Diageo Europe and Turkey President's call – Conference call transcript

John Kennedy

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Operator: Welcome to the Diageo Europe and Turkey's President's Call with Investors. Today's conference is being recorded. To ask a question on today's call, please press star one. Your call today will be hosted by the Region's President, Mr John Kennedy. And we are now ready to begin the call. Mr Kennedy, please go ahead.

John Kennedy: Hello everybody, and welcome. It's great to be with you once again to take time to update you on the Europe Turkey region. As in previous calls, while my responsibilities include India, I'll take the opportunity today to focus exclusively on Europe and Turkey. I will run through a business update. It will take about 20 minutes. For the rest of the time, we'll open up the line for questions.

Given the scale of the Europe business, I'll spend most of our time here and then follow on with an update on Turkey. So, as you saw in our recent F18 results, the region continues to make significant contribution to Diageo's overall performance. Organic net sales were up 4%, which reflects another year of consistent performance. I'm confident this is being driven through the effective execution of the strategy we've put in place back in [financial year] 2014. I believe the region can sustainably deliver a low-to-mid single-digit organic net sales growth over the medium-term as we continue to execute that strategy. Let me tell you why starting again with Europe.

As we look at macro forecast for the next five years, we expect steady low single-digit GDP growth with resilient consumer spending and improving employment levels in many countries, which will support consumer confidence. We expect premiumisation trends to continue with lower value local spirit brands losing share to more premium international brands. This trend is clear to see over the past few years in IWSR with ultra and super-premium brands consistently growing fastest followed by premium. Value brands over the past couple of years have actually been in decline.

The premiumisation trend is supported by consumers being more focused on achieving balance in all areas of life. They are drinking less but better. They are less likely to compromise on taste, serve or variety. Supporting this are many vibrant on-trade outlets where operators have really raised again to provide the right atmosphere and experiences for consumers. However, at-home consumption moments are also highly valued and are no longer seen as a poor option for the on-trade, with many entertainment and experiential options to enjoy at home.

These trends support growth of the premium brands in our portfolio. And within this market, we have that room to grow share. IWSR tells us we hold just 12% volume share of Western Europe spirits, and we've increased that share by 150 basis points over the past five years. In F18, we delivered a particularly strong value share improvement of 70 bps in addition to the 20 bps we delivered in F17. I believe that with our strong portfolio of brands and the consistent execution of our prudent strategy, we're well-positioned to gain share.

So, let me take you through Europe's progress against our execution priorities. I'm going to start with premium core and innovation together, as this year they proved to be a formidable combination. Let's kick-off with beer, which improves performance year-on-year with organic net sales up 4% in F18, up from 2% growth in F17. Guinness is Diageo Europe's biggest brand and it grew 6% last year, driven both by Guinness Draught and Innovation, broadly contributing in equal measure to net sales growth. Consumers are demanding more taste and quality and Guinness is succeeding in providing that with beers that satisfy this trend.

Guinness Draught performed well in GB, gaining share in the LAD category, and we also have good growth in our partner markets across continental Europe. Through F18, we have been consistently making improvements to physical and mental availability and are investing behind activity that we know works. For example, in Ireland, our Guinness TV media demonstrates the highest return on investment across all of our brand investment choices. And we've been able to improve this further using insights from our marketing catalyst tool to optimise the phase of media timing, the phasing of our media plans.

On Innovation, one important criteria we focus on is the sustainability of growth beyond the launch year. And with Hop House 13, I believe, we got a great example. As you know, this brand has been a standout success. And this has continued through its second year with strong double-digit growth. It's taken nearly 30 basis points of share in the GB LAD market and continues to gain share in Ireland, as we continue driving distribution gains and extending the range of formats to play across more consumer occasions.

In addition to Hop House 13, our Open Gate Brewery innovations continued to drive consumer interest and vibrancy into the Guinness portfolio, with new products such as Citra IPA and Pilsner and our recent launch of ultra-low alcohol variant, Pure Brew, which actually in blind taste tests has seven out of 10 consumers not able to tell that it's a low alcohol lager.

