

**DIAGEO NORTH AMERICA – CALL WITH THE PRESIDENTS**  
**Deirdre Mahlan – President, Diageo North America**  
**November 28, 2017**

**Deirdre Mahlan:**

Thank you, operator. Hello, everyone. Welcome to today's call. It's great to be with you today.

Last year on this call, I shared with you the focus we have on improving the trajectory of our spirits business and delivering the opportunity for beer, while, of course, continuing to drive productivity. And today, I want to update you on our progress.

I am pleased with the progress we've made in improving the growth trajectory in North America, Diageo's biggest and most profitable region, which generates one third of total sales and half of operating profit.

In fiscal '16, after a couple of challenging years, we restored top line growth. We further improved on that in fiscal '17, with good progress in our U.S. spirits and beer businesses and continued growth in our Canadian business. These results give us a strong foundation to build off in fiscal '18.

So today, I'm going to share with you why the spirits industry in North America continues to be attractive and why Diageo is set up well to access this opportunity, in particular, in U.S. Spirits.

Before I move on to U.S. Spirits, I want to touch briefly on our U.S. beer business. We made good progress on Guinness in fiscal '17. Brand Guinness returned to growth, growing 1 percent, as we reinforced our premium beer credentials and expanded the Guinness portfolio with beers from The Brewer's Project.

We are setting up the Guinness Open Gate Brewery and Barrel House, in Maryland. It will be the home of Guinness in the U.S., with local brewing capability, allowing consumers to taste new brews from Guinness. A test tap room opened recently at the brewery, and we are already seeing really strong customer interest, averaging about 1,000 visitors in the three days a week that the tap room is open. The full facility is expected to open in the summer of 2018.

Our ready to the drink business grew net sales last year at five percent and gained category share, as we refreshed Smirnoff Ice packaging and liquid and continued to activate against football to access new occasions outside of summer. The launch of Smirnoff's Spiked Sparkling Seltzer re-recruited consumers who are looking for a lower calorie beverage alternative with all-natural ingredients.

So, now I'll move on to U.S. Spirits, our biggest business, by far. U.S. consumers spend over \$200 billion

annually on beverage alcohol, \$80 billion of which is spent on spirits. The spirit industry has been growing at around 4 percent, as you know, for much of the last decade, outpacing other consumer categories with share gains from beer -- and with the benefits of demographic shifts -- increased consumption occasions, population growth and premiumization.

More recent data from Nielsen, while representing only about 20 percent of the industry has shown slowing growth, some of it driven by impact of natural events. NABCA, which represents about the same size of the industry as Nielsen, has been more robust. We continue to have confidence in the vibrancy of the industry and expect growth to sustain at around current levels.

You may also have seen yesterday's NABCA data that was released, the data for October, which showed a continued robust performance and better than Nielsen, which has been the trend.

We are the market leader with leading brands. We're the largest North American whiskey company in the U.S. on the strength of Crown Royal and Bulleit Bourbon. And our brands also occupy leadership positions in vodka, rum, scotch and cream liqueur categories.

At our Capital Markets Day last May, I shared with you how we have strengthened our understanding of consumer occasions, as well as shifting demographics, attitudes and behaviors. We're leveraging these insights to participate in the right occasions with the right brands at the right price.

And, we've been executing against our strategy with pace and have made good progress. In fiscal '17, we focused on recruiting millennials and multicultural consumers with purpose-driven communication and engaging with them in the on premise and digital space.

So let me share with you some examples of the progress we've continued to make against these. First, our purpose-driven communications have resulted in our core brands -- which just to remind you -- the brands we consider core -- Smirnoff, Captain Morgan, Crown Royal, Johnnie Walker and Baileys. So our core brands are healthier with improved brand equity scores in spontaneous awareness, trial and penetration.

Second, millennials and multicultural consumers responded to the purpose-driven communications. We recruited over one million millennial, increasing awareness of our core brands faster than the average spirits increase. And we increased multicultural engagement levels, recruiting nearly one million multicultural consumers, as well.

A further example is in the digital space, where our focus and investment in search is bringing consumers

to our brands with a significant increase in our share of search in fiscal '17. Consumers are using our cocktail and mixed drink recipes, finding them on sites like Facebook and Pinterest.

Fourth, we strengthened our route to consumer with the on-premise activation army, which was put in place over two years ago and continues to deliver results with the 7,000 covered accounts, growing 10 percent faster than the rest of the market in fiscal '17.

