Diageo Europe & Turkey Regional President's call with John Kennedy

Transcript including Q&A - Thursday 3rd October

John Kennedy:

Okay, hello everyone and welcome. It's John here, great to be with you once again to take some time to update you on the Europe and Turkey region. As in previous calls, while my responsibilities include India, I'll take the opportunity today to just focus on Europe and Turkey.

I'll run through a business update for the next 20 to 25 minutes and so then take questions. And given the scale of the Europe market, I'll spend most of our time there as usual and then follow up with a brief update on Turkey.

So, Europe continues to be an attractive market for us to participate in. It's a market that's been consistently premiumising over the past 10 years; super premium plus spirit brand volumes have grown out around 10% per annum. Premium brands, mid-single digit; standard low-single digit; and value brands have been in decline. And we believe there's more room for trade up to continue in Europe. Super premium and above spirits in Europe hold less than a third of the volume share that they hold in the US. Europe is also a market where we have shown that scale brands driven to advantage route to consumer, with sustainable high quality innovation can consistently win share. And today I'll talk through the ways we're driving that sustainable growth.

So, Diageo's overall ambition is to be one of the best performing, most trusted and respected consumer product companies in the world. And at our preliminary results this year, Ivan explained how we think about this through six goals that support our self-sustaining business model. The first is sustained quality growth, which we do by investing in brand equity, our innovation pipeline and our route to consumer. The second is driving everyday efficiency in order to create headroom for increased investment and leaning increasingly on sophistication in data and analytics to do that. And the third is smart investment of these funds in order to fund the growth areas across the business. Delivering our ambition also means being trusted by all our stakeholders for doing business the right way and ensuring our people are highly engaged.

And our final three goals are focused here, which are on promoting positive drinking, being a champion for inclusion and diversity, and a pioneer in terms of grain-to-glass sustainability of our products. All of this ensures, we operate in a sustainable way, and have a positive impact on society.

The six elements are interrelated and mutually reinforcing. Today, I'd like to highlight the work we've done across these six areas in Europe and how they're supporting our delivery of consistent results.

Before we get into these, let me set up with a reminder of the growth that we've achieved over recent years. In the last three years, Europe has been at the forefront of building this self-sustaining model, delivering organic net sales growth in the 3-4% range. We've improved the effectiveness of our marketing activity through investment in Catalyst and [we have] increased investment rates over the last three years by nearly 50 basis points. This has enabled us to deliver strong market share gains with our value share of Western Europe spirits up some 170 basis points over that period.

At the same time, our now embedded culture of everyday efficiency has not only funded increased smart investment but has also driven Europe's organic operating margins up by over 200 basis points during that same period. And through this, we've continued to promote positive drinking, an inclusive environment and. as I said, grain-to-glass sustainability.

So, let's talk through the six areas. I'll start with sustaining quality growth and I'll spend a chunk of time on this because it's so critical. The increased marketing spend I mentioned demonstrates our commitment to invest at scale in our brands. We focus our spend on our core portfolio as well as innovation and new-to-world brands.

Just to cover a few examples, I'll start with the gin category, where we're seeing consistent strong growth.

Both Tanqueray and Gordon's delivered strong double-digit performances in FY19. The year was a standout success for Gordon's, which delivered a remarkable performance. In Western Europe, Gordon's was the fastest growing spirit trademark, becoming the second largest branded spirit. In addition, the brand gained over 4.5 share points of the gin category within Western Europe, firmly securing its position as Europe's number one gin brand. Our confidence, our continued focus and early up-weighted investment behind the Gordon's trademark, along with the highly successful Gordon's Premium Pink Gin innovation, that has led to this industry-leading performance.

Looking forward, we don't expect to continue to achieve the same level of growth from gin that we've had in the past couple of years, particularly in a couple of markets where we've seen some moderation in the growth of the category. However, we are seeing strong growth in many countries across Europe, and we do expect to see continued growth in gin through FY20.