Finally, before moving on from beer, I'd also like to call out positive early signs from our exciting innovation in Irish lager. Rockshore is a quality lighter tasting lager brewed to 4% ABV and created by our brewers using only four quality ingredients, including Irish malt and barley. This is an exciting brand that is already the third largest MAT share-gaining brand in the Ireland market from a standing start in the fourth quarter of last fiscal. It's early days but I'm looking forward to updating you on progress on this brand in the future.

So, let's move on to spirits. The business delivered some standout results last year across Western Europe. If you look at total Western Europe, of the five spirit brands that gained the most value share, four belong to Diageo; Gordon's, Tanqueray, Captain Morgan and Ketel One. This is a great performance. And it leads me to start this section on the first two of these brands within the gin category. The vibrancy of the gin category continues with strong growth across all price points and the fastest growth at premium and super premium segments. I'm delighted with our performance this year from both, Tanqueray and Gordon's.

The Western Europe gin categories growing at 20%, we hold over 30% value share of the category and we expect the category expansion to continue to grow given the ongoing shifts in consumer behaviour trending towards socialising more in an early evening occasion. Both of our key brands are outperforming category growth. Looking at Tanqueray, net sales were up over 20% with the brand gaining 20 bps of category share.

Over the course of F18, we've stepped-up our marketing spend to invest behind communications to drive brand awareness. We've also improved visibility and activations to increase greater sale on both on and off-trade and to support Tanqueray's innovation programme. In F18, we launched the latest of our limited editions Tanqueray Lovage into the premium on-trade. And more recently we've launched Tanqueray Flor de Sevilla in Spain and GB. Sevilla has already received awards from 2018 San Francisco World Spirits Competition and early sell-out indicators are encouraging.

Overall, the brand has recruited one million new consumers this year. It's the fastest growing gin brand in the over 300,000 case category in Europe and was recently awarded Bartender's Spirit of Choice by Drink's International.

Moving on to Gordon's, which represents a fifth of all gin in Western Europe. That makes it the biggest gin brand in the Europe market overall. We set an ambitious plan for Gordon's in F18. And using insights from our Catalyst tool, we made decision to invest further behind the brand, which unlock the possibility to support Gordon's with strong media plans for the first time beyond the core market of GB; again guided by Catalyst, we are also able to optimise the timing of when we executed these plans to maximum impact.

While Gordon's participates at a less premium price point, the brand still delivered outstanding performance with both improved core brand performance and our highly successful innovation Gordon's Premium Pink gin. Last year on this call, I highlighted the launch of Gordon's Pink in the second half of F17. And this innovation has been a huge success and has enabled the trademark to gain share of the fast-growing gin category as well as gaining share of total spirits.

In GB, Gordon's has taken share of this premiumising category, and we believe it has been successful in recruiting customers to premium spirits from both beer and wine. And in Ireland, Gordon's has now taken over the number one spot as the largest gin brand.

So, I'm delighted with the performance we've delivered on these brands and categories. I covered these in a little bit more detail to illustrate how the combination of our focus on premium core and innovation are working together to support sustainable growth. But other categories have performed well during the year as well. For example, in liquors, we are up 6% with the continued growth of Bailey's and in rum, Capital Morgan continues to grow at 6% [correction 7%] as well.

However, I would like to spend a moment on scotch, a category where we have some more work to do, as sales were flat year-on-year versus F17. Starting with Johnnie Walker, net sales were up 2% and we've increased investment in media spend and continued the focus on liquid on lips and off-trade visibility. Our biggest headwind scotch has actually been from J&B, largely driven by Spain.

The scotch category is in decline in Spain and I believe that F19 will continue to be challenging for the brand and the category. However, we are revitalising our activity behind J&B and I believe the plans we have in place can improve the brand's performance compared to last year.

