suggests that market growth has slowed in your performance gap to it hasn't been improved. Is that something that's happened relatively recently and therefore we will see the benefit in a few months?

Deirdre Mahlan: I would say two things about this. One is when you make an investment in brand spend….in particular in the 3 tier system in the US and in spirits which is not quite as fast as FMCG. You know, there is a bit of a lag between up weight in spend and consumer response, ok, so I'm not saying it's a year but there is a bit of a lag so if I spend in March I'm not or I may not get an uplift in April. Some types of spend return faster than others but there's not necessarily an [immediate] uplift. So I just want to make that point more broadly. The second point is that the spend would have been toward the end of the first calendar quarter, so fairly recent, the up weight in spend in the second half.

Mitch Collett: And one quick follow up if I may. The marketing catalyst tool we talked about in the last session. Has that been rolled out to your distributors because I think you said it was given to some partners? Is that in the US?

Deirdre Mahlan: No. Its agencies, it's a marketing tool so it would be used by the marketers. So we would certainly use it and engage with our distributors about ensuring we have the right kinds of activities but they wouldn't be using it. They would be more focussed on sales execution than the actual marketing investment.

Mitch Collett: Thank you.

3. Diageo Africa
John O'Keefe

Javier Lastra: Just one quick question, I just wonder if it made sense for you to consider the acquisition of a local mainstream spirits company in Africa to compliment, strengthen your route to market.

John O'Keeffe: Yes, I mean we certainly wouldn't rule out inorganic opportunities. I have to say though, based on the experience we've had with the launch of brands like Orijin Bitters where we went up against a very big local player in both Ghana and Nigeria. We were able to make quite a lot of in roads quite quickly with our brands. And so whilst in organic will always be an opportunity, I do feel we've got a lot of our own brands that we can do local expressions for or we've got local brands that we can develop quite quickly to make inroads against its agenda. So for me it won't be an either/or, we will look at that. But right now, I feel we've got quite a strong internal portfolio that we've yet to even deploy fully across Africa, so I think that's where we'll go hunting in the first instance.

Sharon Rolston: Great, Chris?

Chris Pitcher: Hello, Chris Pitcher from Redburn. You talked about all the changes to your Nigerian business and how your organic gross margin expanded, but the shift of value beer and the shift to mainstream spirits has coincided with a period of profitability collapsing such that Guinness Nigeria is probably hovering around breakeven. Your strategies haven't been able to keep up with the devaluation and the currency. How do you path back to profitability in Guinness Nigeria without a change in the currency rate and goodness forbid a second devaluation, which could be on the cards?

John O'Keefe: Yes, so I think that the path to recovery, as you talk about, is broader participation. And I feel that the big difference in our business in Nigeria versus 24 months ago is that we're able to now offer a much stronger portfolio for a very distressed consumer. I'd also say though that we're in a cycle, right?

And though it whilst, I'm assuming that cycle is going to stay tough for quite some time, hence, we're going to continue on our productivity agenda at quite an aggressive pace. That cycle will emerge and I think we will come out of that and hence, why I think it's important that we still double down in IPS, reserve, premium beer as well as now I feel a bit more balanced with our value beer portfolio being above 40 percent. And I'm very encouraged when I mainstream spirits, which by the way is margin accretive in Nigeria, as well as across Africa and I feel we've got quite a strong right to win in that place.

And so I think the path to recovery is -- is to that broader participation, as well as really doubling down on the cost agenda and I think you've begun to see some of that coming through in the numbers I've shared.

Chris Pitcher: And -- and as a follow up, you talk about the potential for international premium spirits, you talk about the localization of production for a lot of your global brands. If we go back to the beer industry over many decades, imported beer was how it started but then that proved to be very difficult to run in the last millennia because of import restrictions and so forth. And it had to move to local production. How do you grow scotch consistently without the ability to produce locally in Africa?

John O'Keefe: Yes, so again, I think that -- I think you need a full -- one of -- one of the benefits I feel we have, one of the unique positions Chris is that we are deploying TBA. I think it is extremely aspirational to consume scotch in Africa right now. So I think that market will continue to grow over time and we need to be present, there.

But as I mentioned, we've moved to local bottling of primary scotch this month in a place like Cameroon, as a way to also offer scotch at a more affordable price point than would've been the case 12 months ago. So I think our learning is, don't rely on the emerging middle class to come through. They will come through and there's a very exciting future for our international premium spirit and our premium brands going forward.

It's one of the reasons why even in the current cycle, we're doubling down in reserve right? Even though we're probably at the most difficult economic cycle in West Africa than we have been for some time, because the opportunity of the medium and longer term is -- is very, very significant. Yes, thanks Chris.

Ed Mundy: John, presumably part of the reason for the higher profitability of mainstream spirits relative to beer despite the lower retail selling prices is -- is an excise advantage for -

- for mainstream spirits. Can you talk about that a little bit and how do you protect your license to trade around that?

John O'Keefe: Yes, so I think it -- I think it varies. So in many geographies, there is a more favorable tax environment for spirits than -- than beer. And that is a factor for one -- one of the reasons why mainstream beer is relatively more expensive than mainstream spirits. But again, I think that varies on geography, with geography depending on the -- on the government and the tax regime they're pursuing.

But also, for the other reasons I mentioned, the fact that it is more asset light in how we deploy it and the fact that we can build aspiration along the investment rate. But also critically, we are very aggressive on our cost tramlining and what have we -- and how we go about to kind of produce this and we're learning from our USL colleagues quite -- quite a lot on that front. And we've actually got a dedicated team using some of the experts out of USL that are focused on driving mainstream spirits into Africa and making sure we're codifying and sharing that learning.

It's a combination for all of those reasons, the consumer is much clued into the fact that mainstream spirits is a very affordable option, and that is one of the drivers and has been for the last number of years and I'd expect that to continue going forward.

