

Diageo President's call – Greater China and Asia Pacific with regional president Mr Sam Fischer

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Operator:

Welcome to the Diageo Greater China and Asia Pacific Presidents Call with Investors. Today's conference is being recorded. Your call today will be hosted by the region's President Mr Sam Fischer. The call will begin with opening remarks followed by the Q&A session. To ask a question, please press star one on your telephone keypads. If you wish to cancel your request, please press star two. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. We are now ready to begin the call. Mr Fischer, please go ahead.

Sam Fischer:

Thank you, Sergei. And welcome to everyone joining the call today. I'm coming to you from Australia, and we have got a team of people in Singapore and also in London. So we've got some true geographic diversity in place. It's great to be with you again to have the opportunity to update you on our progress in delivering the growth opportunities that the markets I believe offers for Diageo. And do remember India and global travel fall under separate management responsibilities, and so will not be covered in this call today.

And the call will follow the usual format starting with an update from me for the first 20 minutes or so followed by time for Q&A after. Let me start with a brief reminder of the overall opportunities this region represents, and Diageo's approach to capturing it. My view on the opportunity this region offers for Diageo remains consistent with my update last year. This region represents about a third of global beverage alcohol sales and enjoys strong demographic fundamentals, accounting for about a quarter of global legal drinking age population growth. We have strong urbanisation trends which mean that emerging middle-class consumers are getting more exposed to branded products and premiumisation trends are particularly strong in this region. Lastly, there is real opportunity in the prestige space with over half the total growth of ultra-high net worth individuals expected to come from these markets.

While the opportunities are clear, we also face a few market specific challenges such as consumer trend shifts. For example, in some markets across the region we are seeing with a move away from late night to more casual get together occasions and a decline in the traditional on trade in markets like Korea. Traditionally scotch has been strong in these later night consumer occasions, so we have been shifting our focus to engage consumers in different occasions with both scotch and our broader portfolio. Overall however I am confident that this is an attractive region for Diageo. Scotch is the largest category within International spirits in most of our markets and our strength here means we are the leader in international spirits overall. Our strength in scotch gives us a great base to drive scotch category growth but also the platform from which to broaden consumer's participation into other categories. To achieve this, the execution of our strategy is based on five core pillars;

- 1) Win in scotch
- 2) Strengthen our local premium core brands
- 3) Continue to grow reserve
- 4) Innovate to broaden our participation and recruit and re-recruit consumers
- 5) All underpinned by driving productivity

While I don't intend to cover each of these individually today, you will recognise these pillars running through the examples I share from the markets.

I'm going to start with China, which is the market in this region that offers the biggest opportunity over the mid to long term. I look at this business as being comprised of two key parts; Shui Jing Fang Baijiu and International Premium Spirits.

I'll share my thoughts on Shui Jing Fang first. Diageo is proud to be the only international company to have a controlling stake in a Chinese Baijiu company. This is an exciting category and you'll have seen we recently expanded our participation here through increased investment in SJF, taking our ownership from 40% to 60% in August this year.

Baijiu is the largest spirits category in the world and SJF estimate it is set to grow value mid to high single digit in the medium term. Like other spirits categories around the world, Baijiu is premiumising with super-premium and ultra-premium segments up double digit over recent years and we continue to expect to see faster growth in these more premium segments. So the category dynamics are attractive and I believe the opportunity for future growth is significant.

Most of SJF's business is in the super-premium segment with the price of a bottle ranging from 300 to 600 RMB. Recently we have been growing much faster than the market but there is still plenty of headroom to grow as this super-premium segment represents less than a tenth of total Baijiu category sales value and within this super-premium segment, SJF's sales represent less than a tenth of segment value. SJF has demonstrated that it has the strategy to capture the opportunity. The team's approach has been disciplined and methodical, consistently leveraging five key enablers to broaden national awareness of the Shui Jing Fang brand at the same time as delivering strong growth and market share gains. These enablers are set out on page 2 of the slide deck that you hopefully have in front of you.