We also strengthened our reserve operating model, adding 65 reserve ambassadors in the first half of fiscal '17. This program focuses on 1,400 trend-leading on-premise accounts in influential cities across the U.S. Our experienced and highly knowledgeable ambassadors partner with these accounts to build their businesses through Diageo reserve brands with tailored programming tools and materials. The program delivered good results in fiscal '17, with the called-on accounts driving talkability of our brands and growing nine percent faster than the rest of the market.

Lastly, we continue to leverage innovation, driving fewer, bigger and more sustainable ideas, and nurturing smaller, earlier stage brands. In fiscal '17, while we launched 11 percent of the industry innovation variants, those made up over 60 percent of the industry year one innovation retail sales.

This progress against our strategy, underpinned by better consumer understanding and engagement, is showing up in improved performance. U.S. Spirits net sales grew 3.4 percent in fiscal '17, an improvement versus fiscal '16. But we know there is more work to do.

In fiscal '17, we made good progress improving the performance of our core brands, while continuing momentum on our fast-growing brands -- Bulleit, Don Julio and Buchanan's -- with share gains achieved in all categories except vodka.

Let me review briefly the progress we made in fiscal '17 on our four brands. We continued to consolidate our leadership position in North American whiskey, driven by Crown Royal and Bulleit.

Crown Royal experienced double-digit net sales growth and category share gains in fiscal '17 on the strength of innovation and purpose-driven messaging, with improved brand equity scores and penetration. The base variant Deluxe and Regal Apple continue to grow, and Crown Vanilla recruited new consumers into the franchise.

Johnnie Walker encouraged America to "Keep Walking," gaining share in the scotch category with consumers drinking Johnnie Walker more often. Consumer perception of its quality, aspirations, popularity and dynamism increased double-digit, a good indication that the message is effective.

We put the fun back into Captain Morgan, inspiring consumers to “Live like a captain.” After a few years of declining brand health, brand equity scores improved in fiscal '17, and the brand gained share in the rum category for the second year in a row.

Baileys gained share in the liqueurs category as we delivered lick-the-screen deliciousness through digital and traditional media and recruited new consumers with the Pumpkin Spice offering during the holiday season. The launch of a dairy- and gluten-free variant Baileys Almande appeals to consumer looking for a lighter option.

On Smirnoff, where we stabilized America's Number One vodka in fiscal '17, our focus on quality with talkability and core flavors is driving steady (equity) improvements. Smirnoff continued to collect awards, winning 10 new quality awards, including The San Francisco Spirits Double Gold. Good progress, but more work to be done to get Smirnoff back to consistent growth.

So we made some good progress on our core brands last year. However, overall performance was held back by our super-premium vodka performer, CÎROC and Ketel One. There is clearly more work to be done here, which brings me to our fiscal '18 plans.

Our goal in fiscal '18 is to continue to build on progress we made in fiscal '17, while improving performance of super-premium vodka. We are doing this by amplifying and up-weighting marketing investment against what worked in fiscal '17, while expanding into new areas.

In fiscal '18, we are continuing our focus on recruiting millennials and multicultural consumers, while expanding it to the 50-plus-age cohort, which we call “ageless consumers.” We’re doing this with purpose-driven communication that we will activate locally at scale this year. We're stepping up on our focus in targeting the on-premise and continuing to connect with consumers using the right mix of traditional and digital channels.

So let me bring this to life by sharing our fiscal '18 plans for vodka, North American whiskey and scotch. I'll start with vodka.

Our actions on Smirnoff are working, with the brand stabilizing in fiscal '17. The quality platform is resonating with consumers, driving equity improvements. We are up-weighting investment against it in fiscal '18 as we introduce our new brand ambassador, Ted Danson, who has high appeal with the ageless cohort and also amongst all other age cohorts.

This is being supported with always-on digital media, new packaging with quality cues and more standout

appeal, and new tools for the on- and off-premise that highlights quality and drives reconsideration. We'll continue to focus on core flavors, sharing delicious holiday recipes with millennials.

We are also bringing Smirnoff to live locally, reaching over nine million legal drinking age consumers of all ages, plus of other ages with the new music platform and a local activation against multicultural consumers -- an exciting year ahead for Smirnoff for sure.

Staying within vodka, we've taken stock of the changing consumer landscape to review our strategy and plans for our super-premium vodka.

Our plans on Ketel One vodka are based on a three consumer insights. Number one, status of less bling more self wealth. Two, women continue to be an important consumer; and the third, the importance of a "live well" mindset.