Ed Mundy I think John, can you just remind us where you are on the CAPEX cycle for the mainstream spirits, you mentioned that it's quite asset light.

John O'Keefe: Yes, so we've been very disciplined on how we've deployed our CAPEX. We've gone from double digit capital as a percentage of NSV over the last few years to seven percent. And we -- I would see our CAPEX expansion with the spirits to be within that cycle. So I don't see any disproportion swing on CAPEX on what we're doing, thus far.

Tony Bucalo: John, the relationship between formal and informal alcohol, you said in Africa it's about 50 percent informal? In Nigeria, it's about a quarter, I guess? I mean where do you see that evolving over the next few years? How are you sort of organizationally and commercially trying to take advantage of that formalization, I mean what -- what's at the point of the spear of that push to get and where do you see finally Africa winding up in terms of the formal, informal balance?

John O'Keefe: Yes, so I think we will see that improve every year but it's very correlated with the macro economic cycle that we're in. I think there's a big role for us to play in formalizing that. Senator is probably the poster child for how you can take an illicit sector and -- and if you make the offering right with the right tax break, you can drive 3 million hectoliters from what would've been illicit to the formal sector.

I think mainstream spirits has another role to play in that journey and I think the fact that we are now pivoting more strongly into mainstream spirits will also help, I think accelerate the pace at which we can encourage consumers to move from informal to formal. But we have to be very sensitive to the pack and the price at which consumers make that choice. Very strongly correlated though, I think, at the degree to which consumers are driving to disposable income.

Tony Bucalo: And a few years ago in the Africa discussion was about small pet sizes that sort of linked up with a single serve sort of equivalent to beer. Do we still have that strategy in place, has that been effective?

John O'Keefe: Yes it is, but it's not enough. So what we initially thought was again, we had a premium portfolio, IPS brands, make them available in smaller packs, I think that has done a very strong job and will continue to do a very strong job in terms of driving people into IPS. But we know that for a lot of consumers even that is too expensive.

Hence -- and you saw in my example of Orijin, even that brand is extremely affordable, right, you know $5 or $6 for full bottle, 70cl. For the smaller packs it's still by a long way the number one selling SKU within that.

So, I think pack size and format is going to play a critical role in accessing, particularly the lower, middle class opportunity that exists in Africa.

Tony Bucalo: Thank you.

4. Scotch
John Kennedy

Trevor Stirling: Hi John. John, there's one phrase, or a bit of a cheeky question, one phrase that you didn't use today which was, joy will take you further. Is that campaign -- that not really work out and you've gone back to keep walking or…

John Kennedy: Well the positioning – when I said inspiring personal progress has been a positioning for decades. I think it was the mid-90s when we launched that and that is still there and keep walking as a key platform is still there. Joy will take you further, and what we did learn is that the kind of new status and the definition of progress for people, it isn't as material as it used to be. It isn't about collecting things, it is more about experiences, it's more about enjoying your life feel like your developing yourself.

So, the joy idea -- the optimism of that is still within the campaign and I think you'll see it in the executions Trevor, as a phrase 'Joy will take you further', it feels like that's more about the tonality that we want to have in the advertising, but the core message of, keep walking this brand inspires personal progress, that's the one we're going back to and that's the one that's been consistent for 25 years now. So, we can get the CMO to talk a more about it later if you'd like but we're feeling pretty good about the shift we made recently on the advertising.

Trevor Stirling: Thanks, John.

Questioner: John, one of the things that appeals to -- about Johnnie Walker is the depth of the brands deck, entry-level all the way through to, sort of, ultra-high-end, but I don't really understand why that exists in the brand and is -- can you put your finger on that, and is there a way of replicating that in other categories?

John Kennedy: Well that would be a magic bullet if we could. I mean I do -- I mean, just personally and you do tell friends, look we've got a brand in Johnnie Walker where you can buy Johnny Walker Red for $10 to $20 dollar or pounds a bottle and but not only do we have Johnnie Walker Blue but we can also sell bespoke casks at hundreds of thousands if not millions of pounds is a remarkable brand and category that we operate in and I do think that's where scotch whisky has such power.

Because, there's just no other categories within BevAlc that can play across so many price tiers with real scale and perhaps that's down to the hundreds of years of history and that's just sense of quality and craft that people attribute to the category therefore think the value is there, we think it's that, but it's a powerful tool.

I think it's primarily for scotch whisky, we certainly, in our luxury and reserve portfolio and other categories have seen massive trade-up but not quite to the extent that we see in whisky and therefore, in terms of, the mix benefit of scotch we think that will continue to be disproportionately important to the company.

Lawrence Wyatt: You mentioned briefly about China and we've seen a big come-down in scotch sales over the last few years with anti-corruption. A lot of you competitors have signaled improvement and certainly the cognac market in China. Are you seeing anything similar with your scotch portfolio in the market following Chinese New Year?

John Kennedy: Well we -- I mean, we spoke to Sam our Asian president just last week and it's that there's been some changes in China to how we do business and we do sense that the anti-extravagance movement has eased a bit, so we think it looks promising. There is an improvement there; we would expect to see performance pick up.

Chris Pitcher: In one of the earlier slides in Ivan's it showed that Johnnie Walker was winning share and probably less than half of its markets and I was just interested in that slide. Are you defining its category scotch or whisky, because the follow-along question is that most of your presentation was focused on your market share within scotch and if I look at the "Keep walking" campaign back to my earlier question, there's nothing in Keep walking that tells me about the whisky?

And, if I look at your competitors within whisky, the big ones, they're focusing on where it's made, who it's made -- who it's made by and what it's made from and that's really resonating. And it goes back to my earlier question, can we get more transparency on Johnnie Walker, because you seem to be doing it with Guinness, you've gone back to focusing on the who, the where and the how, but you haven't with Johnnie Walker.

