NAM President call

Good morning and afternoon everyone and welcome to this year's North America call. It will follow the usual format you are familiar with: an update from me for the first 25 minutes followed by a Q&A session. I will focus largely on what we are doing to continue to improve performance in US spirits and at the end of the call I will touch on Diageo Beer Company USA, our beer business here in North America.

I'll start with a quick reminder of why Spirits in the US is such an attractive market:

- The US is the world's second largest spirits market, with £38B of consumer spend (RSV) and the largest profit pool for International Spirits
- Nielsen and Nabca data suggest the industry is growing at around 4%, the highest growth rate amongst developed markets, and we expect strong growth to continue given positive demographics, positive trends from premiumization and share gains of spirits from other TBA categories.
- As an example, in the 52 weeks, spirits RSV grew 4 times faster than beer and malt, according to Nielsen data

Within this market Diageo has an enviable position. Our broad portfolio gives us scale and we are the market leader, twice as big as the nearest competitor.

Our US spirits business grew 3.3% in fiscal 18 and while we underperformed the market, the quality of growth of our core brands has improved. Last year our core brands, Crown Royal, Johnnie Walker, Captain Morgan and Baileys, gained share in their categories. The only exception being Smirnoff. However, brand equity scores in Smirnoff improved and performance stabilized, with market share trend improving in F18.

While this is an attractive and profitable market, it is also one that has been evolving rapidly in terms of how consumers socialize and celebrate. Since I became President of this region three years ago, I have made changes to ensure the organization is better equipped to adapt to this faster changing consumer environment and we are delivering improved results.

Our strategy in the US is consistent with what you heard from me last year and focuses on driving recruitment of consumers into our portfolio by winning with the right brands in the right occasions and at the right price. While our overall strategy remains unchanged, we continue to make adjustments to our approach to improve our execution in market and, therefore, our growth.

I would characterize the changes I have made as

1) increase our focus on a clear portfolio strategy,
2) use of data and analytics to drive better execution,
3) and strengthening long term brand equity through increased and more effective marketing spend.

Now I'll explain in a bit more detail how these interventions are driving improved performance and why I am confident we can sustain and build on the improvements we have achieved

Firstly, our portfolio strategy is focused on ensuring we allocate resources behind the opportunities that can deliver the best returns. This is enabled through choiceful acquisitions and disposals but perhaps even more importantly through well informed brand strategies and investment choices.

Over the last few years for example we have transformed the way we do marketing through our Consumer Choice Framework and the roll out of our marketing catalyst tool. Both tools, although different in nature, allow us to leverage data and analytics to improve the way we allocate resources and increase the effectiveness of our marketing activities.

I introduced our Consumer Choice Framework at the last capital market day. It is based on deep consumer research and gives us a lens into the changing motivations of socializing in North America, allowing us to dissect these across age, ethnicity and geography. These insights are influencing a range of strategic choices from our communications approach and innovation pipeline to pricing and in-store promotions. We are able to use these insights to prioritize where to focus brands in terms of consumer occasions , and importantly how we focus on them, including choice of channels, messaging, media timing and other factors. Let me give you an example of how we have used it on one brand. Historically, Smirnoff Ice has been viewed as an upbeat, party brand with brand communications primarily focused on higher energy occasions. Through our framework we recognized that there was an opportunity in one particular occasion where the brand was under indexed, around moments of closer connections, lower key moments with a familiar group. With this insight in hand, we shifted our focus to smaller, social, "Easy-Going Hangouts" with friends. Still upbeat and energetic, but with the product benefits expressed through familiar, close knit settings. This has contributed to Smirnoff Ice performance improvement and a net sales increase of 6% in F18.

In addition to the work through the CCF, we have improved our approach to the allocation of brand investment. For the past couple of years, we have been utilizing Marketing Catalyst to make more data driven choices about where to invest across our portfolio for growth as well as being able to evaluate the impact of specific marketing activity on individual brands. One area where the Catalyst tool has helped us to understand better how to allocate investment is media. The tool uses consumer responses, seasonality, and changing media costs during the year, to forecast the impact of different scenarios. This has helped us, for example, to optimize our TV mix on Crown Royal by focusing on higher rated programs such as our partnering with NFL. On Johnnie Walker it helped to confirm the effectiveness of our "Keep Walking America" media campaign but recommended also an increase in digital spend. These recommendations supported growth as both brands last year gained share in their categories.

Marketing Catalyst has helped to significantly improve the effectiveness of our spend, and this gives us evidence and confidence that our increased marketing investment is working.

As part of our portfolio strategy we also look at opportunities to strengthen our portfolio.

The recent announcement of the disposal of a number of brands in the value segment of the spirits category is a clear example of us actively managing our portfolio to ensure we focus our resources to maximise returns over time. This segment has been in structural decline in the US and this disposal enables

us to focus our resources on premium and above brands, which are the faster growing and higher return opportunities.

We also look at how we can increase our exposure to fast growing brands in exciting categories where we believe we are underweight and Casamigos is the perfect example of this. It is a fabulous brand that plays a complementary role alongside our existing highly successful Don Julio brand enhancing our exposure to tequila, a category that last year was the second largest share gainer of total spirits, with growth largely driven by the super and ultra premium price tiers. The Casamigos brand was built primarily in the on-trade around the concept of being “made by friends for friends”, as reflected in the name, and since the acquisition we have continued to execute this. Highly rated amongst bar tenders and consumers and praised for its great smooth taste profile, it is growing strong double digit in both Nielsen and Nabca. We now have two jewels in this high growth category, in fiscal 18 both Don Julio and Casamigos, gained a combined 202bps of share in Tequila.