The new platform asks consumers to "Ketel your soda," highlighting that it's a family made vodka, 100 percent non-GMO and crafted to be an exceptionally smooth vodka. We are driving this platform to a national digital plan and significant media up-weight in key markets, including visible, local media like out of home and radio. New packaging and bottlenecks will also highlight these characteristics. We're sampling consumers at local events using the "Ketel Market," a holistic, fresh sampling experience. In the on-premise, our activation army and reserve ambassadors are sampling and activating the Ketel One soda garnish. And in the off-premise, we're offering special packs and digital coupons in partnership with Fever-Tree club soda.

Moving on to CÎROC. While CÎROC has underperformed recently, the good news is that it still has strong brand equity and high trial-to-conversion among 21- to 39-year-old consumers.

Our goal is to establish CÎROC as an icon of celebration, the definitive multicultural spirits brand, amplifying its purpose, which is to celebrate the spirit of the hustle. Sean Combs represents the spirit of the hustle, a self-made entrepreneur and a truly American story.

We're targeting urban millennials with the goal of expanding CÎROC to be the vodka of Hispanic consumer, with a renewed focus on key legacy variants -- which is the unflavored variant, apple and peach. And expanding into new occasions, while continuing to innovate.

Let me share with you how we're doing this. We're revitalizing the key legacy variants to recruit urban millennials by driving awareness through always-on digital social presence and a special pack, which includes a 750 ML of Blue Dot and a trial size 50 ML of peach and apple.

We're celebrating locally the spirit of the hustle through CÎROC Studios and Empowered Brunches and Hustle Hour. CÎROC studios allows aspiring musicians to get their music recorded and heard. CÎROC empowered brunches celebrate young entrepreneurs in their local communities. And Hustle Hours are happy hours hosted by celebrities.

Working with Sean Combs, we're broadening the influences we work with, celebrating the next-generation of hustle, DJ Khaled and French Montana. To recruit Hispanic consumers, we are partnering with Nicky Jam, executing national tent-pole events and partnerships like Latin Grammy Awards and sampling activation.

And, we continue to innovate on CÎROC, launching CÎROC Summer Colada LTO last summer to expand CÎROC into the summer beach and pool occasion. It was a big success and sold out quickly. French Montana is the face of the new flavor French vanilla. The launch is being supported by a campaign featuring his new song, City Tours, and a signature cocktail drive, in the on-premise.

I believe that these plans will improve our vodka performance in fiscal '18. However, we expect the pace of improvement to be gradual, given the competitive dynamics in the vodka category.

Let me now talk about our North America whiskey plans.

We know what consumers want in this fast-growing category, and our broad portfolio across priced tiers delivers against it with Crown Royal, Bulleit, George Dickel and Seagrams7, and luxury offerings like Blade and Bow and I.W. Harper. We are creating cultural icons on the American whiskey trail with Stitzel-Weller, the Cathedral of Bourbon, Bulleit Distilling Company, the mecca of modern distilling, and Cascade Hollow Distilling Company, the off-the-beaten path home of George Dickel.

The generosity platform is working for Crown Royal, driving penetration in equity. And in fiscal '18, we're up-weighting investment against it, bringing it to the biggest marketing platform in the U.S., the NFL. As the first spirits brands to advertise in a national NFL game, we are embracing the responsibility that comes with our category leadership position and using the platform to spread the most generous message we can, to drink responsibly on Game Day and hydrate between alcoholic beverages.

We created the Water BOYS, a real life squad of spectator hydration specialists, who have engaged tens of thousands of fans at football stadiums and sports bars across America to educate them on moderate drinking and to hand out bottled water.

Crown Royal will continue to celebrate acts of generosity from our consumers, for example, throwing a

wedding for a couple who generously donate their wedding money to charity and throw a royal holiday party for people who generously dedicate their time to others.

While we expect Crown Royal growth to slow in fiscal '18 as we lap the launch of vanilla, we are expanding Crown Royal outside of its core markets into the Northeast and establishing it as a go-to status brand for African-American consumers to restaging Crown Royal XO with new communications and new activation. And we will continue to drive the year-round trial, awareness and liquid to lips for Crown Royal Regal Apple and Vanilla.

We still have a lot of runway on Bulleit, with the opportunity to drive more awareness, penetration and distribution. We have a model that is working, and we're scaling it up with increased investment in fiscal '18.

Now on to scotch. We are reigniting interest in scotch with our flagship scotch brand, Johnnie Walker. In fiscal '18, we will invest to encourage ageless, women and Hispanic consumers to “Keep Walking.” A glass of Johnnie Walker Black Label will play a key role in our message. We will remind consumers that it is made of malts and grains from the four corners of Scotland, and that the youngest whiskey in the bottle is 12 years old. And we will introduce Johnnie Walker Red Label to a new generation of consumers and bartenders through sampling of Johnnie and ginger, and Johnnie and soda. We will bring to life what blue moments look like and inspire consumers to literally mark their important moments on a bottle of Johnnie Walker Blue.