Finally, on scotch, our malts portfolio, which represents a quarter of our total scotch net sales was up 3%. And actually I expect improvement here too as we continue to invest behind key trademarks like Talisker, Cardhu and Singleton.

Now, malts are of course part of reserve. And one of the key capability that we've developed over the past five years in reserve is the ability to take small premium brands and to nurture and carefully grow them to scale over time. We now have about 200 luxury experts supported by the wider business and they include a significant proportion of reserve brand ambassadors.

We continue to execute the reserve brand-building model to create brilliant brand experiences for consumers in the most influential on and off-trade accounts across Europe. These are the places where brands are built and category trends are created.

Our coverage has been exceptional and has tripled over the past five years with now us covering just under 6,000 outlets. Diageo holds the largest IWSR value share of any luxury spirits company, more than double our nearest competitor and we continue to expand. We've got a proven record of taking brands to over 100,000 cases. And over the last five years, this has included Cîroc, Tanqueray 10, Bulleit Bourbon, Ketel One vodka, all of them growing from around 10,000 to 20,000 cases to over 100,000. Cîroc continues to be the number one luxury vodka in GB outperforming its peers.

And to continue the success of this model, we have exciting new brands that we are feeding into the system, including ones you'll have heard about, Roe & Co Irish Whiskey, Casamigos coming to Europe, and our first distilled ventures acquisition, Belsazar vermouth.

Next, let's talk for a couple of minutes about productivity, which has been a significant driver of Europe's performance both in terms of funding investment in the business as well as improving margins. Today I'll focus on two areas where using data is making a real difference to the efficiency and effectiveness of our marketing and the development of our net revenue management programmes.

We know there has been a shift in consumer behaviour towards experiences that can connect them to brands. Last year, I talked about efficiency improvements we've made in our use of experiential agencies. We have now also introduced new data capture technology to help optimise our spend further on experiential marketing. We're using a tracking tool that enables us to identify how efficient activations are by analysing attendance, sampling, consumer context and overall return on investment, as well as collecting digital images to check quality and brand consistency across Europe.

This additional data will allow us to prioritise the most impactful activity and funnel more investment into that. And this is an area of some scale. We now have over 20,000 experiential brand activations each year, so an important territory.

Secondly on marketing. F18 was the first full year of marketing Catalyst impacting our business. And this has really changed the conversation in our marketing function facilitated by information our marketers now possessed at their fingertips on their laptops. This knowledge helps us strengthen our efficiency culture leading to our people taking greater ownership for their impact on both growth and profitability. We continue to make improvements on our marketing return on the media investment. Some examples of decisions made by our team using Catalyst to deliver this benefit across our brand includes moving the phasing of activity, adjusting the length of video adverts and optimising the choice of media channels. And we still believe that there is opportunity to improve decision-making using Catalyst as we add more data to the system.

Finally, on productivity. Let me touch on net revenue management. As you heard from us before, our programme here is not yet developed to the same extent as Catalyst. You will remember, we were developing our capabilities in five areas, which include pricing, promotion, trade terms, product mix and formats. In F18, we significantly upgraded our peoples' NRM capabilities by training 50 experts who in turn have cascaded their learnings impacting more than 400 of our people across Europe. And in F19, we continue to expand our tools and capabilities to help improve price mix and margins over time.

It's clear that our focus on productivity has allowed us to increase marketing investment, while at the same time improving organic operating margin. Last year, we increased marketing investment rates by 50 bps, and at the same time as adding over 50 basis points to operating margin. The majority of this was, again, funded by our continued improvement in overhead efficiency. Going forward, we'll continue to invest where we see opportunities such as behind gin or scotch. And over the medium-term, I would expect us to continue to improve margins.

Now the final priority I'll cover is route to consumer where I strongly believe the changes that we've made have been instrumental in unblocking the performance that Europe has delivered recently. As you know, over the past five years, we've made significant improvements to our route to consumer. We started by getting the basics in place with a 35% increase in sales headcount, deployed in a targeted way that extended the number of outlets we called on by over 2.5 times.

