Company: **Diageo NA**

Conference Title: **Diageo North America Presidents Investor Call 10th December 2019**

Format: **Pre-Recorded Presentation uploaded Diageo.com (Live Q&A transcript further below)**

Hello everyone and welcome.

For those that don't know me, I'm Deirdre Mahlan, President of Diageo North America and it's great you're able to join me today for an update on Diageo's North America business. While our business includes the US spirits business, Diageo Canada and Diageo Beer Co, I will focus today, on our largest business, US Spirits, as I did at our Capital Markets Day back in May, while touching on examples in our other North American businesses.

We see North America continuing to be a reliable and attractive market. As a reminder of my message at Capital Markets Day, the US is one of the largest global Total Beverage Alcohol markets, and within that, Spirits is increasing its share. Diageo remains a leader in spirits with a share double that of its nearest competitor.

We have leading brands across categories such as Scotch with Johnnie Walker, Vodka with Smirnoff, Canadian Whisky with Crown Royal, Gin with Tanqueray and Spiced Rum with Captain Morgan. Overall, TBA is a resilient segment, with a diverse range of categories in growth. Spirits continues to see premiumization and price/mix improvements, with Diageo well placed to leverage these due to our advantaged portfolio and our innovation and executional capabilities.

As we look to deliver against our ambition of sustainable growth year on year, let me highlight progress to date.

For Fiscal 19, North America delivered strong organic net sales growth of 5%. We achieved that via growth across all our business units: US Spirits, Diageo Canada and Diageo Beer Company USA. While we saw some increases in COGS and market mix shifts, we were able to offset these with our continued focus on efficiencies.

We also strategically and efficiently invested in marketing at a rate ahead of net sales growth, which resulted in some reduction of our strong operating margins. Finally, over this time, we strengthened our growth trajectory with innovation, strong performance from Casamigos tequila and the sale of 19 brands to Sazerac.

In fiscal20 we are continuing to deliver against our base business and innovation strategies. Through our capabilities, tools and analytics we continue to build advantages in our routes to consumer. And in support of sustainable growth we aim to exceed our consumer and communities' expectations when it comes to positive drinking, inclusion and diversity, and environmental sustainability.

Our ambition is to be one of the best performing, most trusted and respected consumer products companies in the world.

At Diageo's preliminary results in July, Ivan explained how we think about this, through six goals that support our self-sustaining business model.

- Driving sustained quality growth is to execute the best route to consumer by recruiting through our brands and occasions while maintaining the best shape of volume/price/mix growth;
- Making intelligent, data driven decisions on where to invest smartly and;
- Continuing to drive everyday efficiency that creates room for both increased investment and continued margin improvement.

Delivering our ambition also means being trusted by all of our stakeholders for doing business the right way and Underpinning our license to operate for long-term growth.
Our goals are to:

- Promote positive drinking.
- To champion inclusion and diversity and,
- Pioneer grain-to-glass sustainability.

The six elements are inter-related and mutually reinforcing. Today, I'd like to highlight the work we have been doing across these areas in North America and how they are supporting the delivery of our results.

Let me start with our first performance goal - delivering sustained quality growth.

It is at the heart of Diageo to delight consumers with brand offerings that deliver at the right occasions and at the right price. We believe that this relentless focus on the consumer will help us ensure sustainable growth. For this, we need to be leaders in understanding and forecasting consumer trends. We have invested in technology to build our capabilities in identifying emerging consumer trends earlier in the cycle to inform our brand strategies.
We are seeing a range of trends across North America including demographic growth in multi-cultural and older consumer groups. People are moving across the U.S. as different and emerging cities are creating jobs and driving growth. Consumers are looking for different serves, formats, and ingredients. Finally, occasions in which people drink are shifting. There are trends of consumption occasions - earlier in the day than traditionally, with food and in more informal settings.

Diageo brands continued to deliver good value growth through the first 3 months of fiscal 20 and on a rolling 12 months basis. American Whiskey continued to take share for the 9th year in a row with 57bps to Q1 Fiscal 20.
Bulleit with value growth of 9% v prior year is contributing to that. Tequila's share growth in the segment of 71bps has been delivered through the contributions of both Don Julio at +30% and Casamigos +43%. Elsewhere in our portfolio, Diageo continues to be a leader in Scotch Whisky through our brand investment and innovation. According

to market share data, our scotch brands continued to grow faster than the category in the first quarter of fiscal 20. We have a leading share position in Canadian Whisky, and the iconic Crown Royal grew value by 13% in the first quarter of fiscal 20. This is outperforming the category of 8% value growth v prior year. The brand is showing continued growth in the On Premise, and strong equity gains including being #1 in distinctiveness across all Spirits brands. Additionally, while Gin is accelerating and growing double digits in many markets around the world, the category remained in low single digit growth for the first quarter in the US. We have a leading gin brand in the US with Tanqueray, and when it comes, we will be well prepared for a “ginaissance” in the US.

Guinness is now the 3rd fastest growing beer in the imported category. Brand Guinness continues to gain slight value share of category driven by the strength of Core stout, but these are partially offset with the declines of Blonde. We are pleased that just over a year since opening our Guinness Open Gate Brewery and Barrel House, in Relay, Maryland, we’ve had over 500k visitors through our doors. At the same time, we’ve expanded innovations at the brewery, rotating brews regularly, testing and learning with our consumers. Across Canada spirits, our 12 month performance to Sept Fiscal20 improved +10bps to a share of 27%.