We are making good progress on making, on creating Buchanan a Hispanic cultural luxury icon. We will continue on that journey in fiscal '18 with high impact local media, activating in the on premise and leveraging influence through J Balvin.

I've shared with you the fiscal '18 plans we have for vodka, North America whiskey and scotch. These, along with the plans on other brands and execution preparedness of our commercial team, means that we are well set up for our biggest season of the year this holiday season.

In addition, innovation will continue to play a key role in the delivery of our strategy. Crown Royal Regal Apple and Vanilla, Captain Morgan Cannon Blast and local (nut), and Baileys Almande are great examples of innovations we have launched over the past couple of years that are recruiting new consumers into our brands. We are also feeding the brands of the future by launching new brands like our bourbon Blade and Bow, and I.W. Harper, patiently developing existing brands like George Dickel and investing in nascent brands through our incubator program, “Distill Ventures”. Innovation will continue to play a key role in fiscal '18, though the timing of our innovation cycle in fiscal '18 is skewed more towards the second half,

while in fiscal '17, it was skewed to the first half when we launched Crown Royal Vanilla.

Before I move on, let me briefly share with you an update on our Casamigos acquisition. We're really excited to add Casamigos to our portfolio alongside our fast-growing tequila, Don Julio, increasing our participation in the super premium tequila category. We will continue to run the business largely as it is today and work with the founders to continue to realize the full potential of the brand. While still early days, the brand continues its strong performance, growing 59 percent and 117 percent in the last three months in Nielsen and NAFTA, respectively.

Let me close by touching briefly on our progress in driving productivity to fuel growth. We made good progress in fiscal '17, with North America organic operating margin increasing 51 basis points, driven by a positive mix and productivity initiatives. This focus on productivity has allowed us to up-weight our marketing investment in second half of fiscal '17 and more significantly in fiscal '18. Therefore, I expect the organic operating margin performance in North America for fiscal '18 will be muted.

In summary, we've been executing against our strategy and have made good progress. While we are proud of what's been accomplished, we are focused on what still needs to be done to further improve performance of our U.S. Spirits business. The progress we have made and the plans we have in place, supported by the up-weighted marketing investment, give me the confidence that we can continue to improve our performance.

So now I'm happy to take your questions.

**Sanjeet Aujla:**

A couple of questions from me, please. Firstly, just to clarify, despite the recent slowdown you've seen in Nielsen, do you think the business is still on track to improve the performance versus last year, which was 3.4 percent? And secondly, you haven't really talked much about tail brands. Can you just update us on the performance and some of the activations you did there?

**Deirdre Mahlan:**

OK. Did you say, did you say the core brands or the tail brands, I couldn't hear it...?

**Sanjeet Aujla:**

Tail brands, tail brands, you haven't really talked about this.



**Deirdre Mahlan:**

OK, thanks. So first, with respect to the business performance, yes, we do expect to improve our performance in this fiscal year versus the 3.4 percent last year.

I will just remind you again, when you look at the data, even if you looked at the most recent data, what really pleases me about the recent data externally, whether you look at Nielsen or NABCA, is that we've stabilized the performance of our most challenging brands. **[Note: refers to Ketel One and Circo value growth trajectory improvement in Nielsen and NABCA in first quarter of fiscal' 18 vs second half of fiscal'17]**

And if you look at the trendlines of our performance versus 52 weeks, it's generally stable or improving. **[Note: Refers to value share performance in Nielsen and NABCA in first quarter of fiscal'18 vs. full fiscal'17]**. And the reason why that's particularly encouraging is because, as I mentioned earlier, our innovation activities are skewed this year to the back half.

So while the 52-week data has some strong innovation performance last year, what you'll be looking at the last 12 weeks of the Nielsen and NABCA in October **[Note: 12 week period referred to here is first quarter of fiscal' 18]**, has relatively little. And as a result, it demonstrates that our core **(brands)** actually is showing improvement in trajectory **[Note: refers to value share performance]**.

While some of our brands, in particular, vodka, are still declining, if you actually look at the trendline on four versus 12, or 12 versus 52 **(weekly periods ending September 2017)**, we are seeing overall improving trends **[Note: Value share performance in Nielsen and NABCA, combined ]** which is encouraging. That, plus the results that we're seeing in brand equity performance.