Baileys has been another success story. It's performed well consistently across Europe, growing share of liqueurs in pretty much every country that we measure, both a strong performance from Original Irish Cream, driven by a very innovative serve strategy in the on-trade, and then significant innovation growth coming from Almande and Baileys Strawberry & Cream. A real success story in terms of delivering the millions of triggers strategy that we focused on in this brand in recent years.

In innovation, we've made a significant shift in our strategy to be more consumer-focused in the last couple of years, and we've been purposeful in defining each one of our launches as having an intention to either recruit, re-recruit or disrupt the market. And we're delivering more sustainable growth with innovations growing in years two, three and four more consistently because we are leaning in to recruit innovations, which are bringing new consumers either into the brand or the category.

Baileys Strawberry & Cream is an example of that success, with strong digital and social media campaigns focused on shareable content. We've had especially strong performance in certain areas like Germany. Actually, Strawberries & Cream was the most successful new spirit launch in the last two years in

Germany, and the variant grew in its first year to 10% the size of Baileys original.

Tanqueray Flor de Sevilla has performed well in the past year as well; exceeded all of our internal benchmarks. And interesting, if you looked at its success externally, it became the number one gin sold on Amazon during the first month of its launch, so a great start on that product. More recently, we've launched Ketel One Botanicals and Smirnoff Infusion spirit drinks. Both lower ABV than their full-strength vodka counterparts, providing a platform for Diageo to compete in the spritz occasion, which continues to grow across this region.

In long alcoholic drinks across GB and Ireland, Diageo holds a 34% share of LAD innovation in the past couple of years. That's impressive given that our share of LAD market in GB and Ireland is around 11%. Our innovations have taken advantage of consumer-led trends, with Hop House 13 being well placed in the rise of consumer demand for more complex, character-full and taste-driven beers, while other consumers looking for lighter and refreshing tasting beer options, such as Rockshore. I've got confidence that we've got a pipeline which will continue to drive strong sustainable growth.

As I look across our broad portfolio, I'm pleased to see the strong performance coming through our brand, and recently particularly from Gordon's, Tanqueray and our strong innovation pipeline.

One other data point on the performance in spirits, we are about a 20% share of spirits in Western Europe. If you look at new product launches over the last two years, we represent about 33% of total sales. So, both in spirit and LAD, we really see the performance of our innovation pipeline coming through strongly.

Now, as always in a full portfolio business, we've got a couple of areas where we need to improve. What's on our mind this year would be Guinness in Ireland. And what we found is that we've had a great performance in GB, particularly on the back of the Six Nations [sponsorship] launch. However, we've got a soft on-trade in Ireland and Guinness has lost some share, so we're doing a lot of work about how to turn that around.

And equally in Scotch, we're pleased with the performance of Johnnie Walker, which has won share in the category last year. However, J&B remains challenged and we continue to work on the brand, particularly in Spain, where we've had a full relaunch of advertising and serve strategy. Some early results are positive, but we know we've got more work to do.

One other area I wanted to cover under sustaining quality growth was the work that we're doing on new-to-world brands. This year, we're excited to see the launch of a new super premium Italian gin, Villa Ascenti. While we're aware that this new-to-world brand will take time to build fully, we're excited to add it to our portfolio and be playing in the fastest growing segment of the gin category, which is super premium growing at 32% a year.

Another example is the launch of Roe & Co Irish whiskey. We do know that the Irish whiskey category had performed well, but only about 5% or 6% of it is in the premium plus segment. And we believe there will be significant growth there and have positioned this brand to go after that opportunity. We've got a dedicated team focused on building the next generation of quality brands, so Roe & Co and Villa Ascenti are covered by this team, as are Belsazar Vermouth, Casamigos Tequila, Copper Dog Whisky, Don Julio Tequila and our recently launched Mortlach.