Innovation is key in the delivery of our sustainable quality growth efforts. We are the leader in innovation in the US, and we continue to focus on building and maintaining this through our recruit, disrupt and re-recruit model.
We have a broad portfolio strategy built up through a granular understanding of consumer occasions and emerging trends. Our recent successes in innovation are the result of a relentless focus on recruiting new consumers for our brands and disrupting categories or entering white spaces. Our partnership with HBO’s Game of Thrones on ‘White Walker’ by Johnnie Walker and our Single Malt ‘Scotch Whisky Collection’, were examples of consumer insight embedded in our innovation approach. We connected with a ‘moment in culture’ and created a truly successful outcome of bringing new consumers into the scotch category and brand

Also important are our re-recruit limited time offerings that benefit the parent brand. LTOs can also play a role in bringing new news to a brand with a seasonal offer. This festive period we have our recent launch of Cîroc White Grape, and our Smirnoff Holiday Ornaments Pack. We have also had Cîroc Summer Watermelon for the summer just passed. Our seasonal limited time offerings for Crown Royal, Salted Caramel for the fall and Peach for the spring are highly anticipated by consumers and bring excitement to the brand. We see the continued success of Crown Royal innovations with Peach and Regal Apple contributing to category share gains in the first quarter of fiscal20 , and the continuation of Ketel One Botanical growth which is tapping into the ‘low and no’ and wellness trends. Other recent launches such as Johnnie Walker ‘A song of Ice’ and ‘A song of Fire’, also in collaboration with HBO, have been showing signs of good uptake on launch. However, compared to ‘White Walker by Johnnie Walker’ last year, their contributions are expected to be smaller.

Vodka and Spiced Rum categories continue to be areas to address, and I'd like to talk about them a little more here.

Across the industry Vodka continues to grow, however the category is losing share of total spirits. In the first three months of fiscal20, the vodka category grew about 3% in value. Smirnoff remains a leading vodka brand in the U.S., and our category approach is to sustainably build our position and the category as leaders in the medium- to long-term. We continue to focus on transforming and innovating within the brand to reach and recruit new consumers while re-recruiting current Smirnoff consumers into brand extensions to deliver sustainable medium- and long-term growth. Examples include the launch of Smirnoff Zero Sugar Infusions to recruit consumers looking for flavour without sugar and our brand campaign with personalities such as Ted Danson, Jonathan Van Ness and Laverne Cox. Throughout fiscal19, we have seen increases in the Smirnoff's equity scores including spontaneous awareness and distinctiveness. In fiscal19 Ketel One returned to growth and gained share on the strength of Ketel One Botanicals.

To continue driving growth on our core Ketel One brand, we have recently launched 'Drink Marvellously' through our partnership of the 71st Emmy awards season. We hope to create a unique sense of discovery and spark imagination instead of simply re-creating familiar occasions and experiences. The campaign invites viewers into a marvellous world – one full of personality, charm and of course, delicious drinks made with Ketel One Vodka.
Meanwhile, we continue to work on reshaping our approach on Cîroc to connect with a broader consumer base and access new occasions. We are looking further afield from our core consumers to recruit across wider cultural and geographical non-urban moves for the brand.

The Rum category continues to be flat. As category leader, Captain Morgan has been impacted by the category headwinds. We have been repositioning the brand to increase both the brand and product relevance aiming not just for short-term wins or turnarounds. Since our Capital Markets Day, we have announced a national partnership with Major League Soccer (MLS), alongside a number of clubs and game sponsorships. As part of this, we plan to engage with fans, for example bottle personalisation in club colours. We have also sought to communicate new versatile servings that connect with flavour and health-conscious trends and highlight key messages on taste.
We believe these programs will broaden our consumer base, and maintain our core consumers.

Now across to our second goal, Investing Smartly.

At Capital Markets Day we shared how we leverage data to align our investment to where we are confident of greater returns. We took you through the benefits of Catalyst in detail. However, for those that missed it, Catalyst is our proprietary approach to marketing measurement and optimisation. Catalyst enables us to optimise our investment in two ways. First, through supporting decisions about which brands to invest in across our portfolio. Secondly, Catalyst enables us to identify and target the most effective growth drivers such as types of traditional and online media, sampling and PR etc within each brand. We leverage catalyst in supporting decisions made by our marketing teams, and we continue to see benefits from improved ROI as we remove low-return investments and activities. This is optimising A&P investment in order to unlock the next wave of growth.

We leverage Catalyst insight to complement our marketing talent. An example of this was where our catalyst tool identified opportunities for our brand team to increase investment on Baileys despite already generating good levels of ROI. It guided us to target our spending across specific media channels and to prioritize specific times throughout the year. As a result, this drove activity improvements and optimized return on investment for the brand.

Leveraging data and insights also helps us with our net revenue management agenda. The pricing environment in US spirits has been mixed over the last 3 to 4 years. We are leveraging NRM to pursue opportunities based on insights related to geography, size, mix and promotional effectiveness. As we make adjustments to improve the quality of growth by optimizing price, mix and volume, short-term performance of some brands may be impacted.
However, we stand to benefit in the medium- and long-term through the delivery of sustainable, profitable growth. We continue to build our capabilities in NRM and continue to embed learnings.

Our third goal is everyday efficiency, which ensures we are making purposeful and data led decisions.

As I talked through at Capital Markets Day, we are deriving significant insight from our suite of tools enabling EDGE – Every Day Great Execution – to drive greater salesforce effectiveness. We continue to see significant opportunities to capture in-store data and, through advanced and predictive analytics, develop insights that differentiate our performance from the competition.

We also anticipate and react to consumer trends and their desire for greater convenience. As such, we have also been developing our digital capabilities in conjunction with our retailer partners to support the 'ease of shop'.