So that's a longer explanation, that may be on other peoples' minds, so I offer it here, but the short answer is yes, I still expect to improve on last year's performance.

With respect to the tail brands, I would say that the tail brands performance is variable. And as you would expect, these are typically highly elastic brands. As I mentioned to you last year, we've been making adjustments based upon elasticities of these brands, where we believe we can get better performance. And, in some areas, in particular against the whiskies, we are beginning to invest on some consumer experiments, actually, in certain markets on up-weighting on our brands.

So overall, if you look at the three months of those brands, most recent three months performance **[Note: Nielsen and NABCA value share performance in first quarter of fiscal'18]**, it's stable versus the 12 months. We are working and expect to get improved performance on those brands through the end of

the year, but it takes some time for the intervention to take effect, as you know.

**Edward Mundy:**

Deirdre, is there any way you could share your perspectives on the potential impact of the proposed RNDC Breakthru merger? Any positives or negatives at this stage?

Second, on Casamigos, you talked a little bit about the performance of the last three months. Could you provide a bit more color on the outlook for agave pricing to Casamigos and Don Julio?

And then the third question is just a quick reminder on how is the reserve portfolio going, which I think is about 10 percent your business?

**Deirdre Mahlan**

OK. So first, on the proposed merger with Breakthru and RNDC. We've had some very preliminary conversations regarding their announcements with Breakthru and RNDC. There's still a lot to learn and understand. And as they've announced, they don't expect this transaction to close until sometime in the second quarter of next year. So we'll look carefully at it as the time progresses, but until then, we have we really don't have any comment. It wouldn't be appropriate for us to say much more.

With respect to Casamigos and agave pricing, there have been periods before where agave has spiked up, and so the good news is we're experienced in dealing with aged products and the potential for commodities pricing to impact that, whether that has been in what's been happening in whiskey pricing, or what has been happening in corn or other elements. So we're experienced to deal with that competitively.

I think -- again, I won't comment on what our likely actions might be with respect to increasing agave pricing -- that would be inappropriate. However, I will say that we are well-prepared in terms of our supply for agave to support the growth of our brands.

On reserve performance, the reserve performance is continued to be good, although I'll put aside, let me just call out, Ketel One and CÎROC, which are in our reserve portfolio. And as you know, those two brands have been challenged. I would say that in the most recent data -- and actually through this year -- the trends on those brands, as I mentioned earlier, is improving. It does depend on which period you're in, and we're focused on continuing to get that improvement.

But if you put aside the super-premium vodka variant, if you look at single malts, they're up high single-digits in fiscal '17. The Don Julio performance and Bulleit Bourbon continue to be strong and gaining share in their respective categories. So we feel really positive and confident about the continued strong performance of our reserve portfolio.

**Laurence Whyatt:**

Three for me, if that's all right. On the vodka, you said you're getting improving trends in all your brands. Can you, let us know what you're doing on the pricing there? Do you need to change the pricing at all, or are you happy with the current prices of those three brands?

Secondly, the recent hurricanes that have been happening in the U.S. -- can you let us know how that has affected your business and potentially some of your production in the U.S. Virgin Islands?

And then, thirdly, you've been getting strong growth through the line extensions in Crown Royal, we're (lapping) Vanilla this year. And just wondering if you had plans to launch any new innovations in that brand, or how you're going to comp the relatively difficult comps?

**Deirdre Mahlan:**

OK, thank you. The first question was about vodka performance and pricing?

**Laurence Whyatt:**

And pricing, yes, pricing in particular.

**Deirdre Mahlan:**

So first, let me just make a couple of general comments about pricing and the actions that we've been taking on our vodka brands. So we announced last year that we were making some adjustments on our vodka brands in particular markets. I just want to be clear, we were making those adjustments to bring the brands -- make sure that the brands we remained within our own pricing strategies.

We -- so in some cases, for different competitive reasons, the brand had drifted to places that were outside of our own desired pricing strategy, and so those adjustments were made. Through the end of last year and through the beginning of this year, I would say that more than 90 percent of those adjustments have been made.

So I'm not expecting any more, any material adjustments throughout those brands. Although, again, we continue to evaluate what happens in the market competitively and make adjustments for our pricing strategy and our promotional programs accordingly. So again, I'm not going to comment specifically beyond that on pricing as it wouldn't be appropriate, but that would be the summary of what I would say on pricing.

With respect to the hurricanes, yes, we -- the impact of the hurricanes, we have seen impacts, in particular, in Florida and Texas, and outside of North America, actually in some of our Caribbean businesses. We do expect that impact is short term. That has been our experience before.