Moving on to the second area of change: execution. This is another area where an increase in the use of data and analytics has step changed our performance and increased the quality of execution across our business including areas such as innovation, route to consumer and net revenue management.

I am proud of how we are continuing to lead the industry in innovation. Data and analytics help us to understand consumer trends, explore new occasions and identify new ways to recruit consumers into our brands. The value share of our innovation routinely exceeds our market share and according to Nielsen last year, we were again the best performing spirits innovator holding 6 of the top 10 first-year innovations by dollar sales and 7 of the top 15 second-year innovations. Our innovation strategy follows a consumer centric approach aimed at recruiting new consumers, re-recruiting existing ones and disrupting a category. We do that through a combination of flavour and line extensions as well as the launch of new to world brands. Let me give one example on how we do this when we aim at recruiting new consumers into one of our brands. At the end of last year, we launched Ketel One Botanical with the insight to meet a consumer's desire for better drinking options. Each Ketel One Botanical expression is distilled using real botanicals and infused with natural fruit essences to deliver a sophisticated and naturally fresh taste. Best of all it is non-GMO and it has no carbs, artificial sweeteners, added sugar, or artificial flavours and has 40% fewer calories than a glass of white wine. While still early days, reactions from consumers have been good and initial data is encouraging, showing we are recruiting new consumers largely from the wine occasion. A great way to continue to re-recruit existing consumers are Limited Time offerings, such as Crown Royal Salted Caramel, Baileys Strawberries and Cream or Smirnoff Red, White and Berry. Each of these launches generate consumer interest for its respective parent brand for a limited time period, as they offer a different liquid appropriate for specific seasons and occasions. We also continue to look at opportunities to disrupt a category or tactically enter a white space. Not every innovation is guaranteed to be a success, but our use of data ensures we have a robust analytical process to identify the best opportunities.

Our route to consumer has always been a core strength of our US spirit business and we are now working to further evolve and strengthen it through better use of data and analytics by improving our outlet coverage and in-store execution. Our brands are available in over 360,000 unique outlets across the US, with a wide variety of size and setup to best meet preferences of their unique consumers. We have provided tools to our [distributor] sales teams to support the development of specific outlet insights and

translate those into actions at the most granular level to ensure we have the right brands in the right outlets and at the right price and meet consumer needs.

Another area where we have invested to build capabilities, systems and tools is net revenue management. We continue to embed NRM in our in our key commercial processes by utilizing the levers of shopper and consumer insights, category analytics, headline pricing, optimal pack and format architecture, portfolio mix, and ensuring we maximize promotional effectiveness. While there is still more to do in this area fully developing these capabilities will strengthen our ability to deliver revenue growth.

Moving to the third area now: increased marketing spend. As a result of our strong data-driven approach and our focus on productivity we up-weighted our marketing investment in the second half of F17 and more significantly in F18 when A&P grew 6%, faster than net sales growth. Our plans for F19 call for a further increase in marketing spend to continue to strengthen brand equity and deliver sustainable growth in the medium term. So, let me give you some examples of our marketing plans across some of our key categories.

Starting with vodka, and within that our largest brand by volume: Smirnoff. I am overall pleased with the progress we have made here. It's the largest spirits brand in the US and in F18 performance in Nielsen and Nabca improved as we reminded consumers this is a quality vodka at a great price, with a strategy focused on key core flavour variants and seasonal LTOs. We have exciting plans for F19 which will reinforce our core message but will reach even more consumers. We are also dialling up our quality credentials: Smirnoff is gluten free and made with non-GMO grain, which reinforces the message that Smirnoff is the best for everyone. Alongside this we have also launched a new bottle, beautifully crafted, it dials up our heritage - leading to both better quality perception and shelf standout.

Moving on to Ketel One Vodka, a brand with momentum. According to last 4 months of combined Nielsen and Nabca data it gained 56bps of share in a competitive category by recruiting "new world vodka drinkers." These consumers, who are moving away from wine, have a live well mindset and constantly look at how to drink better. In F19 we'll reinforce that Ketel One is all about doing things better. So,

- We will continue to remind consumers that Ketel is a "better" family made vodka, non gmo and gluten free, crafted to be exceptionally smooth, all while rolling out new brand visuals bringing more warmth and humanity.
- We'll continue to invest in Botanical which is crafted with natural ingredients as a better, lower ABV choice.
- And we'll expand our successful platform "Ketel Your Soda" to I "Ketel your Cocktail" and include the Mule, Mary and Martini – which comprise more than half of vodka menu listings and 75% of vodka drink searches – helping consumers and bartenders make better drinks by using natural, sustainable ingredients and fresh garnishes.

I'm excited for what's ahead for Ketel One.

Last but not least, Cîroc, our ultra-premium vodka. Over the last 2 years we have been on a journey first to stabilize performance. In F17 together with Sean Combs we re-established the brand purpose to "celebrate the spirit of the hustle". And last year we re-established the focus on our core variants: Blue dot, Apple and Peach and continued to support our innovation with seasonal LTOs. This year, we are

continuing to build on that, while also working to elevate its quality credentials as a unique luxury vodka, highlighting its provenance, its ingredients, and quality.