The first of these enablers is to build and maintain a simple, highly effective and expanded route to consumer. About four years ago now the business had identified the top five key provinces in which it was strongest and where it would roll out a new sole distributor route to consumer model. Over the past two years we have expanded that footprint, firstly extending to a second tier of five priority provinces and then in 2017 to a third five, with the business now focussed on 15 provinces. The shift to a sole distributor model was a step change in simplification which has facilitated rapid business growth, faster expansion into new provinces and it has allowed the SJF sales force to increase focus on outlet activation.

This improvement in outlet activation is the second enabler and SJF launched their core store programme which is all about ensuring the highest standards of in-store activation. Outlets have to achieve certain criteria to become a core store but when they do, they gain access to support with an evolving programme of occasion-based activation mechanics to help sell, for example into the key cultural occasions of banquets and weddings. They also gain access to incentives to offer their best customers. Some examples of these would be in the form of promotional branded gifts, visits to the SJF museum in Chengdu or invitations to mentoring events.

Thirdly SJF ensured their range of core products was optimised through a clear innovation programme. In 2014 Master distiller number 8 was launched in the super-premium Baijiu price tier at a lower price point to the long established SJF hero SKU "Well bay". Number 8 has helped the SJF brand appeal to younger consumers in occasions that are less about status and formality and more about authenticity and liquid credentials. It has also delivered a significant share of overall growth over the past couple of years. Now, moving to the upper end of the pricing ladder. Last year I told you about the re-launch of

Classic, priced at around 1000 RMB in the ultra-premium segment. Since I last spoke to you we have completed our core brand variant line-up renovation with the re-launch of Forest Green as our top of the range offering. Classic and Forest Green are effective tools to reinforce Shui Jing Fang's quality and heritage credentials.

The fourth enabler is to reinforce communications of SJF as a contemporary brand with a strong commitment to craftsmanship and heritage. Shui Jing Fang can trace its history back for over 600 years and has an impressive museum and visitor centre in Chengdu which showcases this heritage. This helps provide the stories of craft, heritage and quality credentials that form the basis of our brand communications to consumers.

The fifth enabler is about broadening the communication of these brand credentials through continued investment in A&P. Along with two years of over 60% organic net sales growth, SJF has invested strongly behind the brand using a targeted multi-channel approach. We launched the "600 years, living heritage" TV advertising campaign in late 2017 and also sponsored a TV network show "National Treasure" which showcased China's top cultural heritage locations and artefacts. Earlier this year we launched a new Classic mentoring programme endorsed by cultural influencers and innovative Forest Green mentoring events targeting the new elite consumer.

As you know Shui Jing Fang recently reported their third quarter results. They showed continuing strong performance, outperforming the category and they reiterated their guidance for 40% top line growth in calendar year 2018. I believe the strategy we have in place and the proven capabilities of our management team set us up well for the future to continue to expand distribution within the 15 provinces, strengthen credentials of the brand and grow market share.

Moving on to our International spirits business. At first glance international spirits' share of TBA net sales, at around 2% in mainland China may look modest compared to Baijiu but let's not forget that the total value of this share is still estimated to be well over £1bn net sales value. In addition, China's international spirit category is the most "premiumised" in the world with around 90% of NSV being represented by products within super deluxe and above price tiers. Scotch is the second largest category within international spirits and we expect international spirits brands to grow double digit over the coming years underpinned by comparatively large numbers of "new generation" Chinese. This cohort have growing international exposure, strong disposable income growth enabling ongoing premiumisation and their broader access to scotch will be supported by continued digital commerce expansion.

What is interesting is that we are seeing early indicators of increased Chinese consumer engagement with the scotch category. For instance, over the past few years we have seen Chinese high net worth individuals shifting to scotch as their preferred spirit and in a global travel shopper study we found that Chinese travellers now spend three times more on scotch in duty free than they do on cognac. We are seeing an evolution in status cues in China from being less about what you show, to more about what you know. Knowledge and experience are increasingly important and scotch is well placed to offer real depth and diversity here.