And the businesses, we are already starting to see some recoveries in terms of the domestic business here. In terms of the U.S. Virgin Islands facility, it was impacted by the hurricane. However, I'm pleased to say that we do have that facility back up and running earlier this month in line with pre-hurricane levels. So we were it ramping up, and as of the beginning of November, but we're pretty much back to full performance levels.

On Crown, we even said last year, I think we might have made the comment explicitly that we do not expect for Crown Royal to be a flavor-led growth strategy. Crown Royal is a very strong whiskey in its own right. The launch of Crown Royal Regal Apple was designed and was a very successful innovation to recruit new consumers. That brand is now over 1.2 million cases and continues to grow strongly. And it is basically by -- again, this is directly targeted around strategy of accessing new consumer occasions -- and that's what Crown Royal Regal Apple has done and continues to do successfully.

As I mentioned during the presentation, Regal Apple has also been a launch that has been designed to recruit new consumers. This is to use a flavor profile that, where some consumers find the whiskey flavor is challenging and then to use a flavor profile which we believe that will be more acceptable to groups of consumers that, who may not want to consume it on the same occasion as Regal Apple, but actually may like a different flavor profile to recruit them into the category.

So we expect to continue to invest in those variants. And you may have noticed that we did launch a limited-time offer, which is part of our ongoing strategy with our brands to bring new news to the brands, which is a salted caramel variant for Crown Royal, which is selling through well, but that is a limited-time offer.

And other than that, we do not have any significant plans, any plans to roll out a significant launch for Crown Royal. We may have -- we periodically have (barrel) programs or other programs that are highlighting particular elements of the actual whiskey -- special releases, for example. So we'll continue

to do that kind of thing.

But with respect to our being able or our planning to launch other, new, large, permanent SKUs as flavor variants, we do not have current plans to do that.

So as I mentioned in the presentation and as we I think said at the end of last year, we do expect the total growth rate of Crown Royal to be lower this year than it was last year because we are not planning another significant launch. That said, we are continuing to be really confident in the continued growth and ability of Crown Royal to gain market share within the category.

**Olivier Nicolai:**

Just three questions, please. First of all, on scotch, could you give us an update on the upside you think you have on single malt? How big it is as a percentage of your portfolio today? And you're clearly targeting Hispanics with Buchanan's or Johnnie Walker Red. Are you targeting the same demographics as well with single malt?

And the second question I have is on Ketel One. You seem a bit more confident on Ketel One than you are on CÎROC. Could we expect the brands to stabilize this year? And how big it is as a percentage of your portfolio today? Is it fair to assume it's about five or six percent?

And lastly, a quick one. Could you just remind us if you are producing Bulleit in-house, now? Or are you still also out-sourcing the production?

**Deirdre Mahlan:**

OK. As I mentioned, we have strong plans for our single malt whiskey. As you will be aware, we have had over time a strong performance of our Classic Malts category, Classic Malts plans within the category. What we have been aiming to do is to continue to grow those, and they are growing double digit or very close to double-digit year-to-date on the Classic Malts.

But what we're also doing is we are looking to extend our Singleton brand. Singleton will -- is a single malt variant that will participate at price points where we previously did not really participate, so we can access a bigger profit pool within the single malt category.

That brand has been launched before. We recently re-launched it. We feel really positive about the progress. But again, that's something that we expect to invest in and build over a period of time. With respect to the size, and you asked about the size of that versus our -- I'm not going to comment specifically,

but it's not really material in the context of our total business on single malt business.

The second question was about Ketel One and the plans to stabilize. I went through some of that in the presentation. I'm not going to repeat very much of what I said, other than to say we are very focused on consumer occasions and the quality cues that have made Ketel One the great brand that it is. So we've gone back to remind people of the core elements of craft and expertise that underpin the Ketel One equity.

The brand has been made by Nolet family for generations and still is today, in Schiedam. The brand is made from 100 percent non-GMO grain. And we believe that the element of looking at craft and what we would call holistic lifestyle. "Ketel your soda" is directed at that, as is the garnishes that we are bringing and the botanicals that we're offering with respect to encouraging people to consume it with different kinds of garnish to bring out the great flavor of Ketel One.

So the brand has been -- after last year, it was we have seen improving trends on the brand. As you also know, we did bring Ketel One was one of the brands where the pricing in certain markets had gotten outside of our own strategy. We made those adjustments last year, and we expect to continue with our purpose-led marketing strategy and our local activation, expect the continue improvement in Ketel One.