Looking at the last 4 months of both Nielsen and Nabca our performance in vodka has continued to improve driven by good performance in Ketel One, in both core variants and Botanical, and a continuing modest improvement in Smirnoff partially offset by a decline in Cîroc. We believe the actions we are taking are working and while I am pleased with what the external data are showing in terms of overall category performance there is more to do, particularly to stabilize Cîroc.

On to rum now, a category that is less vibrant overall in terms of growth. On Captain Morgan we have a clear occasion-based strategy executed through the successful "Live Like the Captain" campaign, a modern and fun new visual identity, and new flavors that recruited consumers from the shot occasion. The execution of this strategy enabled Captain Morgan to gain share in the category for the last 3 years, although I recognize recent performance shows we are underperforming the category. In F19 we will continue to build on that, while expanding consumption beyond the Captain & Cola serve and educating consumers on new ways to drink Original Spiced Rum such as Captain & Ginger Ale or Captain & Iced Tea, with the aim to improve performance in the remainder of the year.

Brown spirits, and whiskeys in particular, continue to resonate very well with consumers. We have a broad and deep portfolio in whiskey with a leading position in Canadian whisky and scotch and fast growing brands like Bulleit in US whiskey.

Both Crown Royal and Bulleit, although different in scale have outperformed their categories in recent years. They have proven brand strategies and growth drivers that we consistently execute, and even most recent Nielsen and Nabca data show that both brands continue to gain share in their categories. Therefore, today I would like to talk a bit more about a scotch, which is an area where I see opportunity to continue to improve performance and drive category growth.

In scotch, Johnnie Walker is our largest brand and in F18 it delivered a solid performance driven by Johnnie Walker Black Label and its reserve variants. This year we will build on that momentum investing behind our proven growth drivers. As part of the "Keep Walking" platform we are launching a new campaign called "12 years" with the insight that sometimes to appreciate how far you've come you have to look back. We are also relaunching Red Label in the on premise with a focus on bartender engagement, drink menus and sampling with the aim to recruit new consumers into the category. And finally, we have just launched the White Walker, an exciting new limited offering inspired by the TV series Game of Thrones. Its accessible flavor profile and outstanding bottle designs aims at targeting non-scotch drinkers and GOT fans alike.

Looking at our super premium Johnnie Walker variants the US is the worlds #1 market for Blue Label and we are gaining share. Our limited editions, like Blue label cities pack and Blue Label Ghost and Rare, are resonating with consumers and we are continuing to build on our success driving year-round gifting activations by giving consumers more reasons, more occasions and more ways to celebrate with Blue Label. This year as an example we have released new smaller format gift packs and the Blue Label 50 ml, perfect for the Christmas stocking!

Outside Johnnie Walker, malts is an area where we are underweight from a market share perspective and an opportunity I am excited to go after. Our strategy here has shifted from a portfolio approach to a more focused brand approach on The Singleton, and a few other brands like Oban and Mortlach. I have just mentioned the launch of White Walker, but we will also bring excitement to our malts portfolio with another Games of Thrones partnership with the launch of the House of Westeros collection, 8 new single malts each representing one of the houses of the TV series. Recent Nielsen and Nabca data show that this strategy is working as we are gaining share in the malts category and scotch in general.

Now a few comments on our Diageo Beer Company USA. I am pleased with the performance of our Ready to drink business with broad-based growth across our portfolio, including our core Smirnoff Ice, Smirnoff Spiked Seltzer and the newly launched Smirnoff Ice Smash. However, it is the opportunity in Guinness that excites me the most. In a declining beer market, stouts are growing mid-single digit. The category doubled in the last 10 years, and Guinness sits in a sweet spot as a premium beer with craft credentials. While consumption at traditional Irish pubs is declining, we see exciting opportunities to expand consumption occasions beyond that, both at home and in craft bars. This year for example we launched the "Sláinte" campaign to tell consumers that the unique widget can technology allows them to enjoy the great taste of Guinness at home. We have also launched new packaging featuring the iconic Gilroy designs across our bottle and can range, ensuring exceptional stand out visibility on the shelves. I am pleased with the reaction from consumers, with our packaged Guinness variants growing mid-single digit as per latest Nielsen data. We are also diversifying more in craft bars and tap rooms, where we are expanding beyond the typical Guinness serve to promote the increasingly popular "half and half" serve, a serve that leverages the popularity of local craft beer by inviting consumers to mix it with Guinness. But it's not only about the opportunity in stout. Our new Guinness Open Gate Brewery and Barrel House in Baltimore will allow us to innovate and expand our portfolio, with the aim of replicating the successful St James' Gate Brewery project in Europe. Here in our tap room, at any point in time, we will have between 15 and 20 types of beer for consumers to try, allowing us to test and gather insights on what works before we gradually scale it up. It opened in August and in the first 3 months we received over 100,000 visitors. Based on initial consumer insights we are already expanding distribution in the Baltimore region of Guinness Blonde Ale, an IPA, and a White Ale variant. Exciting times ahead for our iconic Guinness brand in the US.