F18 was a good year for our scotch business in China with good double-digit growth. Within this our super deluxe scotch brands grew the fastest driven by our consistent strategic focus on the top end of the portfolio. Let me run through three areas of focus that I believe have made a real difference to our scotch performance in China over the past year and which also set us up to win as we look ahead.

Firstly, we have made significant improvements to our route to consumer. We have improved our distributor structure and signed up our first wave of outlets as business partners through core store programs and we have more than doubled our actively managed outlet universe with significant improvements in commercial execution across these outlets.

We have continued to expand our whisky space initiative with six whisky boutiques and two whisky reserve shops established and driving profitable growth but more importantly, our business partners at the boutiques are all locally influential, industry opinion leaders, giving us improved access to high net worth consumers. In F19 we will continue expansion of these successful initiatives and I can tell you we just opened our most recent whisky boutique in the last couple of weeks. This improved access to high net worth individuals means that our prestige brands business is now more than 10% of the total. The second focus area is building category engagement through the Diageo Whisky academy, Whisky Summit and Love Whisky education programme. Over 5,000 graduates were trained through the first stage of Diageo's Whisky Academy, including a significant number of trade customers from liquor stores and scotch malt whisky bars. The Whisky Summit event invited over 500 guests and strengthens Diageo's whisky category leadership in China while at the same time winning key stakeholders' confidence in our prestige whisky offerings and "Love Whisky" recruited nearly 40,000 followers.

Finally, we have e-commerce where we have significantly strengthened our execution. Diageo's brands are the leading growth drivers of the whisky category on-line. We have strategic partnerships with key operators in e-commerce and we have quality business plans in place with them which are delivering results. E-commerce now accounts for 14% of our net sales, which is ahead of the international spirits average in China, and in a recent third-party study that looks across the major platforms, we saw Johnnie Walker move to become the number one whisky brand on-line.

Johnnie Walker of course leads our scotch presence in China and it is performing well across the trade mark. Johnnie Walker Red and Black label saw growth in F18 and with improving equity scores. We believe the best way for us to build Johnnie Walker credentials is from the top down.

As such Johnnie Walker Blue Label is our number one strategic brand. We have run mentoring events, reaching over a thousand high net worth individuals via partnerships with top liquor stores to recruit super deluxe consumers into scotch. We have innovated to establish Johnnie Walker Blue Label as the iconic gifting choice. If you take a look at slide 3 you'll see our recent launch of a special edition for Mid-autumn festival in 2018, "Carp and Dragon" and we continue to reinforce Blue Label as the pinnacle of rarity and craftsmanship with Ghost and Rare.

Our number two brand is Singleton and here we have been building awareness through increased marketing investment and continuing to premiumise the brand through luxury innovations like Singleton 41-year-old which help generate brand aspiration and PR for the trademark through social amplification. To build further on this we have run mentoring sessions to recruit consumers who are looking for something with more rarity and a more in-depth back story by raising awareness of the broader range of higher aged Singleton variants that are available.

Then to round off on scotch brands, our other scotch malt whiskies including classic malts, special releases and distiller's edition, as well as rare, full cask sales are also delivering strong growth. The Whisky summit I spoke about earlier has been particularly effective in recruiting wealthy consumers into acquiring these rare casks and stimulating the interest and kudos in learning about and owning rare, prestige whiskies.

So, to round up on China, this is clearly a very exciting market with opportunity for further growth for both businesses.

Next let me share a few other examples of great execution from around the region.

