

**Diageo 2017 preliminary results Investor Q&A transcript**  
**Ivan Menezes & Kathy Mikells**  
**27 July 2017 – 9.30am**

Ivan Menezes: Thank you. Hello, everyone, and thank you for joining this Diageo call. Just a few comments from me upfront, and then we'll go straight to questions.

Hopefully, you've had a chance to look at our results. We feel good about the performance, the consistency and broad base of what's underlying the results is what gives me the most confidence about where the business is. Our strategy is working. The consumer-centric nature of execution and the data-driven analytics behind it is working well. Productivity is embedded.

We're driving a lot more speed and simplification in the business. The performance accountability culture is strong. And we managed in this past year through a lot of volatility. There have been markets, which have had quite a few challenges, and through that we've been able to deliver more resilient performance. I'm particularly proud of the consistency of cash delivery. This was three years of strong cash delivery. We had another terrific year.

And with all of that as context, and as we look at the world, this is what gives us the confidence to reiterate our medium-term guidance of mid-single digit growth to up our productivity ambition from GBP 500 million to GBP 700 million, and to take up our margin guidance from 100 basis points to 175 basis points for the period ending fiscal '19. And the Board yesterday approved a share buyback program of up to GBP 1.5 billion for this year. So with that, why don't we start taking questions?

Olivier Nicolai: Just three questions, please, Ivan. First of all, your U.S. growth rate improved, but it's somewhat below the market rate still. You managed to fix Captain Morgan and Smirnoff, but what do you think the issues are with Cîroc and Ketel One? And is it just a case of like just investing more in marketing beyond both brands or is there something else?

Second question is on cash. Scotch performance clearly improved this year compared to the last few years. Should we assume that the cash conversion could stay as strong as it is today going forward? Or do you need to step up investment in maturing inventories, which would somewhat reduce your net working capital improvement?

And just last one, if I may, scotch also grew in China. Could you tell us, which category exactly, if it's like more Black label or Blue Label and if you are gaining shares over there?

Ivan Menezes: Sure, thank you, Olivier. I'll take your first and third, and I'll have Kathy address the cash question.

U.S. growth. So as you know, we grew U.S. by 3.4%, which is an improvement from 3.1% of last year. We're not yet at the industry growth rate. But when you get under it, we grew market share in every category except vodka. And within vodka, Smirnoff, I'm pleased with, it's not where we wanted, but underlying depletions are roughly flat. Equity is building. And in fact, even in the last four weeks of Nielsen, you can see improved momentum on Smirnoff.

Super-premium vodka is incredibly competitive, as you know right now, and our challenge is really Ketel One and Cîroc. Actually if you take those two out, the U.S. Spirits business grew 6% in the past year. We've got specific plans on both brands. In the case of Cîroc -- by the way, Cîroc outside this -- both these brands outside the U.S. are very healthy and had good growth. In Cîroc, we're lapping flavour launches, the Apple surge we had a year ago, but we've got plans to broaden the support base in marketing and really get the core business performed better. So I would expect better relative performance going into next year.

And on Ketel One, there's again a new marketing platform. We've got specific actions, levels of investment behind that brand. The brand is healthy, it's not in trouble. It's just we're in an extremely competitive vodka category. So going into next year, I'd expect those two brands to do better than they did this year where they declined. And Smirnoff, I also expect to do better.

So I'm really pleased with the resilience in the U.S. portfolio performance. You know, Brands like Johnnie Walker are up 8%. I mean, Bulleit and Don Julio are still up in the 20s. Captain Morgan, as you said, has come back. Baileys is better. So our portfolio of brands, which the pace of decline has reduced on the value brands, so the strategy that Deirdre and the team are leading, which is to build more resilient performance across the portfolio, is working. Crown Royal, of course, continues to be terrific. It was up by 12-13%.

So looking at next year, I would expect the U.S. business to improve its growth over the rate at which we ended this year. Scotch in China, our business has done -- is doing very well and we're growing market share in scotch. Our focus is on superpremium scotch. So Johnnie Walker, Blue Label and malt is where we see the strategic growth as I look at the next few years. But in the period we've just come out of, Johnnie Walker has done well. We've grown few -- two to three points of market share in scotch in China.

We're seeing a recovery of the category, and we've taken actions to create a lot of awareness and building of the category for superpremium scotch. We ran a whiskey summit with all the opinion formers and key customers and distributors. We're opening whiskey boutiques in leading cities and our strategy is to really drive that growth in superpremium scotch. And I'm encouraged by what's happening. By the way, on Johnnie Walker, Black Label and Gold and Blue Label, all grew net sales in this period.

Kathryn Mikells: Okay. And then I'll go ahead and take the question that you asked a little bit about cash and how we're feeling about cash. Now, if you look at our cash conversion over the last three years, we had very solid consistent performance in terms of cash conversion over 100%, and really strong performance overall in terms of free cash flow and free cash flow improvement of GBP 566 million this year, and at GBP 2.7 billion this year, it's up more than double since fiscal '14 when we were at GBP 1.2 billion.