Before opening to questions let me say a few words on our performance. Last year we delivered a solid set of results and as we have said before our goal in F19 is to build on that and continue to deliver improved performance. The last 4 months of both Nielsen and Nabca data suggest we are delivering on that with an improvement in our share trend. As we indicated previously, we expect to continue to upweight marketing spend in our US spirits business in F19. This will enable us to continue to improve brand equity and to deliver sustainable top line growth into the medium term. As a result, I continue to expect our operating margin performance to be muted for this financial year.

In summary we have a clear strategy that we are executing at pace and that is working. Our performance improved last year, however while a lot has been done, I recognise there is more we can do. The plans we have, our stronger portfolio and the upweighted marketing spend give me confidence that this year we can continue to deliver improved performance.

Now operator, I'll turn it over to you to open the line for questions.

Operator: Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. We will take our first question from Olivier Nicolai from Morgan Stanley. Please go ahead.

Olivier Nicolai: Hi. Good morning, Deirdre. Just got three questions please. First of all one more general question about pricing. Pricing has been fairly limited recently in the US, or at least probably over the last five to six years, and being mostly mix, which had been the main driver. So how should we think about the pricing environment going forward in the US? Second question is about vodka, and you mentioned Ketel One and the success of Botanicals. Now how do you think – how sustainable do you think this is and do you expect to core brand to improve further? Now building up on the success of Ketel One and the stabilisation of Smirnoff, could you share perhaps a bit more detail on your plans for CÎROC? And the last question I've got is since you have a bit more data on tequila sales now, how confident are you about Casamigos is actually not cannibalising at all Don Julio considering that those brands are sold at similar price points? Thank you very much.

Deirdre Mahlan: Okay. Thank you, Olivier. First on pricing. As I'm sure, you have – many of you have heard from talking to various people in the consumer goods sector and in our industry, in the US, the pricing environment in the US continues to be mixed across categories. That said, I'm encouraged by our [continuing] strong economic environment, the low levels of unemployment, and in fact, we are getting some inflation now in the market, which typically bodes well for a stronger pricing environment. So we're seeing quite a different environment depending on where you sit in the sector. So for example, vodka and rum continue to be very price competitive, but we are seeing some improvements in pricing environment in categories such as whiskey and tequila. So we are taking price but we're being choiceful about where we do it. In the medium-term, as the environment improves, I'm optimistic that that environment or the pricing environment will continue to improve. And as I stated earlier, we continue to build our capabilities in net revenue management, so that we're in the best position to optimise our overall position with respect to sales value.

On to Ketel One and Botanicals. We're really pleased with the performance of Botanicals. I mean, the data we have suggests that there is a very low level of cannibalisation from the brand. And in fact, at the same time that Botanicals is out there, we're seeing improvement or a growth from the core. So I think what we are seeing is that as the consumer today is looking kind of more on a, what I would call, an exploration journey, they're moving across categories and that is not just drawing from the traditional unflavoured vodka consumer. Botanicals are a lower ABV and also have kind of natural distilled botanical. So it is appealing to a different consumer and are working very well. So we are very encouraged and I feel confident that we can continue to grow both the vodka brand and botanicals.

On Casamigos, I would say the same, kind of along the similar lines, when we looked at the acquisition of Casamigos, of course we looked at how the Don Julio brand versus Casamigos were positioned. They actually are positioned against a different equity positioning. And if you look at what's happening in

both Don Julio and Casamigos, they both continue to gain share, and Don Julio continues to grow at similar rates to where it has grown in the past ,if you are taking into account that its size is also continuing to grow. So the data that we have today suggests that it's in line with our expectations in terms of the performance of both of those brands. In fact, Casamigos is performing slightly ahead of what we expected in the current period. So I'm really happy about both of them. I think I picked up all you're your questions, Olivier.

Olivier Nicolai: Yeah, no, you have. Thanks a lot.

Deirdre Mahlan: Okay, you're welcome.

Operator: We would take our next question from Edward Mundy from Jefferies. Please go ahead.

Edward Mundy: Good morning, Deirdre, and morning, afternoon, everyone.

Deirdre Mahlan: Hi Ed.

Edward Mundy: Three questions as well, please. Hi. Just a quick point of clarification. I think in your opening comments, you said you're confident you can stay in an improved growth, which is 3.3% last year in your spirits. Is that on an underlying basis, i.e. pre-Casamigos, or is that including Casamigos? The second question is, you've highlighted investment ahead of sales this year and also last year. I mean, how many years do you expect to continue to invest ahead of sales? And then the third question is on the sale of the tail brands that you've announced. Is there any impact at all from a commercial perspective on the relationships with some of your key wholesalers?

Deirdre Mahlan: Okay. Thanks, Ed. First of all, on the improved growth. I'm not going to comment on the specifics or what specific piece of the growth is coming from, and what specific brand. I will say that my goal is to get continued improving performance for all of our brands. Of course, at any given point in time, with the luxury that we have of having such a wide portfolio, we have some brands performing better than others. Certainly, the very vapid growth of Casamigos is going to help us to continue to improve our performance. But I'm looking to get improved performance consistently across the portfolio. The second thing about how many years we're going to continue to overweight our investment. I would just say that we evaluate – and I took some time to take you through the tools that we have that help to inform the decisions about our investment priorities and the levels of investment. I don't have a crystal ball, so I'm not going to tell you specifically what level of investment is appropriate on any given brand over a period of time. What I can tell you is the investments that we're making are clearly bearing fruit. We can see it. And you can see it in the underlying consumer results. And as we continue to evaluate that performance, we'll look at what is appropriate on a brand investment point of view and make those decisions as and when the period commences. Finally – I forgot your last question actually. It was something about commercial – the tail brands.