Underpinning these examples is our cross-functional and advanced analytics team. We are leveraging advanced analytical techniques to inform the why, what and how of performance and to drive future potential opportunities. To sharpen our route to consumer, we are also sharing insights and learnings with our distributor partners to support decision making and execution.

For our fourth goal, we commit to actively engage and educate consumers about positive drinking.

For many years now we have been working to change the way the world drinks for the better; lead the industry in reducing underage drinking, drink driving and heavy drinking; and empower our people and brands to advocate for moderation. DrinkIQ.com is our global programme that supports this message.

In our efforts to educate and raise awareness of underage drinking across North America, we have our global initiatives 'Smashed' and partnership programs such as 'Ask, Listen, Learn'. 'Smashed' is our educational theatre program which was successfully piloted in the U.S. (in partnership with SADD, Responsibility.Org and Collingwood in 2019. It has already been rolled out to almost 6,000 high-school students and we are looking forward to growing this further throughout fiscal20.

Positive social impact and responsible drinking is at the heart of Crown Royal and fits perfectly with the brands purpose. Building upon previous Crown Royal 'moderation hydration' campaigns to promote moderation, we continue with our latest promotion of 'the water break'. Now in its third year, we have national TV ads running during televised NFL games, distributed tens of thousands of gallons of water to fans on game day and partnered with several NFL teams and former legends to spread the message. Another recent partnership between Seagram's 7 and U.S. country western singer, Garth Brooks, highlights how we couple our responsible drinking promotion with that of our national marketing campaigns. Brooks is asking dive bar lovers everywhere to take action at jointhepact.com to pledge to never drive impaired.

An inclusive and diverse culture is core to Diageo's purpose and is our fifth goal.

Diversity in backgrounds and talent at the Board and management levels and across our workforce provides resiliency for the delivery of consistent performance. Globally, Diageo has ambitious targets for gender diversity and personally I'm very proud of North America's contribution to this. My exec team is comprised of 50% women.
We are recognised as industry leading, and the recent global rollout of our progressive and equalising parental leave policy is an example of our leadership. Globally, Diageo is recognised as being #1 in the world by Equileap for gender equality, and one of the best places to work for LGBTQ+ equality. Diageo North America has been recognized for 11 successive years with a perfect 100 rating by the Human Rights Campaign Foundation in their Corporate Equality Index. Despite these successes, we are not complacent and recognise we still have a long way to go to achieve true inclusion and diversity.

Our brands help shape culture with courageous marketing that we hope touches the lives of our consumers and society. Smirnoff has a proud history of supporting the LGBTQ community throughout the decades. Recent examples include Smirnoff's 'Welcome Home' campaign, with Laverne Cox, during Pride Month earlier this year, and a continuation of celebrating 'Love in All Forms' and LGBTQ equality along with Jonathan Van Ness. Just a couple of weeks ago, we announced our sponsorship in the US of the Creative Equals Returner scheme – Creative Comeback. The program aims to address the lack of women represented in top creative leadership roles, while supporting the progress that is needed on gender portrayal in advertising. We look forward to its roll out in 2020.

Our sixth goal on ‘grain to glass sustainability’ highlights how we, as a long-term business, seek to preserve the natural resources on which our long-term success depends; and positively impact the communities in which we live, work, source and sell.

Diageo sets itself ambitious global targets in areas such as carbon reduction, water efficiencies and waste reductions. Diageo remains an industry leader in setting absolute versus relative reduction targets. Globally we are recognised in prestigious rankings such as 3rd in the ‘Dow Jones Global Sustainability Index’. More specifically in North America, for the last 2 years we have won the ‘Green Supply Chain Award’ for companies making sustainability a core part of their supply chain strategy. Despite increased production, we have reduced our greenhouse gas emissions in North America by 40% since 2007. Through continuous improvement and innovation, we have improved our water efficiency in North America by 23% since 2007 which equates to 130m litres of water per year. Waste to landfill in North America is now down 99% versus 2007.

To support these developments, North America has invested nearly $170m over the last 3 years to develop some of those most technologically advanced and environmentally sustainable distilleries and production facilities in the world.

We are proud of the positive impact we make to wider communities where our consumers, suppliers and employees live and work.

Our ‘Learning skills for Life’ program provide free learning and career opportunities to those within the hospitality industry. We also ensure placement opportunities after training. Across 3 major US cities, we’ve had over 600 graduates with an 85% job placement rate up to 2019. Diageo CAREs (community activity and relief efforts) facilitates opportunities for our own people to give back to their communities across the US and Canada, be it through volunteering hours, fund raising events or set piece activities. A very recent, September 19, example is where we saw nearly 1000 Diageo employees give back to communities through a series of projects and events across our North American business locations in one week.

In summary, our performance in US Spirits in Fiscal19 demonstrated that our strategy is working and that we are making good progress toward our ambition. We are strengthening capability, tools and analytic strength to drive advantaged routes to consumer for today and the future. We continue to focus on growth, underpinned by investment in consumer insights and brand marketing. Improving the performance of both Vodka and Rum remains a focus for medium- and long-term turnaround. Our US Spirits mid-term priority remains to deliver consistent and sustainable growth. Regarding recent tariff news, based on the published list in October, we do not expect a material impact at Diageo Group level.

Finally, underpinning our performance, is our continued focus on promoting positive drinking, sustainability, and inclusion and diversity. We recognise that they are integral to our ability to achieve our ambition and give us our license to operate as well as ensuring we can continue to build the business for the benefit of all our stakeholders.

I want to thank you all for listening and I look forward to addressing any queries you have on our live Q&A call at 8am EST/1pm GMT. The call details have been published earlier.