John Kennedy: Yes, I think those are good observations. It's on the market share question, so two data points on market share; within Scotch whisky, we've won a lot of market share in the last five years. Two and a half full share points to get to 41 percent. Within total global whisky, we have held our share, which is the leading share of whiskey, over the last five years. Scotch has lost some share, but it has come completely from competitors rather than from Diageo.

Although, we've had that internal conversation as well said, "You know what, we want to know scotch share, but we always want to know total share within whiskey." That is the right measure. I will hold ourselves to account for that. On the brand, I mean, having worked a lot on the Guinness brand over the last few years as well, I think you're right that tying the brand back to its roots, it's -- the craft and the history that's involved in it seems to be a critical ingredient in most of the big brands these days.

Now, we think we can do -- we can build the iconic status of Johnnie Walker around personal progress and do that at the same time. And, the way we're looking at it is, I mean, Blenders Batch is the first example of that. I mean, you look at the pack, you try the liquid, you see the story of Emma, the distiller behind it, it's going right up that territory.

Now, we've done it on a variant rather than the core brand but we're learning how to do that. And, we've also learned that in some markets -- what we call stage one markets, where scotch isn't as developed or the product isn't as well understood we should be dialing up more of the basic message around the product and the providence. So, I think we've got a lot of understanding there. You'll see more of it come through in the communication and in the marketing over the next couple years.

Sanjeet Aujla: In the context of the industry growing six percent, where do you think Diageo can grow in the scotch portfolio over the next few years.

John Kennedy: At least in line with the industry.

Sanjeet Aujla: And in terms of -- can you just talk where you are in terms of inventories, how well invested are you and where do you suppose you need to grow those inventories going forward to execute them…

John Kennedy: Inventory and trade you mean?

Sanjeet Aujla: Maturing stock.

John Kennedy: Maturing stock. So, well we've got -- as I mentioned before, we do have nine million casks of maturing whisky so we feel like the total pool of maturing stock is strong. We are working closely with David Cutter, who's in the front row here, on supply in terms of making sure that we have good foresight in matching our volume and growth expectations. There are a range of scenarios there to what we have in our supply footprint and we feel confident right now that we'll be able to meet the demand over the next few years. I don't know if that's what you're getting at but that's what we've looked at.

Mitch Collett: Scotch has got a pretty big transactional FX benefit to play with. I think previous commentary has been that you wouldn't change pricing but you might adjust pack size. Can you give us an update on where you are with that?

John Kennedy: Well, I mean currency has shifted a lot in the last two or three years particularly in Sterling, post Brexit. So what we did a couple of years ago was -- particularly drove the primary and format strategy and said, look, if we have an appreciation in Sterling, we're not going to -- our products may become unaffordable on some occasions with some consumers.

So, through having more primary scotches available and also through formats through the 20 and 35 and 50 cl, much more distribution availability of those. We're using that to make sure that we can maintain affordability even though there's currency fluctuation. The other point would be on -- and it's not just scotch -- on currency is, we're not going to dramatically readjust our prices country-by-country every time we see an FX change.

Sometimes there's some benefit there, sometimes there's a downside, but we need to stay in tune with local conditions and making sure our pricing is right for the consumers, so we won't be having any kind knee jerk responses to currency movement.

Fernando Ferreira: In order to sustain that six percent growth for Scotch, how relevant do you thing that or how important it is for Scotch to participate more in cocktail culture and I mean how much work are you doing there for that to happen?

John Kennedy: Well, I mean if you just describing more broadly as mixed and long drinks as well as cocktails, actually there's a lot of trends in the developing -- the developed world that are very positive for us. The strength of the brown spirit based short drinks like Old Fashioned or Manhattan have been strong in the last few years and we also expect to see a lot of interest in the mixer side there - the gin and tonic -- the Tonic Water with Fever Tree coming in and a brand that's generated a lot of interest. I think you're going to see the same thing happen with mixers in brown spirits and that will be good for whisky. So, we think it's important but we think there's some signs that it could be a tailwind for us.

Fernando Ferreira: And attached to that, how do you see the competition with Japanese whisky, Irish whisky, American, growing faster than Scotch? Is that good or bad in you view? I mean, is it attracting more people to the category -- do you see that as a good thing or…

John Kennedy: ….the move to brown spirits that we've seen, led by the U.S. and you're seeing it in Europe as well, is a good thing for us given the leadership position we have. We only talked Scotch today, we didn't even mention in the U.S. the size of Crown Royal and fact that we are the leading whisky company in the United States right now. And, we have a leading share in Europe as well. So, we think the general trend interest in brown spirits is a good thing for Diageo and can be a benefit to Scotch Whisky if we get our marketing and the positioning of our brands right.

5. Diageo India

Anand Kripalu

Anand Kripalu: Yes, hi.

Questioner: Thank you for your kind presentation. A few questions you mentioned about your targets on your operating margin, your topline growth and bringing down your gearing levels, but when we look at all that we have just had the problem of demonetization which is barely -- we have knocked off but not fully. And, in FY18, as you mentioned, hopefully by the end of September we'll have GST also and so FY18 looks more less like a wash out given that the problem that we started out off in Kerala followed by Bihar, MP [Madhya Pradesh] and with excise duty cuts in Karnataka, so in FY18 it doesn't that things are really going to improve. So, what really are your comment on that?

Anand Kripalu: Yes. So, I think there are obviously some challenges that were brought out as part of my presentation, as well as we get into FY18. But you've spoken about many issues in your question. I think, I'm pretty pleased about how we handled demonetization, right, and I think it's behind us now.

We're on the tick of the Supreme Court judgment issue and obviously been implemented by the first of April, so we're absolutely on the thick of it. I think will take us a few months to sort itself out but it will impact F18 I agree, but I think we will have -- it will be sorted out before F18 goes.