And our investment and focus in these brands demonstrates our commitment to sustaining medium and long-term growth. More recently, we acquired a majority stake in Seedlip, the world's first distilled non-alcoholic spirits brand, which will now be placed in this team's remit. Over the last three years, the brand has gained a presence in more than 25 countries, and we look forward to getting behind it across the business.

Net sales of this basket of next generation brands are experiencing strong double-digit growth. We know that it will take a while before they move the needle for a business the size of Diageo, but we're really excited about their prospects for the medium and long-term and becoming significant brands in the higher price tiers of the market.

Now, on the second growth driver for us, smart investment. Let me talk about how we are developing our ability to be sharper on our investment choices. Over the past two years, we've significantly stepped up our capability to more effectively target our marketing spend. With the introduction of marketing catalyst in FY18, planning has just become more rigorous and data-led. We've added more data sources to the tool and expanded it into our digital marketing work as well, which improves the level of insight that we can get.

This year, we've improved the Catalyst facility to help us on our annual planning of not only which countries and which brands do we place our investment, but which growth drivers within each brand choices. And it's become a living tool that's constantly used by our marketers. It's empowered our talented marketers to bring together their traditional creativity and flair with rigorous data-backed insights.

And we get a lot of insight from catalyst that makes a real difference to where we'll put our money and how we define our growth drivers. Just a couple of examples of that. In GB, both Baileys and Smirnoff has significantly improved their return on investment in the last two years. Baileys is up by 35% in terms of effectiveness and spend versus FY17, and that was driven by a shift to having a serve focus and recipe content that worked particularly well in social and digital media.

On Smirnoff, equally, we've got a big increase in ROI on our TV media. And that was driven by shifting to the Soda Smash campaign, which has proven a very accessible, inviting serve strategy for the brand, and we're able to deliver it in 20 second ads, saving significant money on media length times. And in the last fiscal year, the average improvement on the effectiveness of our marketing spend is up by around 20%, which would actually translate into about £16 million in marketing effectiveness gains. And these continued developments give us confidence that we can continue to get sharper about where and how we invest our brands to maximize growth.

Now, number three in terms of everyday efficiency, earlier, I talked about how we increased our level of investment in the business while at the same time significantly improving operating margins. And this has been achieved through changes to the way we work and the structure of the organization, embedding a culture of everyday efficiency through the business.

We've reduced overheads as a percent of NSV by about 70 bips over three years. On indirect spend, we implemented new policies and guidelines backed up by a zero-base cost management approach. We've reduced travel and entertainment cost by 40% with these policies. We've made changes to the way we use office, space and support facilities, which has allowed us to deliver a 30% reduction in cost per head over the past three years in these areas. Overall changes like these have reduced spend on indirects by 21% over that time.

We've also made significant changes to the structure of the business. We've created an organization that executes at scale as one Europe.

Now, the fourth goal is promoting positive drinking. We have many internal and external programs in our continued pursuit of promoting a positive drinking culture. We focused on three areas: underage drinking, drink driving and promoting general, moderate drinking. To raise awareness around underage drinking, we run a program called Smashed started here in Europe, which involved a professional acting group speaking to young people about the risk of underage drinking. In Europe, we've reached nearly 130,000 young people with that program, and continue to expand across a number of countries.

To reduce drink driving, our #JoinThePact campaign was established 10 years ago. It is supported by

Johnnie Walker sponsorship of F1 and fronted by two-time Formula One World Champion Mika Häkkinen. It's activated in over 40 countries across 5 continents, and in Europe we collected 1.2 million JoinThePact commitments to never drink and drive.

On promoting responsible drinking, we embed the message throughout our brand communications across the world. A recent example in Europe has been the usually successful combination of our Guinness 6 Nations sponsorship highlighting the responsible drinking message through Guinness Clear, which many of you may have already seen. That reach more than 21 million consumers across the UK and Ireland, and the campaign won a Gold Lion award at Cannes earlier this year.