Thank you.

**Performances source referred to as: Nielsen xAOC + Convenience Projection & NABCA*

Company: **Diageo NA**
Conference Title: **Diageo North America Presidents Investor Call**
Date: **Tuesday, 10 December 2019**
Format: **Live Q&A**
Conference Time: **08:00 (UTC-05:00)**

Operator: Good morning and welcome to the Diageo North America's President Investors Call. This is a live Q&A session for 45 minutes following the pre-recorded presentation uploaded earlier today to diageo.com. Today's conference is being recorded. Your call today will be hosted by Deirdre Mahlan.

To ask a question today, 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. Again, please press star one now to ask a question. We are now ready to start the call. Deirdre, the question is from Sanjeet Aujla with Credit Suisse.

Sanjeet Aujla: Hey Deirdre, many thanks for the presentation earlier. Couple of questions please. Firstly, just a clarification, you talked about the good value growth in US both continuing into Q1. Has that also continued into October, and particularly November, which is obviously a key month for the industry? And then you made a comment about some potential for short-term impact from net revenue management on some brands across the portfolio. Could you just give us a bit more clarification there when should we anticipate some of these impacts and which brands in particular? Many thanks.

Deirdre Mahlan: Thanks Sanjeet. So hi everyone, good morning or good afternoon. Just first on the question about the trends from the first quarter and then October and November, I can talk to the October trend, which is readily available information. If you look at the trends that are available from Nielsen and NABCA, you'll see that the industry trends continue pretty much if you look at three, six, nine, 12 months, they're running between 5% and 6% depending on the channel.

Our view would be that nationally – because we don't have independent channel information available – it's safe to say, it's kind of consistent with what's been happening in the last year. So the good news for the industry overall and for the sector is that performance continues to be good. I was out in trade last week various places around the country meeting with customers and viewing our brands out in the market. And I'm really pleased to say that the retailers that we met with, which included on trade as well as big chain grocers said that the Thanksgiving holiday was robust.

So I expect therefore, when we see finally the results that have the full month November, even though Thanksgiving was quite late – that sometimes creates some disruptions in reported day sales in the syndicated data. I think we would expect the numbers to hold up the same in terms of the trends.

With respect to net revenue management, I think I'm not going to comment specifically on brands. We don't disclose that in particular when we're talking about net revenue management. I don't think it's appropriate. What I really meant to convey when I made that statement in the presentation was that the nature of net revenue management is about optimizing volume, price and mix for sustainable consumer-backed performance.

And that's what we're doing on a regular basis. So that means in some cases if we find a low return promotion, we may remove that return from low return promotions, and look to replace it with something else. That means that year-on-year with that promotion existed the year before that you would end up with weaker performance in the year, but over the medium to long term, of course, you get much more profitable growth. That's what I was referring to.

We expect and we continue to see positive outcomes from the capability that we're building in that revenue management. So in its entirety, I still would expect to see positive results from that work, but you will sometimes get period-to-period changes for brands, and you can see that sometimes come through, but if you look at the detail, for example in Nielsen data, that's really what I was referring to. Overall, we see positive results from net management intervention.

Sanjeet Aujla: Good and just a quick follow-up from the innovation pipeline, how would you characterize the strength of the innovation pipeline this year compared to last year, given it was such a significant contributor to last year's growth?

Deirdre Mahlan: Yeah, I think first of all, we are thrilled with the innovation that we've been able to deliver and the sustainability of it, which I spoke about in the Capital Markets Day back in May. We continued so for an example Crown Royal Regal Apple, which is now five years old still growing double-digit.

The Crown Royal franchise we have had great success on accessing consumer occasions and recruiting consumers. The most recently launched Crown Royal variant, which is in this half incremental is been so popular that we could not keep it in stock, in market, when I was out last week pretty much, every retailer asked when they could get more. So it was a limited time offer. We do expect it to be back in the spring.

So overall, my point is, yes, last year was particularly strong driven by Johnny Walker, White Walker and the single malts that went with that, and of course, these are very high value items, and they were specific at the point of the moment in culture. There is a second piece of innovation relating to Game of Thrones called Fire and Ice. We do not expect that, as I said in the presentation, to be as big.

So there are some gaps half to half. So in the first half, this year, I do expect the contribution from innovation to be less than it was last year. But again, our view and our strategy has been and continues to be to drive sustainable performance over a period of time, and that's what I expect. I'm confident that we can continue to do that.

Sanjeet Aujla: Thank you.

Operator: Thank you. Our next question comes from Eric Serotta with Evercore.

Eric Serotta: Good morning, good afternoon everyone. Wondering Deirdre if you could give a little bit of color as to how you're thinking about the hard Seltzer risk and the opportunity both within DBC USA, and in terms of what you're seeing the impact on your US Spirits business particularly Vodka?

Deirdre Mahlan: Sure. I mean it's clear that the Seltzer business in the US is going strong, continues to grow strong. And I saw that when I was out in the market and we can see it in our own business in DBC USA. It continues to be driven by not only the biggest player in the category, but also many new entrants who continue to come in.

So as is often the case with when categories are new and invented, it takes some time for that kind of work itself out. Although, from our point of view, we always look at the consumer occassions. And our view is this seltzer category is here to stay certainly over the medium term. It is addressing the consumer convenience trends as well as the trend around lower calorie, low sugar, low carb. And so it's a convenient format and we expect it to continue to grow in everything that we're seeing suggests that's the case.

Well I think with respect to how it's impacting from different categories, we're not seeing any material impact on Spirits there. It's been a number on our brand. There have been a number of reports written that hypothesize on how much of it's coming from beer and spirits because these products are being consumed in the same occasion. Of course, some people are making a choice where instead of having a spirit or a beer or a glass of wine, they're having a seltzer.