The points about prohibition that you raised, I think that sometimes the headlines of the newspapers are more ominous that what's really happening on the ground. And, the reality is, yes Bihar happened and they have tried to implement prohibition very, very rigorously in Bihar. Kerala actually -- the whole progress towards the ten year plan of prohibition has stopped.

And, you know when Kerala prohibition they also released prohibition -- reversed prohibition in the north east from one of the states. So, I think the point is this, is there a chance that India will go -- will become a nation with prohibition all over India? I'd be very surprised and I'll tell you why. Because if you look at what I spoke about in terms of the attitudes of the people, the millennials and what they want.

For how long will the regulatory environment go against the will of the people and the youth of the nation? At some point in time, the regulators and laws I think will start adapting itself to the emerging consumer landscape.

Finally GST is something that is going to impact alcohol. I think it's going to impact the nation actually and the kicker of GDP growth normally comes two years after GST stabilizes. So I think F18 is going to be tricky for the nation as a whole, because there's going to be a whole new set of systems that need to be unveiled.

And of course there's going to be an impact to us, which we have put a fairly comprehensive plan to mitigate. Will F18 Net-Net be a washout? Well I wouldn't go so far as to use the word washout. Honestly, I think there will be a set of challenges, the question is, are we going to be smarter than everyone else in the industry in how we deal with them?

Have we proactively thought of mitigation plans step by step for each of these things? I would say yes to all of these. The balance I think we'll just wait for the next two months to pan out and we will know more.

Questioner: Just one more follow up one. In terms of your gearing levels you're still at almost about 700 million USD of debt. So how quickly you see that really coming down? And B at that moment you have almost 58.5 percent shareholding, are you comfortable with the present level of shareholding or given an opportunity and what we have heard from SEBI on the matter? Would you like to take some action on that front? Thank you.

Anand Kripalu: So I won't comment on the shareholder question here, but as far as debt is concerned I think right now we're going to pretty much get down to about six, seven hundred million debt now. And over the next three years, I think we'll come down to 150, 200 million. And that's where we will get to over the next few years, all right that's our plan.

And I think we have got clear opportunities for monetization and working capital management to get to that plan. Now some of those monetizations are entangled and we've got to get them released and that's the only reason why it's taking a couple of years to make it happen, but that's what I would say.

In terms of increasing the shareholding, you're obviously talking about Diageo shareholding in USL?

Questioner: Yes.

Anand Kripalu: I don't think I'm going to comment on that here.

Questioner: Thank you.

Sharon Rolston: OK next question.

Andrea Pistacchi: How is all the uncertainty in the market now, given highway ban, GST, how is it affecting the refranchising process? And how long do you think it will take to complete that 30, 40 percent of popular that you're planning to refranchise?

Anand Kripalu: So we have done many of the big states already. And there are some steps which we have not done because we didn't find the right commercial partner. And we don't want to do it for the sake of doing, we'll do it when we find the right commercial partner who we believe will nurture our brands. Because at the end of the day we're not selling brands, we're just franchising it to them and we want to take it back in the future.

So I'm not sure whether the Supreme Court ban or demonetization has affected that a lot, but we have to wait and see what happens with GST and how it actually comes out because that might need structural changes to the business model. And some of these franchise arrangements might need to get renegotiated if that happens because it's a kind of force majeure kind of action. So we will need to see how it lands for our industry.

Sharon Rolston: OK one more question.

Chris Pitcher: Thank you, I know you referred to the highway ban and so forth impacting on the business.

Anand Kripalu: Yes.

Chris Pitcher: But if we look at the sales performance of the USL in the previously reported quarter, you performed much better than I think many expected on the back of demonetization with some modest sales growth.

How significant or negative should we expect in the current period in terms of the first half? And is there a risk that you managed through that demonetization through the extension of better credit terms and therefore we don't see the drop in receivables that perhaps you were talking about earlier, certainly in the March '17 period? Thank you.

Anand Kripalu: So yes I think we maneuvered demonetization better than we expected, I think the team did a really good job on the ground. But then you know demonetization was through the nation and within that we, in partnership with the trade who deals in spirits, I think we were able to work out arrangements to ensure that our business gets impacted the least.

I think the Supreme Court ban is much more direct because if you think about it, almost a third of stores have been impacted. So I think the impact of that is going to be more material in the short run. I think that's what you have to expect because – I mean overnight, one third of the stores are not there for you to go and buy. And the trade is a little uncertain about where the stores are going to reopen. So if you think of the situation on the ground that is just – it's just a bit up in the air. So that's what I would say.

Chris Pitcher: And specifically the five-star hotels which can't be moved and obviously I'd imagine are disproportionately close to the highways. That's a big channel for your premium – what you call your very high end product. So there's a risk that you've got a volume and a negative mix effect don't you think? Are we looking down double digits in the current period for India?

Anand Kripalu: So some five-star hotels have not yet opened their bars, most have, because recognize that they have made investments in a five-star hotel and one of the definitions of being classified as a five-star hotel is that you have to have a bar. So suddenly you've made an investment and you can't call yourself a five-star hotel if you don't have a bar.

So people have – are – so the tourism minister, the tourism ministry they're all on the same side. The state government, the hotel associations have gotten together and I can tell you many of the five-star hotels particularly in the north and Delhi and stuff now the bars have reopened.

There are a few in places like Chennai, which are very close to the highway but they're still not opened. I refuse to believe that it will be closed for too long. So I'm less worried about the five-star hotels honestly.

Chris Pitcher: And the scale of the current decline in India, are we going to get …

Sharon Rolston: I don't think you can push him any further on that one, Chris.

Anand Kripalu: I mean then I might as well give you the forecast.

Sharon Rolston: He'll announce his results on the 31st of May so you can get some more colour then.

6. Final Q&A session
All presenters

Ivan Menezes OK so we'll use the next 30 minutes or so to take you questions. I'll direct answer some and direct them to my colleagues, so please.