Edward Mundy: Yes.

Deirdre Mahlan: In commercial relationship. So the answer is I do not expect the sale of the tail brands to impact the commercial relationships with our distributors. We are two times bigger than our

nearest competitor. Yes, of course, there is some volume that will exit the business as a result. However, the impact on share is not material. I think in total it's about 50 basis points on our total share. So we do not expect any impact on our commercial relationships.

Edward Mundy: Great. Thank you.

Operator: We will take our next question from Fernando Ferreira from Bank of America Merrill Lynch. Please go ahead.

Fernando Ferreira: Thank you. Hi Deirdre. I have two questions please. First one is too on net revenue management. I'm just curious to understand what are you doing differently now relative to what was done before on the key areas that you mentioned? And also the benefits that you find on NRM. Are you planning to reinvest them back into the business to seek more growth, or are you expecting to retain that into the business? And then second question on your RTD business. Curious on your views on the hard seltzer's category, right, which continue to do very well in the US and for Smirnoff as well. So do you think this is a trend that could be more long-lasting and are you willing to put more investments behind it, or the RTD category is still one that is – has its inherited volatility? Thank you.

Deirdre Mahlan: Thanks Fernando. First on NRM. I think one of the huge benefits of net revenue management is that it expands the view of how to achieve growth in a market, in my view, in a much more consistent and sustainable way, then solely looking at "can I take one or two price points?" or "when can I take the price up?". It is a very holistic view on everything from formats, to pricing, to promotional activity. And therefore, it captures a bigger opportunity. In terms of thinking about whether or not we will drop it to the bottom line or invest, at some level, the margin is fungible, which amount of my investment is that I'm getting from mix am I reinvesting verses what I'm getting from net revenue management. What I would say is a stronger margin obviously puts us in a better position to continue to invest in our business and drive improving results to the bottom line.

And so of course our goal is to continue to get strong price, strong mix, a really healthy quality P&L that allows us to continue to invest in the equity of our brands on an ongoing basis, so that we get that compounding effect that everybody loves, which is the ability to take price and also to drive mix, while still investing in the business and growing margin. So of course that's our goal. And the investments in all of these capabilities, our investment in data, in technology, in tools to our sales force is all towards that goal to increase the profitability of our growth over time, and to do it in a way that is sustainable. And that's certainly what all of these efforts are moving against.

Finally, in the context of RTDs, I mean, it's a really interesting category, in particular in these days, where consumers are on this exploratory journey, as I've said, and kind of the nature of the worlds we live in today would suggest that people kind of going on, there's exploration of a treasure hunt in terms of looking for interesting things to do and to eat at restaurants holidays etc, we expect that to continue. Now we have a lot of experience in RTDs. We were – more or less, are at the very beginning of it with Smirnoff Ice, more than a decade ago. And so we have a lot of experience with it. It is not possible to always predict what the consumer trend is going to be and how long a particular brand or category will

be in favour of growth. What I can tell you is that the seltzers category kind of likes what I talked about before, when we talked about what the consumer is looking for, what I would say, better drinking options. So they're looking for lower sugar, lower calories, kind of a less sweet taste. And so unlike some of the other variants in this category that have come and gone in sodas etc, we do see [opportunities], given what we see as a longer-term consumer trend. My expectation is this will be longer, although time will tell. We are obviously evaluating the performance of the category for our own brand and for others and across the industry, and we'll make our investment decision based upon our view of what that growth is going to be and the returns on the business.

Fernando Ferreira: That's great. Very clear. Maybe just to follow-up. Where is that category sourcing their consumers from? Is it sourcing from beer or spirits?

Deirdre Mahlan: That's an interesting question. It's still relatively new category, so I don't think that is entirely clear. I do not see at the moment a significant variance – or the growth rates would not suggest a significant cannibalisation from spirits. There's certainly no indication of that. I've not seen specific data, because again, the category hass really only started over the last 12 months and it's been accelerating at quite a rate. So I think it's a bit early to tell what the exact switching data say, but we certainly don't see any indication at this stage that it's coming from spirits. Maybe in another year or so, there'll be better data in the industry about where it comes from.

Fernando Ferreira: Perfect. Thank you.

Operator: We will take our next question from Sanjeet Aujla from Credit Suisse. Please go ahead.

Sanjeet Aujla: Hi. Three questions for me also please, Deirdre. You talked about the improving share trends over the last four months. Can you just clarify whether you think the portfolio is now – in aggregate now taking share if the industry is still growing at 4%? Secondly, just coming back to the disposal of the tail brands. You still retained quite a few tail brands in the portfolio. What's the rationale for not disposing of all of them? And thirdly, can you just give some qualitative commentary on how you're seeing the M&A pipeline for small bolt-on deals in the US at the moment? Thanks.