Staying with scotch and moving to Japan and I have some images from this market for you on slide 4. Japan is a market where there has recently been a broadening of participation into new consumption occasions and price points. We have set about reframing our scotch strategy to take advantage of this and have a clear range of offerings across price points which is delivering results. Let me talk through the three key brands the business has focussed on, starting with White Horse. Here we have been recruiting consumers in occasions where beer is traditionally consumed by leveraging the quality credentials of scotch along with accessible pricing. To maximise recruitment, we are accessing the occasion fully across both the on-trade and at home with the launch of a range of formats including a draught serve for the on-trade and ready to drink cans for the at home occasion.

Moving up the price ladder to Johnnie Walker Black Label with net sales up strong double-digit last year. We led with our Highball strategy where we executed scale activations to recruit consumers across channels based on the whisky and soda serve. We ran key 3rd space events in key cultural locations in Tokyo, one of which reached over 16,000 consumers with a pop-up bar, digital social media activity and also trade education. We also ran impactful on-trade execution in the modern casual channel with focus on serve, glassware and visibility materials, as well as activity in the off-trade.

Finally, on our reserve scotch portfolio we have accelerated growth and won share in malts led by Talisker, Lagavulin and Singleton. This has been delivered through recruiting consumers who are looking for more unique and complex taste profiles.

In South East Asia, you'll remember last year I talked about the opportunity I saw for Johnnie Walker in the Philippines. Over the last year our focus in the Philippines has delivered fantastic results with Johnnie Walker having gained share of scotch and another year of strong double-digit net sales growth. Building on the success of the keep walking communications in F17, the team have been agile in experimenting with multiple growth drivers and quickly scaling up those that worked most effectively. I'll give you a couple of examples from slide 5. Firstly, we have executed third space events, using completely new event and mobile bar activation formats to reach over 250,000 consumers. Secondly, we recognise that at-home consumption in this market has grown to a relatively high level, at around 90%. As a result, we have transformed our off-trade execution into highly immersive brand experiences, including stand out visibility, in-store sampling, cocktail serving recipe materials and with special in-home packs including equipment to help consumers create the perfect serve at home. We are making great progress in this market and I'm delighted that Philippines consumers have ranked Johnnie Walker as their "most loved spirits brand".

Before I move on from scotch I will round off on our regional approach to pursuing the prestige opportunity outside of China. This is an opportunity across the Asia Pacific region and we have a really innovative approach that allows us to offer an incredible range of rare scotch whiskies and at the same time reinforce the craftsmanship behind Johnnie Walker. Based in our offices in Singapore and you can see this on slide 6, we have our Johnnie Walker private suite, a by-invitation only showcase facility where we engage with influencers and collectors from right across the region. Despite this very selective

approach this business is growing quickly, and we anticipate it will continue to do so, both generating PR for our high-end scotch business as well as delivering a strong contribution to business profitability. Next, I'll shift gears and share an example of where we have deployed an innovative way to grow international premium core spirits in Indonesia through a focus on locally produced spirits brands, Smirnoff, Captain Morgan and Gilbey's gin.

You can see a couple of local spirits executions from Indonesia on slide 7. Imported premium spirits brands have been a relatively expensive choice for consumers in Indonesia driven by high import tariffs. The team identified the opportunity to provide consumers with international brands at more affordable price points, and with a range of appealing new drinks. Four years ago now, we invested in local production, and have been building a sound foundation for future growth of these brands with improved distribution coverage, implementation of our execution standards and investment behind activation programmes in outlets. The results have been encouraging and these brands are the fastest growing part of our business in Indonesia. This growing local production business helps us recruit consumers into our spirits brands at more affordable price points.

Lastly, let's go over to Australia. Just recently the gin category in Australia has really taken off and we believe we are seeing a trend here. Over the past year the gin category was up strong double digit and we have been growing ahead of the category with Tanqueray. In fact, Tanqueray is the fastest growing trademark within the spirits category in Australia at the moment. We have supported the trademark with increased marketing investment, London dry is in strong growth and in the second half of F18 we launched Tanqueray Rangpur and Flor de Sevilla. We also launched a Tanqueray and tonic RTD in March this year. As you can see on slide 8, this premium RTD is immediately recognisable to the consumer as a Tanqueray bottle shape with a quality Tanqueray and tonic serve. Early feedback from consumers has been strong and initial sales are very encouraging.