Shane Finemore: Given the business is very cash generative and is likely to get to your capital structure target pretty quickly over time and that there aren't a huge number of large opportunities for you to make purchases or fixed capital investments. How do you think about the capital investment when you get to your targets?

Kathryn Mikells: Yes, so I'm happy to answer that. You know we have to first be in a position where we actually have excess capital before our board's going to make a decision and then returning that excess capital to shareholders. So as we ended the first half, I'd say we were squarely within our leverage metric range and yes as we continue to perform we would expect that we'll generate strong cash flow and eventually get below that leverage range. And as we look forward and think that we can sustain that, that's the time that our board is going to make a decision on returning potentially excess capital to shareholders.

I'd mention just two things as we think about that leverage metric, this time last year I actually thought the leverage metric was going to end fiscal '16 in a better place than it did. We then had Brexit and we had to mark our debt portfolios to market as a result of Sterling devaluing and so that had a pretty big impact at that point in time on our leverage metric. And then the other thing I'd mention, it's an adjusted metric so I mentioned it's adjusted and that includes our pension deficient.

And that has also been an area of a little bit of volatility. So we really have to get to a point where our leverage falls below that target range, that we think that's going to be sustainable and then our board will make the decision about returning excess capital to shareholders.

Shane Finemore: Thank you.

James Edwardes Jones:

Ivan. Listening to today's presentations, it seems like Diageo's pretty much where you want it to be now in contrast I guess to three or four years ago. Is that fair and if so what are the biggest risks do you think to Diageo's financial performance going forward?

Ivan Menezes: Yes, I would firstly say I am pleased with where the company is, but as I hope you heard from all my colleagues and myself; we still have a lot to do. So I would never consider us as this is – we're operating at peak performance, I mean in fact I view it as very positive, we have a lot of opportunities still to go off to shore up our performance.

For me what's changed and what I hope you appreciate in where you see the company today is we have a more resilient business when you look at the geographic mix, you look at the price point mix and you look at the category mix of our business. And our goal as a management team here is to deliver reliable, consistent performance and really become that reliable compounder that'll put us to the top of the CPG peer group.

And the actions we've taken, both in the execution discipline and rigor, but also how we are managing the business across the portfolio's markets, price points and categories gives me more confidence we can do that. We are anticipating a volatile world, I mean you saw what Anand is dealing with India.

We've got a number of markets where we still got a lot of challenges, I mean Nigeria, Brazil, I mean who the hell knows when those are going to turn. So I think the approach we're taking is to be somewhat – is to be cautious on the external environment and then be really kind of driving with a level of focus, execution, investing in the right places with a lot more rigor so that we can weather these storms as they happen in different parts of the world.

And where we have momentum, step on it further. We've got a number of markets which are really doing really well right now and we need that momentum. So to answer your question, I'd say it is – I mean this was the journey we've been on for the last three years, we were very – I was very clear right from the start that our goal was to get us to be this best performing – top tier of the CPG group.

It's taking us pain over the last few years as we've gone through the change and what you see now is a company that is clear on its strategy with a stronger performance culture, more agility and pace and what Kathy just covered, I'd say the productivity fuel is a big source of improvement in sustaining the top line performance.

Making that investment in North America as we – mid way through the fiscal year, which we're doing is a good example of things that have us on the offence not just playing defense so that we can get – I mean I talk about the perfect blend. The Diageo story is about the perfect blend of top line growth and ongoing sustained productivity that gives us the fuel to retain and keep that mid-single digit top line growth.

Questioner: We've seen quite a lot of large scale M&A in consumer staples over the last few months and years and some companies that no one ever thought would be bid for have been bid for. Let's take the Unilever example, they'd already come out with increased margin guidance and then they were bid for, which no one expected.

And then they have to come out with the strategic review selling businesses increasing buy-backs, these sorts of things. Do you, as a board, with a large free float in the company U.K. listing, like Unilever, feel a bit of pressure on – for a bid and do you feel any pressure to perhaps increase your guidance or increase the speed in which you can create your margin improvements or growth?

Ivan Menezes: Yes, I would say where we have set our ambition for this company and delivering it consistently, we believe is actually very ambitious. So I think as we discuss the strategy for the company and the performance expectations, our goal and where we've set the ambition is to be top tier in terms of organic growth. So I think our obsession is very much around ensuring in everything we do, and you saw a good spectrum of it today, from how we build brands to the rigor in the business to the productivity and efficiency we drive.

We don't leave, I don't want to leave any room for anyone to do it better, right? And, I'd say what's quite rooted in – and I showed you the values survey results. Where well over 90 percent of our managers clearly understand the game we're playing. The ambition we're on. So, I think the pressure of course is on us.

And you've heard it from many of my colleagues today. We're restless. We're, by no means, complacent or satisfied. Yes, the business is growing four and a bit [per cent organic net sales growth] as you saw in our first half results. We are expanding margins. We're getting good cash flow. And we've got to sustain that. And be able to deal with the volatility in the world. So, I think there's enough pressure we impose on ourselves.

In terms of, getting to our performance and mission, which is something that well aligned internally in the company and on the board.

Tony Bucalo: One quick question on the last few years. The conversation has been about the transformation of Diageo from a sell in to a sellout culture. That wasn't really mentioned much today. Can you sort of update us on where you are on that journey?

The second question is about India. Everyone in this room has watched the Russian government, sort of really, beat down its beer industry over the last few years. And then in China, we obviously had the gifting bans. What gives you confidence that we are not at the beginning of a cycle in India of regulatory interference, in the alcohol industry, that sort of ends badly for everyone involved? I mean what's the difference between those two markets in India?