Deirdre Mahlan: There is a trend today, well, everybody needs to ask three questions. It must have been in the instruction. But anyway, here we go. The first one on the share trends. I think the share trends from a category perspective are different. I'm not going to – it feels kind of like a backward way to get you to tell me – get me to tell you what my growth rate is going to be and I'm not going to do that. But what I will say is if you look across Nielsen and NABCA, because there's not any data from the independent markets. So it's unclear what the total amount is going to be. What I'll say if you look at Nielsen and NABCA, we're gaining share really in every category at the moment with the exception of vodka and rum. And actually, if you look at that performance from 12 weeks to – I mean, 52 weeks to six months to three months to one month, what you're seeing is in almost all of those cases, a consistently improving trend. And so that's like gives me confidence that we can continue to improve our performance. And so what I'm not going to do is predict exactly when I'm going to get to the industry growth rate. We are making investments. All kind of things happen in the market from period to period. You will have seen in the most recent – in some of the most recent four-week periods, we

have gained a little bit of share. We're not complacent about that. We know that we have more work to do and more opportunities and we'll continue to invest. On the tail brands, the question of evaluating your portfolio for what is right from a strategic point of view and what is right in terms of making sure that we get the right focus and return on investment. That involves a level of evaluation of our brands and what we see is the potential of those brands in the category, their equity, their pricing power and a whole host of other issues. It's not as simple as saying I'm going to take everything that is in a particular growth stage or in a particular category and dispose of it. And I can assure you that we have done an analysis of the portfolio and felt that the transaction that we engaged in were the right ones. So for example, brands like Seagram's Seven, that brand has – again, not been in growth at this stage but we really think that brand has potential. We've been investing in it in the last few years and see that it responded and we think it's in a good place in its category in order to be able to capture a stronger performance in the future. So that's just one example of when you look across the whole brands why we've made a different decision for that brand versus the ones that we chose to dispose off.

On the M&A pipeline, this is something where – again, it's a continuous exploration. We're disciplined about how we think about acquisitions as you all know. But we need to be looking at where are the biggest opportunities that makes financial sense for us. So we'll look at everything from what we do in our Distill Ventures portfolio and you'll see – you'll have seen the announcement of our investment in Westward. And we have also made acquisitions through our ventures programme. So everything from mezcal to vermouth to whiskey. So what we do is look at what the consumer trends are and then make decisions about whether or not we believe our current brand portfolio is best positioned to capture them, whether we'll innovate and grow organically, which we – I gave a few examples of today, or whether we think there's an opportunity to acquire brands in the market to best capture that growth. I think there is, as you know, if you look across the US business, the US industry, still a significant and material number of new brands that have been launched, which is exciting for the industry and for the category. And that's something that we'll continue to evaluate opportunities on where we might be able to acquire additional brands in the future.

Sanjeet Aujla: Got it. Thank you.

Deirdre Mahlan: You're welcome.

Operator: We will take our next question from Simon Hales from Citi. Please go ahead.

Simon Hales: Thanks. Hi Deirdre.

Deirdre Mahlan: Hi Simon.

Simon Hales: Hi. A couple of things for me. Could we just go back to tequila to start with? I wonder if you could just talk a little bit about the rollout of Casamigos since you've acquired it. How well penetrated you see that brand now in core outlets and maybe how much white space that there is still perhaps to fill there? And also on tequila across the broader portfolio, can you talk a little bit about the Agave backdrop? How that's impacting the business and profitability at the moment and how you see that perhaps evolving over the next two to three years? And then secondly, only if you could just

expand a little bit around your comments on Crown Royal about the momentum we're seeing there, particularly around the base brand, given how important that business is to your overall US franchise?

Deirdre Mahlan: Okay, great. Thanks, Simon. First on tequila. Look, Casamigos is still a relatively small brand. Don Julio is only 25% or 30% of size of the market leader and Casamigos is even smaller than that. So clearly there is significant opportunity to continue to grow the brand. The brand continues to perform both in terms of rate of sale and distribution. And we think there is lots of space for us to continue to grow. In fact, there is also lots of space for Don Julio to grow.

On Agave pricing, yeah, it's true that the strong performance of tequila has, over time, in particular over the last year, has driven up the market price for Agave. We of course have long-term plans with respect to all Agave supply. And so prices are going up. And I think the expectation in the industry is if the supply and demand situation stays the way it is, and given the nature of the timing of the growth of Agave plants, I would expect the pricing of Agave to remain elevated for a number of years. And that is why those of us in the industry have a forward-looking view and get engaged in longer term contracts, so that we can secure ourselves, access to the Agave and can manage cost variances over time. You all have seen if you look in the US market, there is some increasing pricing in tequila, and I imagine that those increasing, as is the case with all, kind of commodity and input costs, as those costs – well, if they continue to remain elevated, I would expect the pricing environment to continue to be more robust in tequila as I said earlier in the call, as it was noted today.