We enabled these teams through sales force automation tool and enhanced call plans allowing us to get great data from outlets we chose to call upon. We moved with agility to point resource quickly and flexibly to where sales opportunities lay. For example, as we've discussed in the past, pulsing in and out of seasonal hotspots, tourist hotspots around Europe to take advantage of temporary opportunities. We continue to develop our route to consumer and are now in our third year of pushing into a significant effort in digital commerce area. We've made good progress here. We've built a real capability and are growing this channel rapidly.

We've been learning fast to understand how the channel can really work for us. As an example, we know that pure play digital commerce operators present a radically different consumer occasion to more traditional grocer digital commerce sales, being more impulse-led, more gifting-led and with more emphasis on personalisation. Having insights like these allow us to tailor our approach to take advantage of these differences and the opportunities that this growing channel and its sub-segments present.

So, to round up on Europe, last year's performance demonstrates our strategy is working. Our ability to capture and utilise data is allowing smarter investment and allocation of resources, which are delivering sustainable share gains in growth.

Let me briefly move on to Turkey. The business performed well in F18, with organic net sales up 11% and volumes up 5% driven by Raki and vodka performance. Our portfolio in Turkey stands across price points and is comprised mostly of Raki and other local brands. Recently we've observed a weakness in the Turkish lira. But from a consumer perspective, it's too early to determine what impact we'll see. We continue to monitor this closely, and I'm confident the local team will adapt as needed given their experience in managing volatility in this market.

So, now, I'd just like to open up the call for your questions. And I'll ask the operator to get the first question.

Sanjeet Aujla: Hi John. Thanks for the question. A couple of questions from me please. Firstly, can you just talk a little bit about Russia? This time last year you had started to integrate that business into Western Europe. Can you just talk a little bit how that's gone? And also, just on Spain. How do you see the outlook for that market there? What's the mix of your portfolio between scotch and gin today? Thank you.

John Kennedy: Sure. Thanks, Sanjeet. Yeah, so a couple of points. Russia is now completely integrated into the model. And you are correct, we were in the process of doing that last year, and that is now complete. And what we're finding is we've made a good start with that integrated model. The results out of the business were solid last year, with the volume up 8%, and NSV up just about 14%. And with what we expect to be moderate growth in the domestic economy in Russia, we think we can sustain continued growth there. So, broadly on track.

In Spain, what we've seen there is particularly in the scotch whiskey category, which is the biggest one in the spirits market, it has been soft over the last year. That has pulled back and stabilised in the last few months. And indeed, the performance of our biggest brand, J&B, has stabilised its share performance over the last few months. So, there's a tick up there but the category is still challenged. I would say, if you look at the broader portfolio in Spain though, the Reserve brands including Cardhu are performing well. Within scotch, Johnnie Walker is delivering a strong performance. Baileys is a big brand there and is – and is performing well. So, we do have a number of tools in our armoury to get growth out of Spain.

And we're still – unlike the rest of Europe, we're still relatively low share in gin, which is a giant category there. And there's plenty of opportunity to gain share in gin, which we actually have done in the last year. I would expect it to continue to do so in the future.

Sanjeet Aujla: Great, thanks.

Edward Mundy: Hi John, afternoon. Three questions please. On the call last year, you pointed to a medium-term outlook of low-single digit growth, and today you're flagging low to mid-single digit growth and you flagged some of the reasons, you know, particularly execution and the continued favourable macro environment. What would you say is the most impactful part that gives you confidence to raise your guidance, albeit modestly?

Second question is, you know, flagging quite a tough comp this year, lapping the gin innovation from last year and also the one-off benefit in the first half of '18 from employee benefits. I mean, do you see this detracting from fiscal '19 growth outlet for the division?