It's still a very new category, so I don't think it's clear yet, exactly how consumers are going to make those choices. I would stick to what we've talked about consistently, which is it is occasion-based. And so there are occasions and there will continue to be occasions where people want to mix their own cocktail. It has a certain amount of theater with it versus having a convenient can format.

We anticipate and expect to continue to innovate, and to participate in categories that we think are going to be end brand that are going to deliver against specific consumer occasions and consumer cohorts. So yes, we think this is positive for our Diageo beer company business, and we will also expect to innovate in spirit so that we can also be relevant in those same occasions.

But I think in terms of the total impact on what's going to happen on that size of the category, it's just too early to say, although, clearly it continues to grow bigger. I mean I think this time next year, we'll have a I think a better sense of the size of it and where different parts of the different categories are contributing in those occasions.

Eric Serotta: Great, and then just a quick follow-up actually on a different topic. Any comment you could give in terms of the promotional environment as we are now in the thick of the holiday season. How is it comparing to last year, past few years on average? Any color there would be helpful. Thank you.

Deirdre Mahlan: Yeah, I mean just in terms of we've said many times, it is been a mixed pricing environment in the US over the last few years. I mean I think if you look at the data, there has been some strengthening in the context of there seems to be more support in pricing. If you look at CPI in the category, it has turned positive over the last couple of quarters.

So that's – of course, that is an indication that not only in some categories, of course, people are taking topline price, but I also think that is an indication that the promotional activity is perhaps at a lower level or depth than it was in the past. I'm speaking just from what I can see specifically in the data, but that has borne through also in my experience.

I mean from our point of view, as I mentioned earlier, we're very focused on sustainable long-term profitable growth, and so we will continue to evaluate promotional activity and volume price and mix. That supports our sustainable profitable growth. And I'm pleased to see in the last few quarters that CPI in this sector has turned positive from a pricing point of view.

Eric Serotta: Great, thanks. I'll pass it on.

Operator: Thank you. Our next question comes from Edward Mundy with Jefferies.

Edward Mundy: Hi Deirdre, a couple questions from me. In terms of your ambition, which is quality growth. I was wondering whether you are able to quantify what that might mean. I think historically growth of 4% was viewed as very much quality growth. Is that something consistent with your view?

Second of all on tariffs, I think you mentioned in your opening remarks that they're based on what was decided back in October, and that wouldn't have a material impact on your business. Do you do you still view tariff risk as something that is very much an issue, potentially for the next year as the USTR potentially reviews existing legislation around tariffs?

And then third of all just coming back to innovation again, I think at the group level that was just a statistic that to recruit accounts to 50% of innovation versus 30% for four years ago. And I was wondering whether you are able to share the statistics for the US business in terms of the split between recruit relative to history?

Deirdre Mahlan: Okay, I'll try to take those in order. With respect to what constitutes profitable value or good value growth, I've said in the past, we are the leader in the industry in terms of share. And our goal is to continue to grow in line with the industry depending on what happens in a given period because of the timing of launches and what we might tap into, promotions or perhaps sometimes there are brands that are in category, that we have big brands in categories that are not performing that well. There's a range of where that ends up.

So last year, we reported 5%. My view is that we want to continue to have good value sustainable growth. The industry is a bit above 5%. We are going to aim to continue to grow in line with the industry trend. That is our aim. And then depending on timing of various activities, we would expect to be there or thereabouts in any given year. So we have said we want to be around mid-single digit. I think that is still a fair kind of range for you to be thinking about what we see is good growth, mid-single digit growth.

With respect to tariffs, unfortunately, I do not have a crystal ball -– what's been happening on tariff has been quite kind of a volatile and moving scenario from the time that the US trade first came out with the list of items that might be subject to the tariff associated with involving an Airbus dispute. That has changed several times, and ultimately, we currently have our single malts Bailey brands impacted by the tariffs.

US trade, in the situation at the administration with respect to tariffs continues to still be quite volatile. I really don't want to predict what I think is going to happen in the coming year or beyond with respect to tariffs. I would just say that we will, continue to work to support our brand, and to look to grow our business notwithstanding what actions the US government or other governments may take with respect to imports and export duties.

And so as I think we've said, we do not expect a material impact at the group level this year. That position has not changed. We still don't expect a material impact at the group level. That with the current situation if there's further changes, of course, we would update as appropriate.

The final question on recruit, re-recruit, I think we don't have – or we don't really think about it constantly and what are the cost percentages of recruit and re-recruit. I think the statistics that you referred to that might have been set at the group level is the kind of strategic intent. There is a role for recruit, re-recruit and kind of disrupt or create new categories across our position. And we participate in all of those.

We have updated our focus on recruit launches, so examples of those are the Smirnoff Zero Sugar Infusions, which was recently – even Johnnie Walker White Walker, which was a different liquid that was meant as a recruit impact, and so were the Ketel One Botanicals and a number of the Crown Royal launches each have a role to recruit new consumers into those categories. But I don't have a percentage number to report to you. I would say it's increased. The amount of recruit has increased versus re-recruit. I just don't have a specific number add to report.

Edward Mundy: Great, thank you.

Operator: Thank you. As a reminder, please press star one to ask a question. Also due to time and interest, please limit yourself to two questions. Our next question will come from Laurence Whyatt with Barclays.