On Bulleit, as you know, we opened our Bulleit distillery last year, well, this calendar year, last fiscal year, in Shelbyville. The Bulleit Distilling Company. So yes, we are producing our own Bulleit Bourbon in-house. However, given the aging profile of the brand, it will be some time before that liquid actually is in the bottle. So we continue to have arrangements for the supply of Bulleit, which are the same arrangements that we've had before and certainly satisfies our requirements.

**Olivier Nicolai:**

That's very clear. So should we assume when you are actually going to produce this in-house, and you would have say aging inventory, should we assume about your margin should, in theory, get a bit better on this brand?

**Deirdre Mahlan:**

I can assure you we have very strong margins on Bulleit today.

**Fernando Ferreira:**

I think three questions from me, Deidre. First one, on CÎROC. From hearing the fiscal '18 plan, it doesn't seem that there is any radical change to the message or the strategy around the brand. So the question is, what gives you the confidence that this plan will work now relative to what you were planning, let's say, 12 or 18 months ago?

Second question on -- one of the key players is having supply issues, in one of the leading brands in cognac in the U.S. I appreciate that you don't have a cognac brand. But is there any brand in your portfolio that you think would benefit from that and has a similar consumer (behaves), and you're potentially working to gain share in the near term?

And last question, in your view, when you think about the industry growth, what's driving the slowdown that we're seeing on the Nielsen readings from a consumer standpoint or an industry perspective, in your view?

**Deirdre Mahlan:**

OK. First, let me talk about CÎROC. CÎROC has been an incredibly successful brand based upon accessing consumer occasions around nightlife. It has been a flavor-led strategy that's very successful.

What we found, as the vodka environment became more competitive and consumer, I don't know, "occasions" have started to evolve, that some of those occasions were not resonating at much in those occasions with CÎROC and CÎROC flavors as we had hoped, or where we do when we launched them, the period of time that that's sustained is shorter.

So our strategy is to get much more focused rather than just keep focused on big, new flavor launches. So for example, when we launched apple it was huge, and then we launched mango, and it was still a big brand, but it was not as big as apple. Hence, the volatility. So I just don't want to take away from the fact that this is a very successful brand.

It is true that the flavor strategy has created more volatility in the brand now than we would have liked. And that we've gotten to a place where we now need to refocus on what we seem to be the core variants of that brand to expand into new occasions, which as we did last year using a limited-time offer strategy. And I think you can see us continue to do that. So what we need to do is reinforce the brand credentials and reinforce in the occasions where CÎROC is strong, as well as moving to new occasions and new consumer cohorts. And that has been the strategy.

Like a number of the other things I've spoken about, and in particular, in vodka, which is so competitive in the U.S. right now, there is no magic bullet. We need to continue to invest and to access core consumer occasions. And I'm confident that we'll stabilize and improve the performance of these brands – which you can see already happening. It may not be as fast as all of you would like, but if you want to build brands sustainably for the long term, we need to actually invest in them consistently and make sure that we're evolving them in a way that is sustainable, and that's certainly my intent.

With respect to various supply issues that may exist in the industry, I will just take you back to our focus on occasions. We focus our brands and our strategy on looking at consumer occasions and where can we win in those consumer occasions. So whether there are -- if there are other brands that we believe we can compete well with in those occasions, that's what we intend to do. We'll identify the best brands that compete in those occasions.

CÎROC has historically performed very well in those same kinds of occasions, as has Don Julio, and Don Julio 1942, in particular. And we are now finding, in fact, our whiskies, whether it would be Crown XO, and in some cases, Bulleit, and our high-end scotch brands, also performed very well in the same kinds of whiskey occasions that you referred to.

On the industry growth slowdown in Nielsen, I guess -- again, can you just repeat the specific -- I guess, I didn't catch the end of the focus of that because I talked about Nielsen earlier. I just want to make sure I address your question on the Nielsen slowdown. So if you could just repeat that question.

**Fernando Ferreira:**

Sure. No, I apologize because I joined a bit later, I'm not sure if you mentioned, what's driving, right, was main driver for behind that slowdown, in your view?

**Deirdre Mahlan:**

OK. It's really interesting. I would just take you back to consumer behavior. There was a long time where Nielsen actually -- or not a long time -- there were periods when Nielsen has been growing stronger than the other channels.

And I think there's all kinds of theories as to what happened in grocery and whether or not consumers are in grocery as much as they may have been in the past. I can only speculate, so I don't have a specific view. I think, in general, when people look at what's happening in grocery, there is some view that people are doing a lot more of that kind of shopping online or in smaller channels. That maybe a piece of it. I am, take some confidence in the fact that if you look at the liquor channels and the NABCA data, it's a stronger



performance.