On Crown, we're really pleased with the performance of Crown and while Crown Deluxe has been flattish over the most recent period. We have been upweighting our investment and our equity scores continue to be good. The innovation strategy that we're deploying with Crown is really to ensure that every one of those brands have a role in the category. So of course, Crown Deluxe there is – it is a very approachable whiskey and our whole context and communications campaign about generosity is appealing to consumers in today's day and age of, what I would call, the new luxury. And then our innovation pipeline on Apple, which is now well over a million cases and it's sustaining mid to the high-single digit growth and our vanilla variants, which was introduced really to recruit people into whiskey that may have found unflavoured whiskey more challenging. And after the initial pipeline, there was some weakness in that brand. But I was out in market last week on a tour looking at the holidays and we are now back in growth in a number of markets on Crown Vanilla and we'll continue to invest in that variant with Deluxe, Apple and Vanilla being the core variants. The other variants in Crown are really just to bring new news to the brand, through limited time offer strategies, like the Salted Caramel, that I mentioned earlier. So the short answer is while the base brand is not growing as fast as the brand in total, the bulk of the growth is being driven by our flavoured variants. We are investing in the core and we're confident in terms of the overall consumer response to the brand, including Crown Deluxe.

Simon Hales: That's very clear. Thanks. And not want to miss out on my third question. But can you talk a little bit maybe about the cannabis space and how you're seeing developments there?

Deirdre Mahlan: Yeah, I mean, in terms of cannabis overall, it's too early. So everybody is watching what's happening with respect to cannabis. There isn't any data really that indicates the

impact that it's having on consumer occasions and the use of the brand versus beverage alcohol products. So there's really not much for me to comment on, other than saying as you would expect we and others are watching very closely the developments.

Simon Hales: Perfect. Thanks very much, Deirdre.

Operator: Ladies and gentlemen, in the interest of time, please keep to one or two questions so we can get to as many people as possible in the remaining time. Thank you. We will take our next question from Trevor Stirling from Bernstein. Please go ahead.

Trevor Stirling: Sorry, just two questions from me, Deirdre. The first one, you talked about the spiked seltzers and botanicals and that trend towards – I'm not sure we quite call it a healthy drinking, but certainly the perception of healthier drinking. Do you think there's big potential for that outside the United States as well? And the second one, inside the vodka category itself, is there any sign that Tito's momentum is slowing down, is that contributed a little bit to the improved trends on the core Ketel brand?

Deirdre Mahlan: Yeah. First, with respect to, I don't know, you want to call it a healthier drinking. What we do is we've just noticed it's not so much just in the context of beverage alcohol consumption in the US and I do think it's happening outside of the US, especially in developed markets. It is people being much more interested in the ingredients and the makeup and the recipes of whatever it is they are consuming, whether it'd be in restaurants or whether it'd be in products. And certainly even when I was still living in the UK three years ago, that trend was happening as well, and I think it's alive and well in the west. So it's really about a question of people being interested in what is in the product that they're drinking, and then combined with that, people kind of moving towards lower sugar, lower calorie options or more natural, no artificial ingredients. So I think spiked seltzer and botanicals fit very well into that space and certainly those options are resonating well with consumers. I do think that there is space for this outside of the US and there are, I think, plans for us to look at that I don't want to talk about. So I'll leave it to my colleagues in the respective regions to talk about the specific plans of what they might do. But I absolutely do believe that those trends are not unique to the US. They're happening in the west in general.

The second question was about Tito's. Yes, Tito's is still gaining share but the rate of the gain has moderated a bit. And again, that happens as brands get bigger. But we also are very pleased to see that Ketel One is back in growth and back to a point, where it is capturing more of the growth in vodka category. So we're pleased to hear that. But there is some moderation in the share gains from that brand.

Trevor Stirling: Okay. Thank you very much, Deirdre.

Deirdre Mahlan: You're welcome.

Operator: We will take our next question from Nico Von Stackelberg from Liberum. Please go ahead.

Nico Von Stackelberg: Hello. Yes, I just wanted to ask about your growth rate, and I understand that you weren't exactly saying that you were going to get to the spirits growth rate. I was just wondering what do I need to believe in order for you to get to the spirits growth rate? And then my next question is on the brands you disposed. The Wall Street Journal had reported that you sold the brands for 5.5 times EBITDA. And I was wondering if you can confirm that's the case or not? And secondly on that one, are they definitely lower return brands? I know that some of them were not aged and probably not being invested in very much, so you probably had pretty good returns out of those brands. So just want to confirm it. Thanks.

Deirdre Mahlan: Yeah, thank you. First on your question on the growth rate. I mean, I think you have to believe that the interventions that we've made and continue to make are going to continue to bear fruit. If you look at the syndicated data over the last 52 weeks, there is consistent improvements in the performance of the underlying brands. So you have to believe that the actions that we're taking are sustainable. All the actions are taken to drive sustainable growth and improvements in our underlying performance. And so you would need to have continued confidence that as we're executing against that agenda that we can continue to execute it. So I'll leave that at that.

The second point on the tail brands – I'm sorry, I didn't mean to imply these brands were low return. We're talking about returns over time as we think about which brands are going to accelerate growth. So the brands that are growing faster, of course, at a good return, give us more return over time. The brands that are declining, we've talked about the kind of structural lower growth rate of value priced brands in this market, it's been going on for more than a decade. So it is really just a choice of where our focus is best placed. These are very healthy, great brands. And as – when people evaluate portfolios, we sometimes choose to make changes in the portfolios, so that we put ourselves in the best possible position to execute against our strategy. And that's how I would position the decision that we made to dispose those brands. In terms of the Wall Street Journal comments, we're not commenting on the multiple of EBITDA. I would say that it was at about 3 times net sales.