Number five is inclusion and diversity. There is compelling evidence that a more diverse organization is more effective, and in Europe, we have a market that's rich in diversity. Our people are comprised of those with different thinking styles and other non-visible differences, as well as diversity of gender, ethnicity, age. Our own exec team is made up of leaders from across continents of Europe, Africa, North America and India.

On gender diversity by the end of FY19, in our senior leader group, female representation was 42% compared to 37% across the group, and we're on track for 50% at all levels by 2025. And we run many initiatives to promote inclusion and diversity. I'll just share a couple of examples with you.

We are running an Inclusive Leadership Training program for all line managers in Europe. The course build line manager skills on promoting inclusivity and engagement. It was designed to create an environment where people can connect and listen to each other without obvious judgment, enabling stronger team spirit, and a sense of belonging.

In addition, we run Europe INC Week, which is an annual employee-led celebration of inclusion and diversity. It aims to raise awareness, to educate, inform and open up our thinking in new ways.

Finally, as we've already announced, we're particularly proud of our family leave policy. Launched in FY19 in Europe, the new policy offers up to 26 weeks of fully paid parental leave, and it's a bold move by Diageo that clearly outlines our commitment to building an inclusive and diverse workplace.

Finally, sixth goal on grain-to-glass sustainability; over the recent years, we've invested significantly in our supply infrastructure and sustainability has been a key objective within that. For example, we've reduced our carbon emissions in Scotland by 25% since 2007, despite production having increased over 10%. On water efficiency, we focused broadly on water usage, as it's such an essential element in the production of our brands. As an example, at our Cameronbridge Distillery in Scotland, we were able to recover 30% of the water used in the distilling process.

We can also make a difference in the way we package our brands. St. James Gate is already one of the most sustainable breweries in the world, and in April this year, we announced another £16 million investment to reduce the level for plastic in our beer packaging. That will be the equivalent of removing 40 million 50cl plastic bottles from the world.

In September, we were named as one of the most sustainable companies from across 61 industries, and the only global alcohol beverage company to feature in the Dow Jones Sustainability World Index, considered the gold standard for measuring corporate sustainability. This year, we're proud to be ranked number 3rd in both the Dow Jones Sustainability World and Europe Index.

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

In Europe, we do operate in a competitive environment, however, I continue to believe that, we can drive sustainable organic net sales growth in the low-single to mid-single digit range. Our culture of everyday efficiency enables us to fund this investment and improve margins over time. And our continued investment in grain-to-glass sustainability positive drinking and inclusion and diversity further strengthens the long-term sustainability of our business.

Let me just briefly touch on Turkey. The business delivered robust performance in FY19 in the face of a challenging operating environment. Organic net sales were up 11%, however, volumes were down 13%, reflecting an inflationary environment and one in which we seen consistent excise increases. Our portfolio in Turkey spans across price points and categories, which provide us a degree of resilience in challenging conditions. I'd say that I'm very pleased with the strong performance in Turkey on our Scotch portfolio, where we saw strong double-digit organic net sales growth and our Scotch brands overall gaining 1 percentage point of share of the whiskey category.

We continue to support the team and I'm confident that they'll continue to adapt as needed, given their experience in managing volatility in this market.

So, I'm going to conclude there with the prepared remarks and Operator, I'll ask you to come back on and open the line for questions.

Operator:

We'll move on to our first question, which comes from Fernando Ferreira of Bank of America. Please go ahead. Your line is open.

Fernando Ferreira:

Thank you. Hi, John. Two questions from me, please. First one on Guinness in your beer business, which, as you mentioned, has been one of the key engines right behind the better momentum in Europe. Can you talk about innovation there and how is the pipeline looking going forward? And especially on the no and low alcohol category, which is a big focus, right, for other brewers in the region.

And then second question, maybe not the key focus of today's call, but given your role on Scotch, would you comment on the US tariff announcement and how that might impact your business on malts? Thank you.