And then third of all, you flagged Casamigos, and as we know, high-end tequila is in the sweet spot of growth within the US. How would you characterise the opportunity for tequila within Europe? Do you see it emulating the US?

John Kennedy: Thanks, Edward. On the growth ambition, so our outlook hasn't changed. So, we've mentioned before – and I would say again, we do expect to be growing in the range of around 3-4% organic NSV. I think we looked at the language around that to describe what – how would you say – what language we'd use for that, and we thought low to mid-single digit was the right language. So, thanks for asking the question, I just wanted to clarify we see that as a continuation of the guidance we've had.

On Casamigos, yeah, I think, you know, obviously, we're not seeing the explosive growth that we've seen in tequila in the US business. But we expect those trends, particularly at the high-end, to have an impact on Europe as well. And we think we're going to be well-positioned there, because with Don Julio over the last few years, we've put ourselves in a great position to make sure the brand really shines in those 6,000 Reserve outlets I was talking about. And we've had great conversations on Casamigos, and are in the process of taking the brand on board and selling across most of our European countries. So, we think we'll have a great line-up there, and whatever growth there is at the kind of premium – super-premium plus levels, we'll be well-positioned for it.

I missed the second question, it was something about one-off benefits last year. Could you repeat that?

Edward Mundy: Yeah, quite. So, in the first half of 2018, your margins were possibly impacted by some one-off benefits I think in particular from employee benefits. And from a top-line perspective, you had the gin innovation as well last year. Do you see those items detracting from fiscal '19 growth both from a top line and bottom line perspective?

John Kennedy: I would definitely say, like, the consumer dynamics, particularly in terms of the growth in gin is not abating. So, we do see a continuation of the growth in the key category that allows us to say we'd expect to drive that, you know, the level of organic sales growth I mentioned and to continue to gain share. So, I feel that formula, while using productivity to throw off enough funds to invest in growing the brands and continuing to expand margins should – you know, we should be able to sustain that.

Edward, I'd have to just go back and check for you. And I might have – we've got a couple of folks on the call. I'll just ask them to check and see if there's any more detail on the one-off benefit in the first half, because I just don't have that on hand, I'm not sure what that was, but certainly nothing that would detract us from believing that the kind of guidance we're giving can be sustained.

Edward Mundy: Great. Thank you.

Fernando Ferreira: Hi. Hi John, thanks for the question, I have two please. First one on Guinness. As I understood from your comments, the performance was still driven by the solid innovation pipeline that you had. But I was wondering, how much momentum can you sustain on Guinness from basically covering white space that is still left out there and continue to gain share on Hop House 13?

And, then second question, if you can talk about the Polaris system and how much improvement potential do you see around net revenue management and especially trade spend in Europe, and if this upside is considered in your low to mid-single digit target?

John Kennedy: Yeah, thanks, Fernando. So, a couple of things on beer. I think, you know, Hop House 13 as an innovation, when I compare the market share that that's grown to compared to many other major new product successes in beer over the last 10 or 15 years, there's obviously a lot of room for growth. So, I would feel confident, particularly in GB that there's plenty of headroom there. And I think what's good about Guinness is it is a balanced performance with Guinness Draught delivering as well. And the main – you know, we do have a beer market in GB and Ireland, that's down about 2% a year in the on trade consistently, so there is that headwind. However, if you look at the dynamics of mainstream lagers broadly losing share steadily and consistently over time to more beers of taste, that dynamic favours Guinness. And the brand building efforts we've put in place over the last five years with Open Gate Brewery, with the advertising shifting to the brewing beer credentials focus is actually working for us. So, we think, you know, through a combination of those things, that we should be able to, you know, continue to grow the beer business, which is critical to us, because it's our – it's our biggest category.

On the trade spend side, we're continuing to push ahead and figure out how can we harness data analytics to drive better insight and better decision-making on net revenue management. What I'd really point to that I feel has advanced a lot over the last year is the combination of external recruitment as well as training up of a cadre of particular existing employees is building the capability and skill to take those buckets of headline pricing, trade promotions, pack formats and drive much stronger recommendations on how we gain price.