Ivan Menezes: Sure, I will give you my version and I'll ask Anand to jump in. Firstly, sell out isn't actually as interesting. We use the term less. But, it's because it's so ingrained in everything we're talking about. So, when we talk about the consumer at the heart of the business. Or the route to consumer priority or executional focus. It is all about sell out, right? So, the Anand talked about our whole system in India is oriented as sell out.

And I think, you're hearing it less, because we made the change. That's how the company operates today. And, what Deirdre covered, for example, on all the consumer focused action. I mean behind it is a totally sell out culture. And I'm really pleased with how embedded that is.

On India, I'll give you my version and then Anand can jump in. I would say that the prohibition and alcohol sentiment, in India, is kind of coming from slightly different forces, right? So, the Supreme Court issue was not a government issue. It was an individual, who took a case through the courts. And eventually the Supreme Court ruled this way.

And in fact, as Anand said, most of the government actually is looking to how to find ways to alleviate the problem. Because, it's impacting tourism. It's impacting the perception of India. Prohibition, since the time India as formed, has always been on and off the cards, since 1947 in certain states. We still have the state of Gujarat that has prohibition. I would say it's not a new dynamic.

And it isn't driven off of religious or even a big health consideration. It's often a political issue in a state election. And we've had states that have come in and out of prohibition. So, my anticipation is to the point Anand made – India's such a young population. It's urbanizing. The young in India want to live their lives to their fullest potential. I say the risk is relatively low. You can never say never. But, I'd say it's low.

Anand do you want to add anything?

Anand Kripalu: Yes. Just I think Ivan said most of it. But, I think if I just take on from where he left off, in terms of the young population and what they desire. I think if you turn the clock forward by 10 or 20 years, right? And in fact, I think that might be the difference with the Russia. Where in India, you have a real practicing pure democracy, right?

So, if we look at it from a long term perspective – if we look at it from a long term perspective, I think policy and the way the politicians think will start converging with what people want. And particularly the young people. So, I think the only question is. What's going to happen between now and that 10 or 20 years?

And I think you could have these short term spikes, which are based on short term political needs. Rather than any larger agenda. It's short term political need. There is no national move for prohibition. In fact, whatever we've heard is that that is not where the central government is aiming to go. So, I think we will get from where we are today to the future, right?

But, I think there will a kind of sinusoidal wave but hopefully traversing upwards, til we get to that point. And the question is right now, we seem to be at a point where the bit of a trough coming? Because there's been some much of news. But I think sun will shine thereafter. And I think there will be a bit of this journey, as it devolves.

Eddy Hargreaves: I have possibly one for Kathy. You mentioned zero based budgeting a couple of times in your presentation there. And then another type of zero based tools. I just wondered whether you could clarify how much you are using of sort of classic zero based budgeting, with external consultants sort of that sort of thing, or whether it's more your use of some aspects of classical zero based budgeting. How do you see that going forward in the strict sense, as it were?

Kathy Mikells: Sure. So we actually invested in a tool so that we'd have a standard planning tool that everybody could utilize and training around how do we actually take an approach to start from zero, right? Because that wasn't -- I'd say -- within our DNA and within our toolset. And so that was my reference to using some external advisors to help us get that spooled up. And then we actually spooled that up about a year ago today, which enabled us to use that in our fiscal '17 planning process to begin from. So really training people around how do you start from zero and I'll just mention that Ivan and I both got to experience this…

Ivan Menezes: I just did my T&E last week.

Kathy Mikells: …around T&E and actually starting from zero and saying OK what trips are we going to make and we've changed policies around this. And as you would expect, Ivan and I would be the folks who absolutely won't step over the wrong side of the policy on per diems and when are we flying business and not flying business, et cetera. And so we really embedded that within the organization during the last planning process. And in some areas, we were really able to accelerate the savings.

There are other areas of spend and so that cuts across our indirect spend. There's other areas of spend, where I would say the concept of zero base is dealt with differently but the concept of zero base is something that's now much more prevalent across all of our areas of spend. But the specific planning tools that we're using are embedded against all of our indirect spend.

Ivan Menezes: I would just add one point. The consultants that worked with us on this -- and I don't think they were just telling us this -- said actually that the deployment of this at Diageo is one of the fastest deployments they've seen with a lot of companies they work with and they've done a lot of work in the space. Brian, you told me this. So it is deployed with rigor across the business and is very much alive and is part of the fabric.
OK, we've got there and here.

Chris Pitcher: You mentioned in many presentations one of the four key things you're watching is motivation of your staff. In terms of the engagement scores that you put up, you changed your methodology in 2014 and there was a significantly lower engagement score, which would indicate the old Diageo perhaps overestimated the engagement of their staff. Are you comfortable now that you're properly capturing engagement? And the chart did actually see a drop into F17. How worried are you about that and can you give us perhaps where in the organization it's become less engaged?

Ivan Menezes: Yes, I would firstly say I just used the external metrics and benchmarks on this, so I think I mentioned in my remarks -- first, I'd say the participation rates we get are off the charts. 93 percent. This is from the bottling line in Anand's factories or David's factories in Scotland to every employee in the business. Second, at a 75 percent engagement level, we are in a strong position by external benchmarks. It is not best of the best, it is not best in class but it is a very strong position. And I'd say, a lot of the change that's happening at Diageo is not easy. I mean we are impacting jobs, we're impacting with productivities, impacting how we go about our business, and we've changed a lot of policies and stuff like that.

And as we've gone through the detail results as a management team, I'd say we're never satisfied but we feel good about how we are taking our employees with us on this journey and the relevant benchmark is looking at where we are versus other companies and we do well on that regard, Chris.

Chris Pitcher: One other, as a follow on. You talk about wanting for business to act like owners -- what if it was your money. How do you see an employee's stock participation increase? And particularly, let's say the 110 key leaders, have they got an increased equity participation? And from grass roots level up, have you seen people buying into the shares?