John Kennedy:

Yes, thanks Fernando. On the beer question, yes, so if we step back and look at overall beer performance, there's – as I mentioned, Guinness Ireland results weren't strong last year. However, what we have seen is on the core brand in GB, where the formula is working well, draft Guinness grew 5% last year, which is a super performance in a market that's flat to declining in the on-trade.

And then on broader innovation, I mean, back to the point I made on sustained innovation through recruitment-focused projects, I mean, Hop House 13 is in its fourth or fifth year now and has continued to grow and gotten to significant scale both in GB and Ireland. And then in the last two or three years, Rockshore lager and then cider has been a major success in Ireland, playing into a trend for accessible, long alcoholic drinks.

So, we're feeling good about our innovation portfolio. Specifically, on low and no, we've got pure brew in Ireland, which has been a small play. It's been successful, but not a scale effort. But we are doing more in that area, not just in beer. You would have seen in spirits we launched Gordon's – basically Gordon's and Tonic Zero alc RTD in a number of countries in FY19. And we saw some very good results from that. And the acquisition of Seedlip is another step in that direction.

So, I think, yes, I feel good about beer innovation. I think on low and no alc across the broad portfolio we're taking a range of steps. And I mentioned Smirnoff infusions and Ketel One Botanicals which play into that trend to make sure we take advantage of a movement towards moderate drinking. More to go there, but a good start.

On the tariff question, look, the business is currently assessing the impact of last night's announcement from the US Trade Department. I don't have anything to say on that right now, other than our investor relations team will provide an update as soon as possible, and as soon as there is full information available.

Fernando Ferreira:
All right. Thank you.

John Kennedy:
Thank you.

Operator:
We will now take our next question from Edward Mundy of Jefferies. Please go ahead. Your line is open.

Edward Mundy:
Hi John. A couple of questions from me. At the start of your opening remarks, you characterized the environment between super premium, premium standard and value and the different growth engines there. Are you able to provide a bit more of a split between the size of those four different brackets within Europe and how that could continue to evolve? I.e. how do you think about your business, which is more of a western-style spirits business rather than a local business? How do you think about the market backdrop for you to continue to grow, given that most people would view Western Europe as a slightly anemic environment? That's the first question.

The second is on innovation. Clearly, there's a lot going on still within the innovation pipeline, but you're now starting to lap some quite tough comps from gin. Simplistically, what is it that's going to fill the gap from Pink Gin over the last year or so? Is it Ketel One Botanicals and Smirnoff Infusions or is there still a lot of other stuff that's going to help to fill it? And still on innovation, what is the opportunity for a hard seltzer, do you feel, within Western Europe?

And then a final question on Brexit. I know it's impossible to define what that actually means at the moment. But I would be interested in your confidence in being able to absorb any volatility around Brexit.

John Kennedy:

Yes. Thanks, Edward. Just ticking through those in the order you asked about them. Look, on the price segments, I don't have the exact numbers in front of me, but, roughly on a volume basis, you will have about 5% of volume in secret premium plus, another 10% in premium, and then another 30% or so in standard and everything else below that. And if you look at – we've talked about this in the past. If you look at Europe, although there might not be dynamic growth in terms of the volume of total bev alc, which for total spirits is roughly flat, what you do see is significant growth as you step up the price tiers. So, again, low-single digits for the standard brands, mid-single digit for premium and then double-digit for super premium plus.

And in terms of how – is that sustainable? Yes, we think it is because the US, which is a marker for us in terms of category development, would indicate that we're going to go a lot further in terms of that premiumization as the same type of cocktail culture, luxury brands and spirits trend that we've seen in the US continues here. And we feel like we're in a good position to take advantage of that. I mean, it's six or seven years ago now that we set up the reserve business unit in Europe and that's over 200 people who are dedicated to building our high-end brands in the top 5,000 bars, clubs, off-trade specialist stores in Europe. And through that effort, most of the brands are three to five times bigger than they were five years ago, and reserve is double in scale. And as we look forward to taking steps like putting the incubator unit into place, which is essentially the next range of reserve brands, means that we'll keep feeding that pipeline. So, we think that's a key part of why we can continue to drive good growth in Europe.