So, I feel good about the steps we've taken in the last year. I would mention that, as you would know, for consumers visiting Europe, the pricing environment is muted. And we would expect that, given the intensity of competition in the retail trade, there is a level of headwind that we're facing there that will, you know, continue for the foreseeable future.

Fernando Ferreira: That's great. Thanks John.

John Kennedy: Thank you.

Robert Ottenstein: Great, thank you very much. Two questions, one – and they may be related. One, I'm just wondering if you could talk about how you see the gin category evolving and whether you think there's going to be, you know, significant proliferation of flavours?

And then second, perhaps if you could talk a little bit about how your recruitment of younger LDA drinkers is going any sense of your share of the youngest LDA drinkers? Is that, you know, do you over index or under index there? And perhaps tied to that, what you're doing in terms of digital engagement. Thank you.

John Kennedy: Yeah. On the recruitment question, what we've been doing is actually, the model we've had and I think Syl Saller has talked about this at a couple of our investor presentations, is constant recruitment of consumers. So we know that we need to drive significant mental and physical availability at all times of our core brands in terms – to recruit and re-recruit people into our trademarks.

The way we're measuring that in Europe is, there's about 350 million TBA drinkers. We have hovered around – about three years ago, we were about 90, 95 million of those consumers who drink our brands. We've driven that penetration to about 115 million over the last several years. And we have an ambition to take that higher.

So we're looking at recruitment across all age groups. What we are also doing is by age group, being very clear on where are the bulk of our consumers coming from. So what we're seeing is, with a brand like Captain Morgan, it's definitely in the LDA to 24-year-old age group. And in brand categories like gin and scotch, it's more the 30- to 45-year-old age group.

So it varies, Robert, by the brand, but what we would say is, overall, we feel good that we are driving significant increase in the penetration improvement of the total portfolio. And while we were saying that, I didn't write down the first question. Would you mind repeating that for me?

Robert Ottenstein: Yeah. Just where you see the evolution of the gin category going and whether you think it will be a proliferation of flavours?

John Kennedy: I think what we're seeing on gin is that, we've been looking at, you know, if you look at the scale of that category and the level of growth, it's impressive. So we've been looking at, you know, what's the trajectory in the future. And there's no doubt that for two reasons, it's going to continue to grow.

One is in more developed markets like Spain, it's a significantly bigger share of total spirits than it is in other parts of Europe, so – and Spain has been a leader in this area. And the second is, the consumer trend that underlies this, which is a shift more towards an early evening casual socializing style of occasion versus later at night higher energy, is continuing everywhere we look. And therefore, you know, there are several million cases of gin that we could put on to this category in the last three years alone. We don't know the exact growth rate, but we would expect it to continue to show strong growth.

And I think the other important point to mention on this is, it is recruiting new drinkers to the gin category and it's actually drawing them from a cross beverage alcohol as you can imagine in an early evening occasion, a lot of those consumers are coming from beer and wine.

Robert Ottenstein: Okay. And do you expect to follow up on the Pink with other flavours or is that kind of a –

John Kennedy: Yeah. You asked about the flavour piece. Look, there's a proliferation of brands. There are a number of flavours coming in. Our expectation is that the 80-20 rule will apply. And that a number of the bigger trademarks and we're proving this with Gordon and Tanqueray will drive the bulk of the growth in the market.

And that in terms of innovation and new variants and flavours, that there will be a relatively small number that takes the lion share of the growth. What I would expect us to do is – and you may be asking, well, what's next after Pink? I wouldn't expect us to be extending in to a range of other flavours. I think we've learned over time that it's a combination of big new products like Pink Gin.