Laurence Whyatt: Hi Deirdre. Thanks very much for the questions. Just a follow-up on the seltzer question earlier in the call. Are you seeing any particular impact on your Vodka portfolio? I was wondering if you could, if you heard some reports from the IWSR earlier that people were even adding Vodka to seltzer. And I'm wondering if you would either see a cannibalization from the seltzer category on your Vodka portfolio or even increase sales as a result of the seltzer?

And then secondly, you mentioned gin in your prepared remarks but we still haven't seen a growth with that category, like we've seen in Europe. I was wondering, do you have any specific reasons why you think the US hasn't taken to gin like Europe? Is there any taste difference or moments of consumption or what are the potential reasons, why that hasn't happened, or have you seen any evidence recently that might be changing in the near future? Thank you very much.

Deirdre Mahlan: Great, thanks Laurence. Very interesting questions. The first one, as I said before, I think the seltzer category is still new and it has been growing and changing over the past – it's been around for a couple of years, but really only accelerated last summer. And I think people looking at and evaluating exactly how the consumer behavior, how consumers are utilizing the brand whether they're utilizing them with other spirits and the cannibalization, it's too soon to say.

As I said earlier in spirits, we have not identified or noted any specific or material impact on our brand, but it's just early. I mean I think it's going to continue to evolve as consumers evolve their own behavior on how they're using the product. So I mean I would say stay tuned as this category continues to develop I think, it will become more evident how the consumers are using the products.

On your second question is which is about gin. We don't have enough time to really discuss this. This is a very fascinating topic I think in terms of often the US leads trends with respect to cocktails and spirits. Gin has been quite the opposite, and so there are a number of theories on why that's the case. Some people, there are some hypotheses that say it is a – Americans tend to not like Juniper as much as other markets.

And so that Juniper is a barrier; other people think that Tonic is a barrier, and Gin is typically, and even the big cocktails that are consumed in Europe and now in South America are consistently Gin and Tonic.

And you'll find that as we mentioned with seltzer as Americans are avoiding anything that has sugar added in more and larger and larger groups. So those are hypotheses on why the kind of serve of gin and tonic that is so popular in Europe and South America has not become as big here.

We believe in gin. We are investing in gin, and it may just be a question of identifying what is the right serve for gin that is really going to excite consumers. We also have some innovation in gin, which is being tested in Florida called Tanqueray Sevilla, which has an orange flavor to the gin, which is refreshing, and has been well received.

As you know in Europe, there were a number of different flavor components of gin that are doing well. So we think it really is just a matter of identifying what the right opportunity is.

The final point that I'll make is in the US, while the total category growth we have not seen a significant movement. At the high end, ultra-premium gin, we are starting to see some significant growth, which is, I think a sign that the consumers are exploring the category, and we would expect that to continue.

Operator: Thank you. Our next question comes from Richard Withagen with Kepler.

Richard Withagen: Yeah, thanks for the question. I want to ask two please. First of all, can you perhaps give some background on e-commerce initiatives that you are doing with the major off trade customers, and what are your thoughts on direct consumer e-commerce for Diageo in the US?

And then the second question is, how is Smirnoff Zero Sugar Infusion performing in comparison to Ketel One Botanicals last year? It seems to catch on less well than Ketel One. Is that the right perception and what do you think could be behind that?

Deirdre Mahlan: Okay, first your question around e-commerce, and our view on what we're doing with our retailers is number one, ensuring that the assets for our brands – that our brands are showing up when they're on websites, whether it would be Drizly or a big grocer in States where grocer itself Spirits or frankly in independent retailers that our asset on their websites look appropriate, so we have actively worked to create a database for our brand assets, so that they can be used most effectively and show up brilliantly for the consumer. So that's the first thing that was our foundational element.

Then we have started to work with retailers for them to help them understand what is the best way to convey our brands – to have those assets portrayed on their website. We have worked with retailers to develop programming that is occasion-based. So that for example, if somebody is looking to -– goes online and they're obviously buying barbecue items, they may have a suggestion that they want to make a particular cocktail then there would be a recipe online, and of course, a prompt to buy a particular item.

So it really is just to try to advance the e-commerce experience for consumers who are online buying spirits for a particular occasion to have our brand show up in the best possible light, which would help improve the retailers' performance, and of course, our own performance as well. So that is really what we mean by saying we're partnering with retailers. We have found that is working and it's effective.

I think with respect to e-commerce in the US, there are some significant regulations in the US given the three-tier system. E-commerce is achieved through the three-tier system with intermediaries like Drizly, who effectively create an app, the piece that will connect consumers to retailers. So that is how our products is getting delivered in e-commerce. There is, we are not shipping direct.

With respect to your final question on Ketel One versus Smirnoff, the Ketel One launch was bigger than Smirnoff Zero Sugar. And they're very different proposition. Ketel One is of course is super premium proposition. It is kind of much more driven by Botanicals. The product, it's produced differently. The Smirnoff product is, of course, at a lower price point. It is targeted at a different consumer. Yes, that it is Zero Sugar, but it is not exactly the same proposition.

But I would also say that Smirnoff Zero Sugar is still new. We're still investing. It is still growing, and so we expect to continue to invest. What we would say is the an area and a consumer trend where consumers are very focused on zero sugar or low sugar and understanding what their ingredients are, and to also have the opportunity to have their spirits not full strength, which is the case with both Infusions and Ketel One Botanical. So I'd say we're still working and tweaking and investing in Zero Sugar, so watch this space.

Operator: Thank you. Our next question comes from Nico Von Stackelberg with Liberum.