Ivan Menezes: Yes, at the senior leader level, we have our stock plans and we've linked for like our general managers in the markets, a much more direct connection between what they control and drive. Actually, like our productivity achievement to the medium term goals and the stock related compensation. So the -- I mean we obviously track the director's ownership publically. But internally, I would say our -- we don't declare the numbers so I'm not going to do it here but we're clearly encouraging our people to very much think like owners, act like owners.

The confidence in the company achieving it's performance ambition is growing and that comes through, also, in our value survey results. And our senior leaders -- I showed that chart of, say, the top 100 plus leaders and the composition of how it's changed. We've got -- I feel very good about the quality of leaders, the owner-type mindset that they're bringing and the alignment to the ambition we have at the company.

Adriaan de Mol van Otterloo;

I have three questions. One is related to the Indian strategy and on page 11, it says to be the best performing but Diageo has a stated strategy to be one of the best performing. So my question is is India ahead of the curve or - I mean can you please? So I'm interested in one of -- is that a mistake or is he running ahead of himself? And two, could you maybe explain what your strategy is on Cuba with it opening up?

Are you planning to maybe look into any brands there or any production facilities there in the rum sector?

And three, you talk about sustainability. My question, then, as well is how is your corporate tax rate related to that sustainable world where you would expect to pay maybe the tax rates you are due in the countries where you do business? Thank you.

Ivan Menezes: OK. We'll take them at three points. Anand, you going to be the best performing in India?

Anand Kripalu: Well, if I can be honest, the starting point for India is nowhere near our best performing, most trusted and respected consumer goods company in India. And what we did is we just took a leaf out of the global performance ambition statement and said what is it that is going to be aspirational for the entire company? Something that people might laugh and say my god, is this your starting point? Is this the kind of cuckoo vision you've put or can we use that a positive to really inspire the whole organization because this is something worth going for?

And I think it's as simple as that. It's a hook that we've provided for people in the organization where the whole organization is inspired to go for it. I think we're a good distance away if I'm honest. And whether it's the best or one of the best in India, I think we'll still be far away from that goal. OK? So I think it's as simple as that.

Ivan Menezes: I would say the Diageo mission -- yes, we have said externally one of the best. Internally, all of us look at -- we want to be the best, right? So that's the distinction…

Kathy Mikells: And then I'll take the last question, which was about our corporate tax rate. So Diageo, like all multi-nationals, are under pressure in terms of our tax rate and we would have seen our tax rate increase a little bit over the last couple of years. That pressure, I think is going to continue on all multi-nationals and we're pretty straight forward and direct about this in our disclosures about tax. It is impossible to predict exactly how and when and how fast that kind of pressure is going to manifest itself but generally speaking, I think all multi-nationals are under pressure in terms of tax rates rising a little bit.

Ivan Menezes: Oh, I'm sorry. That was - on Cuba, I cannot -- we've got a number of Americans on the board in the executive committee that are not involved in Cuba but the non-Americans may have a project on it. I know nothing about it and that's true, so we can't answer any questions here.

Ed Mundy: Kathy, couple of questions for you. Just on the 100 basis points organic margin improvement over the next three years, you're highlighting that this is providing the fuel to invest in top line, for instance in North America and the second half into next year. If you do find more savings from a productivity perspective, will you invest all of those savings back into the top line and therefore your organic margins will be 100 basis points or is the scope of that number to be beaten? And then secondly, beyond fiscal '19, how should we think about cost savings? Is this part of an ongoing process or is that the end of the cost savings piece?

Kathryn Mikells: Yes. And so the first question is really a what-if about something in the future that hasn't yet occurred, right? And so we're going to make decisions at the time with the best data and information that we have. If we think ultimately we can drive the best returns by more investment in the A&P, we'll put more investment behind A&P or other things in the business. But it's really going to be informed by what do we think is going to create the strongest returns for our shareholders over the long term. And so I'd say a little bit like the question about returning capital to shareholders, when we get there, we'll have the pleasant decision to make.

And clearly internally, we're striving for more. We're striving to go faster. But at this point, we're not yet a year into a three year program and mid-term guidance that we've given. And so I think it would be too early for us to try and speculate on how we might quote-unquote spend or bring to the bottom line incremental savings that we might try to drive. And then I'm sorry, the….

(Question clarification from audience)

Kathryn Mikells: And so I'll answer that question in a little different way, in terms of how I've fielded it from other people. People ask about 100 basis points over three years. How should we think about that, right? And right now, I'd say you should think about that pretty evenly spread. This year, the first year, we also had to digest the cost associated with the program, right?

Including restructuring cost, which we don't have as an exceptional item and so we have to drive more savings in this year in order to offset that and deliver organic operating margin improvement to the bottom line. But until we get further along in the program, I think that's how you should think about it.

Laurence Whyatt: You've had a new chairman in place for a number of months now who's had an interesting career history from private equity and one of your big competitors. I was just wondering what are the best practices that he's brought over and what has he sort of changed or anything? How has he impacted the business so far?

Ivan Menezes: I think many of you had the chance to meet Javier. I think Javier is going to be a very strong chairman for Diageo. As you point out, he brings terrific experience in the consumer space, great judgment on our business and a great chairman of the board. And we just had a -- it was just last week, we had our annual strategy conference, the first one that our chairman chaired. And the management team with the board -- we do this once a year, we go through our strategy, we talk about not just all the things that are good, we talk about where the challenges are in the business.

And I'd say the Diageo board under Javier's chairmanship is very engaged in the business and has the right, appropriate level of support and challenge to management. So I personally believe we have a terrific chairman in Javier.

Mitch Collett: I'd just like to come back to the U.S. As I understood, at the beginning of this fiscal year, the ambition was to get to market share neutrality by the end of this fiscal year. I now understand that that isn't the ambition. That next year is when we should hope for that to happen. I'd be interested to know what maybe didn't go to plan, why that didn't happen and also just more philosophically, is market share neutrality in the U.S. the right ambition, given the spirits categories you have and the brands you own?