Now, I haven't gone into a lot of specific detail on productivity in this particular call, but rest assured this remains an area of focus across the region. Just one example is the deployment of our global marketing catalyst tool. Australia is a great example of this where we've been able to use the insight from the tool to support our decision to significantly upweight our investment behind Tanqueray at the beginning of F18 enabling us to deliver growth that outperformed the category.

So, in a moment we can open the call up for questions but first, let me sum up.

As I look across my region, I have confidence that the business is well positioned to take advantage of the opportunity these markets present in the medium term. We see overall premiumisation trends across the business and have a real opportunity to drive our super deluxe and prestige business in this region. It is true that we continue to face some volatility in markets such as Korea but overall, it's a region that continues to deliver good growth for Diageo. Over the medium term I expect this region to deliver sustainable organic top line growth accretive to Diageo overall growth along with operating margin improvement underpinned by continued productivity improvements. For F19 performance has started in line with expectations and for the full year I also expect organic net sales growth will be accretive to Diageo.

So thank you for listening. Now I will open the call for your questions.

Sanjeet Aujla:

Hi Sam, three questions please. Clearly lots of investor concerns over the macro developments in China. Has your business either in baijiu or scotch seen any signs of slowdown in recent weeks? And tied to that, can you just give us a read on how Mid-Autumn Festival has developed? And secondly, I think Shui Jing Fang announced a significant capacity expansion project a few months ago. Can you just share some further details on that including the size of the capacity expansion of this? Thanks.

Sam Fischer:

Great, thank you. Look there has been a lot of noise about China slowdown. And we're not really seeing any impact on our consumer demand. So we remain confident in our outlook. I haven't yet got depletions from Mid-Autumn Festival. But as I said earlier that is in line with our expectations.

In relation to Shui Jing Fang, yes, we have announced that we are looking to expand capacity through the Qionglai facility. This is early in its development. We have been working with the government. And we haven't released any specific numbers around the tonnage. But it is true, we do have a project that is working to expand our production capacity.

Sanjeet Aujla:

Perhaps just a quick follow-up on Taiwan. That wasn't referred to in your presentation. I think that was a source of weakness last year. Can you just talk a little bit about how the market has developed since last year there? Thanks.

Sam Fischer:

Sure. You're right. Last year, we did see the impact of a counterfeit issue that we did have in Taiwan and on Johnnie Walker and also Singleton. We had a really strong programme on both of those brands last year with packaging changes on Singleton, and a national trade launch. We went back into the market with a heavy upweighted media presence in TV. And we've also significantly reinforced our Johnnie Walker business. So in FY19, the business is off to a good start and I expect it to be stable throughout the whole year.

Sanjeet Aujla: Thank you.

Fernando Ferreira:

Thank you. I have three questions on China as well a bit more short term. So I do apologise in advance. So first Sam, can you talk about your expectations and preparation for the upcoming 11/11. And then second on pricing have you seen any signs of softness recently either for your brands or competitor brands in the online channel or traditional channel? And then third if you can perhaps give us an update on trade inventories on the ones that you have visibility on? Thank you.

Sam Fischer:

Sure. So I know the teams are working hard. I think in the commentary you've seen that we've got a strong presence in ecommerce in China across both international spirits and Shui Jing Fang. And I know they're working with all of the key operators to have a very strong 11/11. In relation to pricing, we've managed to get good pricing in the baijiu business in China over recent years. And we have also taken some price in the International Spirits business. Like everything with pricing, we'll continue to monitor the external environment. And where there are pricing opportunities, we will look to take them. In relation to inventory, no inventory concerns. I think they're all at optimal levels at the moment.

Fernando Ferreira:
Thank you.