Nico Von Stackelberg: Hi Deirdre. Thanks for the questions. I just had a quick one on the leveraging key consumers trend slide. You showed that the age 50-plus consumer group is certainly a trend and no doubt, huge population and also significant spending power, but I cannot help to notice that typically in the industry, we really targeted the younger consumers typically. And is this more of a reflection of the fact that this demographic is typically underserved and undermarketed too or is it more of a function of young consumers are not drinking as much? Is this something else? Can you just answer to that and I can go on?

Deirdre Mahlan: With this particular point about leverage this was absolutely the former. We recognize that this consumer cohort had not been marketed too, and it was a lost opportunity, a missed opportunity for people, for the industry. This industry that age group is the wealthiest in over a very long period of time. Many of whom are entering retirement, and yet, but still kind of in this day and age, they are still quite adventurous, and are prepared to experiment in trying new cocktails.

All of the trends that we have seen suggest that that's the case. And so we concluded that they were being undermarketed by spirits. And we made a conscious choice is just some of our marketing to ensure that we were capturing the occasions with those consumers are present with offers that we think would be valuable to them.

We, of course, also target younger consumers. They do – we are finding, there's quite a lot of material written about the behaviors of the younger consumer and their consumption habits. Our experience is, yes, they may actually consume fewer drinks per occasion, but they consume on more occasions. So we're finding that their lifestyles are quite different.

So their per capita piece maybe a bit lower, but frankly, there's still a huge opportunity with that cohort as they also can tend to expand their repertoire into different occasions and different categories. So that's what that slide was really meant to convey, which is our insights about targeting specifically around occasions, which consumer cohorts are the best opportunity on a particular occasion.

Nico Von Stackelberg: Okay excellent. And I see that you're losing share in six of the ten spirit categories. On one of your slides, this is the Diageo then used to grow within US spirit slide. Is it something you're looking to address because I noticed you mentioned also reducing promotional intensity on certain brands, so I'm just trying to circle that square there?

Deirdre Mahlan: Yeah, look, I think, we have said that our goal is to sustain a profitable growth. We do not develop a plan to change share in particular periods. That said, we expect to be competitive. So yes, we intend to improve our share positions in these categories, but we want to do it in a way that we believe is sustainable and profitable.

I do not see gaining share or improving the share position to be inconsistent with long-term profitable growth. What we want to do is to with consumer insights to invest with our brands, to build the equity, which then gives us the ability to reduce promotional step and frequency, and to take price, and to grow over the long-term.

That sweet spot of volume, price and mix, we expect to develop over the medium to long-term. So in certain periods, depending on what's happening and depending on activity competition via competition and category trends, we may see some share movements move up or down. That's something that we take seriously and we monitor and aim to improve, but our primary goal is sustainable profitable growth.

Operator: Thank you. Our next question comes from Marion Boucheron, with Mainfirst.

Marion Boucheron: Hi. Good morning. Thanks for the questions. Two for me please. The first one going back to net revenue management. What – I mean, since you've implemented these tools that allow you to be more efficient, what do you think has been driven by more optimizers? You were speaking about pricing volume. I mean the sweet spot, and what has been driven by premiumization and ultra-premium brands growing faster? And the second question, coming to ANPs, you were just mentioning more and more targeted ANPs. To what extent is this contributing to increase the ANP ratio, or you have technologies or other – I mean, new – well, new tech that is allowing you to offset the costs of more precise and targeted marketing?

Deirdre Mahlan: I guess your first question about NRM and premiumization versus pricing intervention – I think we're fortunate enough in this market that we're seeing the effect of both and both are positive. So, premiumization continues in the market. We can see that with respect to what's happening on our premium portfolio, whether it be Ketel One or Crown Royal for example, both of which are, kind of, on the above-average with respect to where the brands sit, as well as what continues to happen in Bourbon on the higher end. So, there is a positive – and has been for a long time – move in the US towards more premium higher-value brands. So, that, of course, is a factor.

We are also though getting positive price, both through the points that I have mentioned to you before. Either through evaluating the return on promotional activity and trade spend and making adjustments so that we get a better return, which is effective by having less trade spend deliver more net sales. And also, where we see opportunities, whether it be on particular sizes or categories or markets within the US, to take topline price and so, depending on what's happening in the year, we have done both. And we have positive results from both. So, we both have positive price and positive mix. We don't disclose the specifics of the price mix composition, so, I won't comment on that, other than to say that both are positive, as is volume.

Operator: Thank you. Our next question comes from Alicia Forry with Investec.

Alicia Forry: Hi. I think maybe we cut off on the second question but it actually kind of, ties in with kind of, one that I was going to ask, so maybe we should put it together.

Deirdre Mahlan: Okay then. I'll try to answer them both then, great.

Alicia Forry: So, yes, you were – you've been talking about how you've tried to expand vodka into new cohorts of consumers like ageless. I think a few years ago you took on, I think it was Ted Danson as a Smirnoff ambassador trying to target that cohort and then I think Hispanics were being targeted in another brand. So, again, this is quite targeted types of marketing. So, I'm just curious as to how that – what kind of results that's been delivering? If you're able to see any positive data on the back of those more specific targeted types of marketing? And then I'll come back to the second question in a minute.

Deirdre Mahlan: Okay. The answer is yes, we're very pleased with the results on the targeting of our marketing. We have been continuing to build our capabilities with respect to data-driven decisions. You will have heard me and others in the presentation refer to Catalyst which is our proprietary tool that can identify and measure the results from marketing interventions both in terms of the channel of delivery and the type of marketing against each brand. So, for example, out of home for Crown Royal or digital for Bourbon. And we can tell, of course – it's not a perfect science, but you can tell from the data available – what consumer cohorts are the biggest concentration in a particular channel, and therefore you can be satisfied that you are targeting that consumer and then you can measure the return. So, we have done that.