Also, juiced with interesting limited time offers like we've done on Tanqueray with Tanqueray leverage. And indeed, we've done on Baileys with strawberries and creams for the summer and pumpkin spice for Halloween. So I think you'll see more there. But I think we'll be able with our big brands and some of the big innovation variants to drive the majority of the growth for the category.

Robert Ottenstein: Terrific. Thank you very much.

John Kennedy: Thank you, Robert.

Eddy Hargreaves: Yes, good afternoon. I wondered – a couple of questions if I may. One is an easy one. Could you tell us what proportion of your Turkish sales come from imported spirits, please? Because presumably that would be the portion that are most at risk from macro events in that market.

And then the second one, a much more difficult, but something you have been thinking about I'm sure is, you know, what work have you done around Brexit, the potential implications of that if any? Are you confident that the business can continue with sort of the minimal disruption? Whatever the outcome there?

John Kennedy: Yeah. Well, Eddy, on Turkey, the majority of the – our sales there are domestic because Raki is such a big category for us. So we do – as you correctly point out there, we do have some, you know, mitigation in terms of cost increases due to exchange rate fluctuations.

On Brexit, look, we – you know, we're taking Brexit on our stride. We, like, other big companies have done our work to make sure that we mitigate any risks that emerge. We do feel that things have moved in, you know, in a direction that could be good for business with some of the aspects of the Chequers proposal ensuring you know, the free trade within Europe in having third party free trade or trade deals to be negotiated with other countries, no Irish border, et cetera.

But as we pointed out many times, we have a huge supply network of small to medium size enterprises that will find any bureaucracy regulation that comes in between UK and EU, more difficult to manage than us. So, you know, we continue to advocate on behalf of everyone on our supply chain to make sure that we get as simple a regime as possible.

Eddy Hargreaves: Sure.

John Kennedy: Thanks, Eddy.

Eddy Hargreaves: Thank you.

Nico von Stackelberg: Hi there. Yes. Quick question on the J&B performance in Spain. I understood what you said about the category decline and competitive pricing and so forth. But can you more discuss around like what's going on in the consumer's mind? So what's the shift around there?

And then my next question is on excise? Can you discuss any sort of watch out countries or incoming excise changes that you foresee? Thanks.

John Kennedy: Sure. On Spain, yeah, I think, you know, the broad trend as I mentioned on gin was, you know, Spain over time has had their social occasions move more to the early evening which favours gins more than it does brown spirits and whiskey. So that's been part of the headwinds there.

What I would point out, though, is that J&B as a brand has a long and strong history in Spain. And it is still known as the kind of irreverent whiskey that always surprises, always innovates, always does something interesting and new. And we're feeling confident, number one, that that positioning still exists in people's minds, and the new program which will roll out within a month, there'll be a product consumer, play to that very well. So that's on top of the fact that performance has stabilised in the last few months. I think bodes well for an improved performance on J&B.

On the excise question, we're not aware of any upcoming excise changes right now, but obviously, we keep a very close watch on that.

Nico von Stackelberg: Okay, thank you.

John Kennedy: Thank you.

Jamie Norman: Yes, hi, John. Just a deeper delve into GB, if I may. You know, you're delivering results that a few years ago would have been unthinkable, and you've touched on the role of your beer portfolio, but to what extent will that be complimented by spirits and the opportunities in your brand? There was a time when yourselves and the industry kind of eye-balled the multiple retailers every Christmas, and there was a question of who blinks first. And for sure, clearly, there is still a deflationary environment in the multiples, but is that something we almost, can sort of cast aside given the momentum and the potential in your business?

John Kennedy: Yes, I think, actually, I'm glad you mentioned GB, Jamie, because we're particularly delighted with the performance that we had, you know, for a business that big to show the growth rates that we delivered in F18, is really promising with NSV up 8%. And yes, we did have a strong performance in beer, but we've had just a strong, if not stronger performance in spirits over the last two or three years.