Simon Hales:

Thank you. Hi, Sam. Could I just sort of just following on that last question around inventory in trade. I mean how are stocks of baijiu in trade, the SJF business moved over time? Have they been consistent or have they been coming down over the last couple of years? It would be interesting in the insights you can add there. And then secondly just around the e-commerce business, I think you said about 14% of your business in China was going through e-commerce at the moment. I wasn't sure whether that was just a reference to your scotch business or included SJF. And I just wonder where you think that may move to over the next sort of couple of years.

And then finally you referred to it to the end of your prepared remarks, the Korean business. What are we actually seeing in terms of underlying trends or is there any sign at all of a rate – a slowdown in the rate of decline in that market?

Sam Fischer:

Great. Thank you. Just in relation to the inventories as I said we've got optimal inventories across both businesses. I am very happy with them. And they've been consistent over many years. In relation to e-commerce the reference of 14% was specifically to international spirits. But we have a very strong e-commerce business also in Shui Jing Fang, somewhere around 8% which is industry-leading from a baijiu perspective.

We continue to invest in capability in our e-commerce business. We are looking at really trying to understand data in the online consumers so that we can innovate to meet some of those consumer needs. So I expect us to continue to focus on e-commerce. And I expect that e-commerce will continue to be a significant contributor to our business.

In relation to Korea, now there's some structural challenges in Korea as I mentioned with the traditional on trade. This has been a channel for our Windsor brand that has been in decline probably for nearly a decade. We are seeing it slow down slightly. And there have been some shifts to this mid-proof segment which is lower than 40% ABV. Interestingly in Korea, our business is also focused on really driving into channels that are outside of the TOT, things like casual get-together, some of the more specialist premium bars.

And our Johnnie Walker business in strong growth as is our reserve business and in fact our Guinness business is doing well. So this is the business in transition. I don't expect the structural decline in local whiskey necessarily to abate, but I do see lots of upside in some of the businesses that I just mentioned.

Simon Hales:
Thank you.

Sam Fischer:

Interestingly, I would just add on local whiskey. We continue to hold our share. We have had a consistently high share in that business and the strategy is to continue to hold it.

Edward Mundy:

Evening, Sam. Hello everyone. Three questions please. The first is on the scotch versus cognac piece within China. Sam, are you able to elaborate a little bit more why are you seeing consumers starting to consume scotch over cognac and how are they consuming it? Is it predominantly the high-end blends or the malts, a bit more colour on that?

The second is on China and potential government measures to curb alcohol consumption. Is there any update at this stage on that? And then the third is on Shui Jing Fang. You mentioned much stronger distribution, you got sole distribution I think in 15 provinces. Are you able to split out how much of your growth is like-for-like growth and how much of it is new distribution gains?

Sam Fischer:

Let me start with cognac. I mean, we don't have a cognac business. So I am not going to specifically comment on cognac. But what I will say is that we continue to see strong growth rates for scotch. And you've referred to the strong, the double digit in FY18. I honestly don't see any reason for that to change. I think that as we look at the category – and it is still nascent as I've mentioned. But we can see green shoots appearing in relation to consumer interest in scotch through our boutiques, through our online platforms, through the number of whiskey bars that are opening up, through interesting e-auctions that scotch are having in Hong Kong. So there's really a significant interest in the breadth of scotch, the diversity of scotch and trying to understand what is a really interesting industry. And I think the work we are doing to drive category penetration and insert our brands on top of that is really building the category. And you remember that some years ago we moved away from some of these expensive on-trade accounts. And now we're all about building category and building scotch credentials from the top. And I think this is what's giving us so much confidence in the category over the medium term.

In relation to some of the noise around the responsible consumption of alcohol in China. I mean we support the government in trying to ensure that alcohol across the country is being consumed responsibly. And we'll continue to engage with them as we have done over the last four or five years with specific programmes ensuring that alcohol is consumed responsibly. And we don't expect that to cause any major shocks. But we'll continue to monitor obviously.