Ivan Menezes: You want to go first?

Deirdre Mahlan: Yes. So in terms of this year, we haven't changed our ambition. Sometimes the ambition takes longer to achieve than you would like and as I referenced earlier, we have been held back in fiscal '17 by the performance of our high end vodka brands. So Ketel One and Ciroc are weaker this year than we anticipated and that is what the difference is. The other brands within and the mix of brands and the ups and downs, et cetera, we would have still delivered that, however we had a weakness at the high end vodka. That is really what's driving on not being able to achieve it this year.

Our expectation on being able to achieve that next year is on the strength of the portfolio that we have on the other brands, which I referred to at the end of the presentation. And an improved performance on those brands and an innovation pipeline that has some different components. In the whole, we believe that those will enable us to achieve the market share growth.

I think in terms of whether or not that's the right ambition, we do believe that the collection of assets that we have should put us in a position -- and Ivan referenced this earlier -- with respect to the group, we should be able to have compounded growth.

We do have a very strong set of leading brands and we believe that the opportunity is to grow this business and to grow it at a mid-single digit range on a consistent basis. And that would put us in a position to gain market share on a regular basis.

Mitch Collett: I guess to ask it a different way -- Diageo hasn't held share consistently in the U.S. for as long as I have data. What's going to change to allow you to hold share next fiscal year?

Deirdre Mahlan: Yes. I mean the share performance in the U.S. has been up and it has been down depending on what year is. If you actually look back over a period of ten years, we have been the leader in the market by some distance. Sometimes we're up 50bps, sometimes down 50bps. It's pretty much moved from 21 to 23 percent over a decade. So the shift in market share has not been material in terms of our being in a position where we're consistently losing share. However, depending on the performance of our brands, sometimes we get it exactly right, sometimes there are periods - whether it has to do with our innovation pipeline or a particular weakness - sometimes we don't get it right. And that's really what's driving the difference.

But there hasn't been a period of consistent share declines other than in the last couple of years, which we've referenced and have talked about being driven in the first instance by some pricing decisions that we took that created some weakness in the core. And some pricing and investment decisions, I would say, that we took that related in an underperformance of some very large core brands, which has been -- we've begun to address and we expect we'll continue to see improvement in that. I don't know, Ivan, if you want…

Ivan Menezes: Yes. I would just broaden -- bringing back the question to what does this mean for Diageo. I think -- and I touched very briefly on this -- one of the strengths of this company and which is, I think, very distinctive compared to other consumer product businesses, is this strength and healthy position and outlook we have for growth in the developed world. In the U.S., where the spirits dynamic is really positive and sustained and so what we're talking about here is growing -- how do you go from four to five, right?

We're not talking about a zero or a -- going from a zero to a one. And Europe, which for many years, post-crisis, was declining, we've now got back -- I mean I've said I'd be happy with Europe at two or three. John is doing better right now. And we talk a lot about emerging markets and emerging middle class and all this stuff but a big piece of the strength of the Diageo investment story is these very strong, sustained and profitable positions for growth and value creation we have in the developed world. And the U.S., as you know, is -- in terms of returns, it's just off the charts.

And what Deirdre and the team are trying to get from a three to a four and ideally from a four to higher. But even at the level at which they're operating, we can deliver our medium term guidance. And so hopefully what you saw in the actions we're taking across the company and in the U.S. and the reinvestment we're going to be putting into the U.S. that we will shore our performance there and build it over time. But the attractiveness of that market and the importance to the investment story in Diageo is very distinctive in the consumer product space. And I think that's one of the big strengths of the company.

Ivan Menezes: OK. One more and then we stop.

Questioner: My question's just on scotch. You've said that you expect the industry to grow six percent over the next few years. Could you just break that down between price, mix and volume growth. And just a second point of that is are you laying down enough inventory, particularly now that you have more primary scotch, which presumably has fewer or shorter maturity.

John Kennedy: Yes, on the six percent, I mean what we've looked at closely is the geography. So we think we'll get -- you can see around eight in the developing markets and around four in the developed markets. I don't have the exact price mix number, but we do know that we've got a good mix trend because of the trade up in the total whiskey category, which should offset, particularly in developed markets; it's been tougher on pricing the last few years. That'll probably continue. So we will lean on mix, we will lean on volume growth to get the overall results.

And then someone had asked about volume constraints before but we have modeled out what -- you know, if we achieve our goals, not just on the higher end of the category but in the primaries, do we have the maturing stock to accommodate that. And the answer to that is yes. Now, you're always predicting ahead on an aged product, so we might be a little bit too optimistic or a little bit too conservative but in terms of delivering the broad financials and growth rates, we were showing you before, we feel like we've got the capacity to do that.

Kathy Mikells: And we lay down our stocks taking a really, really long view, right? I mean on average, scotch ages for, and call it roughly seven years. So we're constantly being pretty consistent in terms of how we're laying down our stocks. We don't wake up one day and say hey, volume this month looks like X, therefore how much are we going to lay down next month. So we're typically laying down, call it roughly three plus percent volume and we're doing that really steadily because as we look out into the future, right?

It's very difficult to I'd say, say pinpoint -- be pinpoint precise on a given year and a given month exactly what we need. But we have a lot of flexibility, especially because of our blended scotches and how we use what we've aged. And on average, having a little bit more that's more aged has turned out to be a benefit for the company. And so this is a business that I would describe as having a quite big and deep moat around it. And part of the way we ensure that we maintain that is really having sufficient stock for the future. So we think that's a quite good long term investment for us to make.

Ivan Menezes: OK. Well, let me just close in. Thank you, everyone for being with us last night and today. I hope you found the sessions useful and informative and we appreciate all your interest and support for the company. Thank you.