And there's a couple of dynamics there that bode well to sustainability. One is, cocktail culture. As we look at – the UK is a leader in Europe for cocktail culture, but it's still relatively underdeveloped versus the US, and that trend is growing, and that is favouring spirits as a category. The other is trade up, our reserve business in the UK has grown very significantly over several years and continues to do that. I mentioned Ciroc, but there are many other brands that are doing well.

And the innovation success that we've had, has been particularly strong in GB, so the Baileys new products, Gordon's Pink, Hop House 13, a lot of it coming through, so I think the scale of our brands and our route to consumer strength is actually getting maximum leverage out of those new offers.

And we mentioned Brexit a minute ago, despite that, the GB spirits market is pretty dynamic and still in growth.

The point on the customers, yes, there is always constant pressure in terms of pricing, but we're very determined that we will bring to customers, the total category approach that through a combination of margin accretive innovation trade up opportunities on reserve, and market leading category, growing ideas, we can have value for both of us, and that's the intent. Not that that's easy every day, but it's working right now, and we plan to continue.

Jamie Norman: Thank you very much.

John Kennedy: Thank you.

Caroline Levy: Thank you very much, good morning.

John Kennedy: Good morning.

Caroline Levy: Well, good morning here. Sorry. I'd love you to share your opinion on an issue that's much discussed and written about across many categories in consumer, which is the value of big brands versus small brands, and how the consumer wants to discover brands, and local brands, and you know, what is interesting is, we're starting to see some big brands actually come back quite strongly. And so just how you think about your business, do you think big and small, and do you think that data is allowing big brands to act more like small brands? Anything you could weigh in on would be so helpful.

John Kennedy: Sure, Caroline. Yes, obviously, that's something that we've looked at in our own category and as we looked at consumer packaged goods categories in a number of places. You know, where we come out is that, it isn't exactly a question of big versus small, but what is a very clear trend is, consumers are looking for a level of kind of credibility, authenticity, craft, understanding of how and where the brand's made, and the people behind it. And if you can tell a powerful story along those lines, our brands are thriving.

And Guinness would be a great example in beer where we made the shift three or four years ago and said, you know what, Guinness, which is a brand that's always been known for great advertising, but we said, we don't want to talk about the ads, we want to talk about the beer. And we really, kind of in our own mind, open St. James' gate, let people look inside through the advertising to see what we're doing, meet the brewers, meet the people whose parents and grandparents had worked here, and set up the open gate brewery, and invite all the beer writers in Europe to come in, meet our people, collaborate with us, actually on inventing new beers.

So I think and the data right now is bearing out, that if you can line up what you're doing against those needs, your brand can thrive big or small, and we have seen our big brands do well. At the same time, there will be new brands that emerge that are very successful, and we did set up Distill Ventures five years ago and have had a series of investments with people that we think have the most interesting, exciting ideas for new spirit brands, across the world.

And Belsazar was our first purchase, the one coming out the other end of that pipeline, which is a great brand, it's the vermouth from the black forest in Germany, we think that's going to play very well, and we're going to keep that pipeline stocked. So we'll play at both ends of the scale, but we don't think that the analysis is big versus small, it's making sure that you're telling a real story about the brand, and the people and the place where it's from. Thanks, Caroline.

Caroline Levy: Thank you so much, John.

John Kennedy: Okay. Operator, would you want to go ahead and close now? Actually, just before you do that, I think we've got one extra minute, I'll just make a couple of closing comments before we let people go. So F18 was another good year of consistent growth, and market share gain for the region. The strong business we've created today is a direct result of, I believe a relentless execution of a consistent strategy for over five years now.

We continue to drive performance through five executional priorities, and as you've heard, we're increasingly bringing data in, to enhance our insight and our business performance. We still have the opportunity to strengthen our business and I'm confident we will. And I'm confident that we can sustainably deliver growth and share gains over time.

Thanks, everybody for joining me today. And I will draw to a close there and pass back to the operator.

Operator: Thank you. This does conclude today's conference. We thank you for your participation.