We have also started to target specifically geographically based upon consumer cohorts by the area they live. In some cases, we can look at demographics by ZIP Code, and that helps us be able to target very specifically, where appropriate, local activity is. So, if you want to localize an activity then you have an idea of which type of consumer is resident in that ZIP Code from readily publicly available information on ZIP Codes.

So, those are examples of how we are using more targeted data. The availability of this information and as we've built the tool, of course –this is all public data. It is not – there are no privacy issues. It's not personal data but it is all kind of, trended data with respect to demographics and information – socioeconomic classes, ethnic background, age, that will help us identify it.

We know for example that a Bulleit consumer is typically of a particular age cohort and that age cohort lives in a particular place and that helps us decide where to target that. Of course, I remember once somebody expecting how marketing used to be, which is effectively like a bowling ball which you would send the ball down and hope that you hit the right kind of consumers with your message. What we now do is a much more natural targeted way of messaging the consumer where the consumer is, as opposed to just giving everybody the same message. And that's what our tools as well as the various media channels available today have allowed us and others to do, which is to more effectively target consumers with specific messages.

So, we think it's helpful and will support growth over the long-term. Hopefully I've answered both questions.

Alicia Forry: And then secondly, you've said that White Walker brought new consumers into the whiskey category. Do you have any data that shows whether those consumers have stayed in the category now that it's been a few quarters on?

Deirdre Mahlan: Yes. I think I said I might have said this in the presentation. The intent of White Walker was of course to recruit. So, that was the position – it's a different liquid than Johnnie Walker Black. It was a package and was marketed against Game of Thrones which we knew would attract an audience that we wanted to target. We did get very good take-up. I think in terms of recruiting people into Scotch and different flavor profiles in Scotch, like any other category or brand that is a long game. So, we are pleased with the results that we got from White Walker. We will continue to invest against our various Scotch variants whether it be Johnnie Walker – the different variants of Johnnie Walker or individual single malt portfolios which we are marketing specifically, whether it be Singleton, as well as Buchannans.

So, for our Scotch brands, we've continued to believe there was a big opportunity in Scotch whiskey and we will continue to invest in them. I would say White Walker and the Game of Thrones malts was one of the first steps that we took with respect to innovating against that opportunity, but we will continue to do that. It's just very early to say what the specific numbers of consumers recruited into the category are as a result of it all. We would need more time and more data.

Alicia Forry: Thank you.

Operator: Our next question comes from Chris Pitcher with Redburn.

Chris Pitcher: On Bulleit, if we look at the American and Irish whiskey categories combined, it looks as it Bulleit is pretty much a holding share. Given its relative scale to a couple of your big competitors, is that actually a disappointing performance? And what can you do to get Bulleit taking share again? And maybe as an addendum to that, how are you doing on your Irish whiskey rollout?

And then secondly on margins, some of your competitors are talking about increased cost pressures from continued higher agave costs, wood costs, higher promotions, etc. Given the pace of growth in order to keep your business, is that creating a bit of a margin pressure? Do you think you can hold margins this year in light of higher competition as well?

Deirdre Mahlan: Thanks Chris. I think first of all, with respect to Bulleit, I wouldn't combine the Bourbon and the Irish category and then look at Bulleit's share. That's not how we look at it. That's not how consumers look at the category. The consumers are looking at products across a broad repertoire and thankfully they don't even just stay in one type of spirit – dark spirit category so I think that is one way of looking at it. You may choose to do that because people may think the flavor profiles of Bourbon and Irish are the same, but that same consumer might choose to drink Crown Royal, Regal Apple or Vodka.

So, I think we look at how our brands are performing broadly across occasions and consumer cohorts and we are pleased with how Bulleit is performing, but we think there's a lot more opportunity for Bulleit. We've been up-weighting our investment in Bulleit Bourbon and we will continue to do that because Bulleit is relatively well-penetrated on the east and the west coast but its penetration is relatively low in the middle part of the country because the brand is still developing and so that – we believe that that gives us not only a rate of sales – a continued rate of sale opportunity in the east and the west, but a significant opportunity to continue to grow distribution and consumer affinity in the middle part of the country. So, we feel good about the future for Bulleit.

With respect to Tequila, yes there are some cost pressures in Tequila across the industry, given what's happening on agave. That said, we are thrilled with the performance of our Tequila brands. I think that we will expect to continue to see strong growth and strong contributions from these Tequila brands into the future. We will manage the costs within the broad elements of our portfolio, and we don't comment specifically on margins, so I'll leave that there.

Okay, I think we're just about out of time, so before we dial off let me just thank all of you for joining the call and I want to take a – just a chance – a minute at the end to reiterate our core messages.

First, our performance in the US in fiscal 19 demonstrated that our strategy is working and we're making good progress. We're delivering our ambition. We continue to strengthen our capabilities, the tools, the analytic strength and drive advantage through to the consumer for now and in the future. The investment in our capabilities is key. We talked about it at some length in the capital market day and we are committed to continuing that and so we should continue to get positive results. We're focused and will continue to focus on growth underpinned by investment and insight, importantly consumer-first, consumer insights and brand marketing and we're focused on improving the performance of vodka and rum. This remains a focus for us in terms of the medium to long-term turnaround of those brands in their respective categories and industry overall.

So, again our US spirits mid-term priority remains to deliver consistent and sustainable and profitable growth and so I hope that came across in the presentation and in the Q&A. I'd like to wish everybody a happy and healthy holiday season and a great New Year and thank you, everyone, for joining us today. Bye for now.

Operator: Thank you ladies and gentlemen. This concludes today's teleconference. You may now disconnect.