On the innovation question. Yes, look, Pink Gin was such a huge success that I think everyone's looked at that and said, what does year 2 and year 3 look like? A couple of things I would say is gin as a category has slowed down a little bit in terms of its growth. But having doubled in size in the last five years, it's still showing very significant growth pretty much everywhere across Europe. So, on a rolling 12-month basis, gin is up 18%. On a rolling three-month base basis, it's up 11%. And in many countries across Continental Europe, it's still up around 20%, even though it's matured in Spain.

So, we think the category will continue to grow. In terms of lapping Pink Gin specifically, we're actually still seeing strong growth in a number of channels from Pink Gin, but in our total innovation pipeline, we have a lot of exciting products coming. None that I can talk about in gin right now but certainly, the ones you referenced, Ketel One Botanicals and Smirnoff infusions are only just in market. So, lots of growth to go there.

And then if you go in to, for example, Scotch, where we've come out with pocket Scotch, which is a really accessible, portable premium version of Scotch packaging, we think that's got big potential. So, I feel good that we'll be able to continue to get growth out of our total innovation pipeline.

On the hard seltzer piece, there's nothing to announce on that now. What I would say is we're paying very close attention. Obviously, we see what's happening in the US, but very close attention to the mixers. So, for example, soda water as a mixer is consistently up double digits in Europe, whereas traditional soft drinks are down. So, we do think there's that similar trend to looking for a range of benefits from moderation in alcohol to calorie count that we're making sure we integrate into the thinking behind all of our new product launches. And more to come on that.

On Brexit, yes, look, I mean, we've talked about that a number of times. We do feel that Diageo is in a good position to be relatively resilient no matter what happens, although we continue to advocate that it would be ideal to have an orderly separation and a deal put in place rather than a hard Brexit. However, our supply chain is relatively simple compared to many categories. Our brands and our categories are zero-rated on tariffs under WTO rules. So, we feel like – we're not immune to what may happen, but we're in a relatively good position to weather whatever outcome eventually comes about.

Edward Mundy:

Very good. Thank you.

Operator:

We will take our next question from Richard Withagen of Kepler. Please go ahead. Your line is open.

Richard Withagen:

Good afternoon, John. I have two questions. First of all, on the marketing investments in Europe, you're talking about growth in the last four or five years. Can you give some more reasons – or some insights on the reasons why you have decided to increase spending? Obviously, I guess, I mean, that goes down to the opportunities you have in your portfolio. But is it perhaps also driven by more competition in the beverages space, or are there any other reasons? And how do you see that marketing spending going forward?

And then the second question is really on the organization. How do you think the Diageo organization in Europe needs to evolve in order to maintain the flexibility and respond quick enough to changing consumer preferences or consumer tastes?

John Kennedy:

On the first question on increased spending, look, for the reasons I was outlining to

Edward on the growth potential of the market and the fact that the model has been delivering sustained share growth and NSV growth, our confidence has just gone up that we can get results by investing. And therefore, as we look forward, our stance would be to continue to try to invest where there's significant growth opportunities.

Some of that will come from driving efficiency and reallocating out of areas where we're not getting returns, or decreases in overheads that can go into our COGS, that can go into A&P. But we will, where we think it's appropriate, invest A&P at a [growth] rate higher than NSV to drive growth. So, we've just got confidence that we can get a return from it. It's not driven by trying to match a significant change in stance from competitors. We're actually trying to build up a war chest to make our A&P spend a competitive advantage.