So it looks to me, while there is some softness overall in the industry in the first quarter, I said at the beginning that I remain confident in the industry overall. Over 10 years, the industry is pretty much, with very few exceptions, grown around four percent. Sometimes, it's closer to five, sometimes, it's a little bit below four. But on average, over a long period of time, it's at around four percent.

I think the slight weakening in the first quarter where it dipped a bit below four percent doesn't trouble me particularly. And I think we would need a much -- if you look at the demographic and the macro factors in the U.S., it does not suggest that, that would be sustained. So I would see right now the Nielsen changes looking more like a bit of channel shifting, with a bit of softness overall for the industry in the first quarter.

**Nico Von Stackelberg:**

I just want to ask a quick question about the health of the Hispanic consumer. Could you please characterize the Hispanic consumer for me?

**Deirdre Mahlan:**

The Hispanic consumer overall is a growing demographic. And I know that, I'm stating the obvious there because you would all know that. I think with respect to our experience, we haven't seen any change with respect to the consumer behavior on our brands. So I think beyond that, I wouldn't comment.

Our, the brands that we have certain brands that, for example, have a high penetration in that group, including Buchanan and Don Julio, and our brand continues, as well as Johnnie Walker Black, actually, at some -- at that price point. At those price points, we are seeing a relatively consistent performance, so there's not enough of a difference that I would call it out one way or the other.

**Alicia Forry:**

I was just wondering on the comment you made regarding looking forward to FY '18 and the fact that you're going to use digital, perhaps a bit more aggressively. I was wondering if you could elaborate a bit on, are you talking about up-weighting some of your digital marketing investments? Or are there other aspects of digital interactions with consumers that you are focusing a bit more on? And if so, could you explain a bit to us your thoughts and plans for that?

**Deirdre Mahlan:**

Yes. I would say our digital investments are focused largely, not exclusively, but largely on search and recipes. We have found that to be a successful way for us to highlight and feature our brands. We also believe there is a strong correlation of recipe search and intent to purchase. And so we're really careful in

looking at how our investments in digital repay.

And I know there has been a significant amount of noise in the industry of late with respect to what's happening in terms of consumer targeting and whether or not CPG companies are actually getting access to the consumers they expected. We continue to evaluate and are very careful about the kinds of investments that we're making.

And then we have the ability with some pretty strong tools to make adjustments to that spend in an agile way. So I would characterize our investments as being focused on search and recipe. And I believe that was the last question.

It's one more question coming up. This will be the last question.

**Tristan Van Strien:**

Apologies for the last question here. I'm just going to ask about CÎROC again, or super-premium vodka, in general. I know you can't give exact pricing. But when I look at IRI data, it seems like both CÎROC and super premium vodka generally) are actually going down almost high single digits and pricing now on the last 4 weeks. Have we hit the floor yet on super-premium vodka? Or, do you expect pricing as a category to go even lower at this point when you look at your competitors as well?

**Deirdre Mahlan:**

First of all, I would just caution everyone at looking at any four week data as representative.

In particular, if you're looking at Nielsen data, it's a more highly promoted channel. And in the holiday periods where everyone is trying to attract consumers into their stores, you would get a more highly promoted pricing.

Because vodka is so competitive at the moment, and everyone is trying to get that consumer attention, not only for consumption at the time, but for gifting, I think what you'll do is you'll find promoted packs. The other thing that happens is, if you look at the Nielsen data, you're getting an average blend of pack sizes. And so it's just difficult to draw conclusions.

So I don't -- I'm not denying that there might be some promotional activity going on in vodka, but I wouldn't overreact to it. You need to look at it over a longer period of time to really see whether or not the categories are coming down.

We are seeing that in some positions and some brands appear to be drifting down, but I wouldn't say

overall that's the case. And, certainly, on our brands, I already talked about what we're doing on our pricing strategy, and so I won't comment beyond that further, but I don't expect to see a collapse of the pricing ladders in vodka. That's not my expectation today.

OK. Thank you again for taking the time to join. In closing, I'll just say our plans and recent performance give me the confidence that we're on track to continue to improve our performance through this year. You should now have in your inbox an e-mail that brings to life the fiscal '18 activities on our key brands, including links to new marketing campaigns. I highly recommend you to spend a few minutes going through it.

I look forward to speaking to you on the next call, if not before that.

Thank you, all, again. I wish you all a happy holiday.