Nico Von Stackelberg: Okay. And can I just go back to the growth rate. So is it fair to say that you need to assume that vodka stabilises or improves and Captain Morgan gets back to, I guess, a bit of a healthier position in order for you to get to the spirits market growth rate? So if those two were in – were taken as yeses, that you would be there at the growth rate. Is that fair?

Deirdre Mahlan: Yeah, not entirely – depends on the mix. So as some of our other categories, where we're performing better get bigger – so for example, as tequila gets bigger, it then bears more of its proportional weight in the portfolio. We do not have to get vodka to the industry growth rate in order for us to be able to do that obviously, because if you look at the most – in some of the most recent periods, where we still did not have all of our vodka brands at the industry growth rate, we're still able to do it. So it just depends on the mix. But what you do need to believe is that we'll continue to get there. So what I would say is there are a number of different scenarios that will get us to the industry growth rate, depending on which category you're looking at, accelerating growth rates in some

categories and stabilisation of growth in other categories is one scenario and there are other scenarios that could get us there.

Nico Von Stackelberg: Thank you.

Operator: We will take our next question from Chris Pitcher from Redburn. Please go ahead.

Chris Pitcher: Thanks very much, hi Nico and Deirdre.

Deirdre Mahlan: Hi Chris.

Chris Pitcher: Two questions. Firstly on the commercial side of the business. You've talked a lot about brand investment increasing, but the headcount for North America stepped up meaningfully last year. Where are you in terms of your sales force In the United States, and how are you structuring that sales force in terms of by category. What's the role of the Activation Army these days? And then secondly on the distribution side. Could you just – two things. How is the new sort of sell-in sell-out culture working with the distributors trying to avoid incremental stock build? And the SEC investigation, that's quite a few years old, I think. Where are we on that? Thank you.

Deirdre Mahlan: In terms of the overall commercial environment in the US and the commercial headcount. As you know in the US, we don't have a direct sales force because of the three-tier system. So the sales force is our distributor sales force. We have reorganised our commercial organisation in the US to put ourselves in a better position to drive the execution that I mentioned earlier. So we've shifted resources into data analytics into net revenue management and into execution. So some of our commercial teams, for example, in the US on the spirits side are focused – instead of being focused on sitting, for example, in a state like Florida and having our Diageo person on the ground working with the distributor to do everything from pricing to execution on the shelf to execution of local activities, we now have somebody on the ground to focus solely on outward execution. So what we've done is we've refocused the efforts. That person on the ground is working directly with the distributor to make sure that we have the right product on the shelf with the right number of pricing, the right assortments and the right display activity. So it is a more focused execution to drive better outward execution in every outlet. That was how I would characterise the change in our commercial environment.

With respect to distribution and sell-out, we've been working with our distributors over the last few years, so actually since I came here. And remember, we announced the move to the kind of innovation replenishment model and said that we were moving to a shipments equal depletions basis. So we have been working with our distributors to improve our overall, working capital in the value chain. And we have moved with our biggest distributors now to vendor-managed inventory, so that we can actually manage as we look at the forecast in inventory sales now and that helps to inform our own production schedules and shipments. So I feel really pleased with the work that we've been doing to make for a more efficient supply chain among the first tier and the second tier. And I think that the work that we're doing combined on forecasting and on working capital management will continue to drive efficiency through that. With respect to the SEC investigation, as we've said, they've asked us for information and

we provide what they request. There isn't anything new to report. So I'm not going to comment beyond that.

Chris Pitcher: Okay, maybe just one quick number. How big is the – do you still run the Activation Army, and if so, how sort of big is that in terms of headcount?

Deirdre Mahlan: Sorry. Yeah, the Activation Army has started just before I came. And again, just to remind people who may not be familiar with the Activation Army. The Activation Army are a number of individuals who are work on Diageo's behalf to drive activation in outlets against our core brands and targeted outlets. These are the outlets where we think we have the best opportunity to drive menus, to drive consumer activities, etc. The Activation Army continues and has now completed its third year. We've made some adjustments to what they focus on, how they are focused on, how many outlets each person in the Activation Army calls on. But overall, we think the Activation Army is successful, both in terms of driving new news for our core brands, but also in feeding back information to the brand teams. So I think that is a great opportunity. We also now have a reserve force that are focused solely on reserve accounts, which are working with outlet owners to be able to achieve growth both for ourselves and the outlet with our reserve brands.

And I think we've now gone past the hour. So it's now 9:01. So I think that was the last question or is there one more? Was that the last question, operator?

Operator: That concludes today's question and answer session.

Deirdre Mahlan: Yeah, I'm going to just make some closing comments. Thank you, operator. I'm conscious of everybody's time now. So thank you all for taking the time to join us and what I know was a very busy time of the year. And just in summary to remind you of a few points. Last year in fiscal '18, we delivered improved performance. This year I expect to continue to deliver improved performance through better execution of stronger portfolio and upweighted marketing spend.

By now, you should receive an email, which brings to light some of the marketing activities on key brands that I mentioned earlier, and I recommend you spend a couple minutes to go through it to see what's happening with the core brands. And I look forward to speaking to you again on the next call, if not, before. If you have any questions about this session, do not hesitate to contact our Investor Relations team. And thanks to all again. With that, I'll just say happy holidays to everyone. Talk to you soon. Bye. Thank you. Thank you, operator.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.