In terms of flexibility, look, I think the way we describe the organization is you need a stable backbone at a Europe level where functions provide good, timely support to the demand and commercial end of the business. The commercial end of the business needs to be flexible and agile and adapt to customer and consumer needs. And we feel like we're doing a reasonable job on that. But when you operate across a geography with as many countries as Europe, we know we have to keep a particular focus there. And I think if you look at what we did on Pink Gin, that was an example where we saw a pink gin trend occurring in southern Spain. We identified that, said, look, it has the potential to travel and out of that, created and launched Gordon's Pink Gin across many countries and had strong results. So, having that kind of local insight, but the ability to leverage it at a Europe scale is the sweet spot that we want to try and stay in.

Richard Withagen:

It's very clear. Thanks, John.

John Kennedy:

Thanks, Richard.

Operator:

We will now take our next question from Chris Pitcher of Redburn. Please go ahead. Your line is open.

Chris Pitcher:

Thanks very much, John. A couple of questions. Could you talk a bit more about the outlook for GB where, I imagine, obviously, gin has been a huge success and probably completely changed the shape of the GB portfolio? I'm assuming that your more conservative comments on gin relate to GB. How, in a Europe region that's growing at 3-4%, does GB contribute from here?

And then secondly, on Turkey, how is the profitability of Turkey these days? It was obviously very high profit business when you bought it in. Is it still significantly more profitable than the region, or have you sunk investment into that market and bought margins down a bit?

John Kennedy:

Yes, yes. On the GB piece and just, I mean, going specifically to the gin point, I mean, in GB the rolling 12-month trend on gin is +38%. And that has slowed. And on rolling 3 basis, it's 21%. So, it's interesting. We're really seeing, despite significant growth, continued mileage in gin growth in GB and we don't think that's going to flatten out in the short-term. And then if you look at GB more broadly, what we've seen on a multiyear basis is GB has led the way in a couple of areas; really, the trade-up to premium and super premium brands, development of an on-trade culture that's focused around cocktails that has pulled people into spirits. And because of that, the GB spirits market has grown on average about two times faster than the rest of Europe.

What we're seeing is a continuation of that trend. There's been some slowdown in the GB off-trade, but that's mainly driven by decisions we've taken on levels of promotional investment on certain brands. But the broad trend, particularly coming through the on-trade, is really robust and therefore we'd expect GB to continue to more than pull its weight in helping us drive the low to mid-single digit results. All of this is subject to political economic changes – it may change the profile in GB or another individual country. But the medium to long-term trend gives us confidence that GB will be a driver of growth.

On Turkey. Yes, it's still margin-accretive to the region and to Diageo at an OP level. What we did see is probably the biggest hit we've had on cost of goods in seven or eight years last year. There was a bad grape harvest. There was a problem procuring the kind of ingredients we needed as some of those were used for exports and we had a big leap in COGS and a big decline in gross margin because of that. However, that still leaves us in a place where Turkey is margin-accretive, and we would expect those effects to moderate, and eventually turn around and allow us to expand margin again.

Chris Pitcher:

Thank you very much.

John Kennedy:

Thank you.

Operator:

It appears there are no further questions at this time. I'd like to turn the conference back to you for any additional or closing remarks.

John Kennedy:

Okay. We've got a couple of minutes, so I will say a couple of closing words. But again, feel free if you want to jump in with another question. I'm happy to go back to it. So, we do think what we're doing in Europe and the consistent performance that we've been able to deliver is the result of a clear strategy, which is very much in line with the six goals that we're pursuing on a global basis. We think we're getting smarter in terms of using data to figure out where the money goes. And we do think we've embedded a culture of everyday efficiency which allows us to constantly shake out funds that we can reinvest in growth or drop to the bottom line.

We do know that we're operating in a competitive environment. The market in total is not growing at a high rate. There has been some economic slowdown in Europe over the last year or so. So, we recognize that not everything is a tailwind. However, we do believe that by pursuing the growth drivers that I've been talking about, we can deliver that quality, consistent organic net sales growth. And we are very focused on continuing to build our reputation across sustainability, responsible drinking and inclusion and diversity.

So, thanks, everybody, for joining the call today and I look forward to talking to you next time.