We talk a little bit and you may have seen this in relation to Shui Jing Fang distribution around the five plus five plus five route to market strategy, and the mushroom strategy that sits inside of that. So when we go to a province, even the first five provinces that we went to, we don't try and cover the entire province at once. We focus on a district and make sure that that district has got great distribution and great brand support.

And then we move through the spillover of that district to the next district. So even on the first five provinces, we've still got districts to cover and ensure that we have got complete distribution. In relation to growth, I won't split it out. But we're still getting great growth on the first five provinces that we penetrated. And obviously we're getting growth on some of the new provinces that we are bringing in.

Edward Mundy:

Thanks. And just a follow-up on that. Are there more opportunities to go into new provinces beyond the five plus five plus five?

Sam Fischer:

Well as I mentioned actually when we look at the super premium segment, we see it growing the fastest of all baijiu segments. And when we look at our share within it, it's still relatively low. So we think that

by continuing to grow share and scale in those core provinces, that's the best strategy for us at the moment. And it is working. And also those 15 provinces that I mentioned probably cover over 80% of baijiu in these categories in China. So they are also the right provinces for us to be in.

Edward Mundy:
Great, thank you.

Trevor Sterling:
Hi Sam, just a couple of questions on Shui Jing Fang and the baijiu business. What percentage of sales now is in the core heartland of Sichuan? And how much have you expanded outside of Sichuan? And the second one, who is your — who do think your biggest competitors is? So is it the lower variants of Wulliangye or is it other baijiu manufacturers?

Sam Fischer:
Hi Trevor. Yeah, no the Sichuan is our home province. And it's one of our core provinces. And as such, it represents a strong portion of the business across those core provinces. But we've also got other strong provinces like Jiangsu, Henan, Hunan and Guangzhou. So it's not disproportionate, but we have a strong business there.

In relation to the competitive set as I mentioned the segment that we operate in baijiu, we classify as kind of the super-premium segment. We probably put our Forest Green variant for example and Classic in the ultra-premium segment, but the bulk of our business is in super premium segment. And the competitors, there are competitors like Yanghe, a company called Jiannanch, JNC for short and Langjiu are probably the three largest competitors.

Trevor Sterling:
Great, thank you very much, Sam.

Chris Pitcher:
Thanks very much. Sam, can I follow-up on a couple of things? Did you say early you saw medium-term growth for Shui Jing Fang in the mid to high single digit range? And if so, is that capacity constrained growth projection? Then secondly, could give a bit more colour on the statistic you threw out that said that high net worth individuals going through travel retail were spending more than three times on scotch than on cognac?

Can I just confirm what time period, what was the sample there? And finally what role is the Moët Hennessy-Diageo joint venture now playing in your strategy? Is that just Johnnie Walker Black now going through that? Can you give us an update for how much is now — how it splits? Thanks.

Sam Fischer:
Sure. Chris, sorry. Could you just repeat the first part of that question? I was trying to write it down and I missed it. It was to do with Shui Jing Fang, but I just didn't get the point.

Chris Pitcher:
Yes, I think you said you saw mid to high single digit growth over the medium term for Shui Jing Fang? I think you said that earlier on. And that to me seems a little bit low given the potential penetration of

super premium baijiu within baijiu and the current growth rates for Shui Jing Fang. So I was wondering whether that was a capacity constrained outlook that would step up once you've opened the new facilities?

Sam Fischer:

Yeah. So in relation to the outlook, I'm not sure I gave one. But I certainly reiterated what is the external at the moment which is the 2018 outlook of 40% growth. And obviously that's following up really strong growth from the previous years. And again I think we are confident that we've got the right growth drivers to sit behind both the brand and our route to market. So that's essentially our outlook.

In relation to travel retail, yeah this is just a study that we got our hands on recently. I haven't got the details in front of me. But it should be interesting to note that Chinese travellers as they are travelling in this particular study were buying more scotch than cognac. So and we think that also in just some anecdotal sort of studies we've done in China where we can see younger consumers also showing more affinity to scotch.

So again just good signs that the category has got – is in good health, and the outlook is really healthy.

In relation to MH, we continue to have a good relationship with MH in China. They continue to distribute the Red and Black Label variants of our Johnnie Walker portfolio and the business continues to do well.

Chris Pitcher:

Okay, so just Red and Black that's now going through that, everything else is going through your own distribution?

Sam Fischer:

Correct. And they also do Gordon's Gin just for completeness.

Chris Pitcher:

Okay, thanks very much.

Nico Von Stackelberg:

I'm concerned about the quality of depletion data coming out of China. And as I understand distributors and tier one and two cities are the majority of what you use in terms of defining the depletion data out of there. So I was just wondering is that the most trustworthy data set given that they have a tendency to stockpile inventory? What are the most useful I guess indications of China? And what are those key, I would say, best data sets telling you today about the underlying depletion data? Thanks.

Sam Fischer:

Yeah. So then it's actually interesting – the data that we collect is actually all the way down to outlet. And that's how we really drive our depletion data. And when we talk about the sole distributor model for example for Shui Jing Fang, what's interesting about that model is that the sole distributor essentially does kind of logistics and collects cash for us.

But the outlet activation and data is collected directly by the Shui Jing Fang sales force. And we've got QR codes that measure the stock going through each stage of the distribution cycle all the way to outlets. And so we've got a really clear view of true kind of consumer or B2B led depletion data which gives us a great read on the health of our markets. Similar in the scotch business, there are fewer customers in the

scotch whiskey business. But again we are measuring depletions the whole way through the chain. As I said our depletion data is in line with our expectation as we head into FY19. We obviously have been watching closely given some of the volatility that some are seeing in China. As yet we haven't seen any impact, and everything is in line with our expectations.

Nico Von Stackelberg:
Thank you.

Olivier Nicolai:
Good evening, Sam. I've got three questions please. First of all regarding the catalyst system you said last year it was being rolled out in your markets. Did you already see an impact on your marketing efficiencies outside of Australia? The second question is actually to stay on the topic of big data. Has Polaris been rolled out to Asia? Do you see much upside on that revenue management? And just lastly going back to scotch, what do you think in your view what is the mid-term potential for single malts versus branded scotch in China? Thank you.

Sam Fischer:
Yeah, so in relation to catalyst, yes, we are rolling this out across all our markets. This does require about a year to be in place in order to gather the data that allows us to analyse that, so that we can make some real choices around where we're investing and the kind of payback that we will get for that investment. So we kind of started with Australia and being a quite developed market with good data.

And then we've rolled it into markets like Taiwan, like China and parts of Southeast Asia. And again we're getting different levels of data that allow us to make different decisions. But every month that goes on that data becomes more robust. And I think it will drive that A&P efficiency that we've seen in Australia. We have not rolled Polaris out in any of our markets in Asia yet. I believe that's still on its way.

And in relation to single malt versus blend, I mean these are playing a dual role in the development of the scotch category. Let's talk about China or Taiwan where both businesses are really healthy and growing. Blue Label for example, we've mentioned some of the limited editions, the advertising that we are putting in place to drive kind of rarity, the whiskey boutiques. And all of these are platforms that enable us to allow consumers to understand the unique differences between both. So as scotch develops, we think that both single malt and blends will play a key role.

Olivier Nicolai:
Thank you.

Operator: Thank you. As there are no further questions in the queue, I would like to turn the call back to Mr Fischer for any additional or closing remarks. Over to you, Mr Fischer.

Sam Fischer:
Thanks, Sergei. And thanks to all who have joined today. And I really appreciate the opportunity to share my update with you and take your questions. As you've heard I've confidence that the markets in my region present real opportunities for Diageo. And I believe we're set up well to take advantage of them. So once again thank you all for joining the call and I look forward to speaking to you again next time. Thank you and goodbye.