So we've talked previously about the fact that as it relates specifically to maturing scotch, we take a very long view on that in what we lay down every year so that we don't see a lot of volatility coming out of what we need to put down in maturing scotch. That should not hold us back at all in terms of being able to continue to produce really strong cash flow results and, specifically, cash conversion above 100%. So we feel really good about the day-to-day execution that we're getting on working capital. And obviously, in the year-end number, you're seeing sort of a year-end balance sheet trend.

But when I look underneath how I measure, really our discipline and performance on a day-to-day basis, I look at average working capital, and one of the comments I made in my IR presentation was average working capital improved by about 260

basis points, and over a 2-year period it's improved by about 450 basis points. So I think we've really got day-to-day execution around working capital and we feel really good about cash flow.

Simon Hales: Two or three questions, please.

Can I please go back to the U.S. to begin with? I mean, could you perhaps give a little bit more color as to what you're seeing generally in terms of trading in the U.S.? Clearly, a little bit of slowdown to the second half for the industry. Just talk a little about the differences in trade channels that you're seeing.

And when you talked just then and to answer Nicolai's question with regards to growth accelerating year-on-year, do you expect in 2018 to see your growth -- Diageo's business matching the overall industry next year?

Secondly, maybe sticking with the U.S. I wonder if you could just talk around the Casamigos acquisition and how that brand is going to be positioned relative to Don Julio, given they're operating at a similar price points? How we should think about how those brands differ when they go out to market for consumers?

And finally, just on India, I know you're trying to work to mitigate the impact of GST. Can you give us some idea as to what the impact will be on a steady-state basis before you, maybe, take some action yourself to mitigate this?

Ivan Menezes: Sure, thank you, Simon. I'll ask Kathy to address the India GST question. I'll do the first two.

On the U.S., what I would say is, yes, there was a bit of slowdown as we got into the first quarter of this calendar year, and you saw it in some of the numbers, but our underlying business is coming back. I mean the market for spirits, for the year, is growing about 4% total market. If you take the on-trade, off-trade, and not just Nielsen/NABCA. So it's still healthy, it's still growing faster than beer and wine and the premiumization is healthy.

The on-premise is subdued, but I'd say it's mostly in the mid-market on-premise. So the higher end on-premise is very vibrant. Our reserve brands are doing really well. So if you go into Chicago, Miami or L.A., the bars and restaurants are doing very

well. It's casual dining and some of the more midtown America on-premise that's still subdued. It's in growth, but not as fast. The off-trade is growing faster than the on-trade.

So as we look forward, I expect our growth rate to improve. When we get to the industry growth rate? - we are not going to predict. All we will say is, we will see continued improvement. And as you see in our numbers, outside of vodka, super-premium vodka, the portfolio is really performing very well, and we're growing share in every category, so I would expect that momentum to continue. And just calling when we hit the industry growth rate is not necessary for Diageo to deliver its guidance on top line. We obviously have the goal and the ambition to get to the industry and then beyond it.

But as you know, this business doesn't turn on a dime, and we're making the interventions. We're upgrading investment in marketing, which we did in the fourth quarter. You see it in the numbers. In the U.S., we grew marketing faster than sales and we will continue to do that going into next year.

So I'm feeling good about the U.S. business. It will improve, and the actions that Deirdre and the team have taken, the quality of marketing, the investment levels, our understanding of what's working and what's not working, the activation army of 200 people and the returns we're getting in the on-premise, we've operated the reserve ambassadors, all of that is -- gives me the confidence that we will do well. Our innovation continues to be really strong. We represented 11% of the new products introduced in the last 12 months and 60% of the value in the U.S. market. So we're having tremendous impact on innovation as well.

On Casamigos -- this brand, by the way, is not yet closed. We are waiting for regulatory approval and we expect to get it in the second half [of calendar 2017]. So the transaction is not yet closed. The brand for us really sits in the sweet spot. Our premium tequila is growing very fast. We are underweight in tequila, but this is a very high margin business. And to your question, we see it as very complementary to Don Julio.

Don Julio, which is doing incredibly well, and it's crossed one million cases now, is positioned in quality, tradition. It's really the authentic original tequila from Mexico. We had the variant 1942, which is \$125 a bottle, which we can't make enough of.

It's in all the clubs in Los Angeles, and we are having a hard time supplying enough of it. So Don Julio is very healthy.

What Casamigos' plays in this is, actually, it's a very different space. It is more what we'd call new status, which is much more casual, informal. It is about -- it's a more approachable brand. It's still a high price point. And as we look at how we build the two brands, there's a lot of value to be had for both brands in terms of growth going forward. And our intention is to keep this brand outside the Diageo system. It will be run by the team that's running it right now till it gets to sufficient scale. So that will be the other way in which we've ensured both brands get focus and both grow really fast.

Kathryn Mikells: Okay. And then just in terms of GST. So as you can imagine, this just went in place this month. So it's a little too early for us to be able to kind of call and give specific guidance around the impact. I would say we've been really pleased with our team's implementation. This is a lot of change and a lot of change for them to ask to put in place over a very short period of time, and we haven't seen any disruptions. So the changes that we needed to make to our system have been in place pretty smoothly. We do expect that this is going to have a margin impact in fiscal '18, and so USL will have discussed that on their own earnings call, but the team has been well out in front of, understanding that this was coming, and they are taking a lot of aggressive actions to look to offset it.

Fernando Ferreira: I have three, please. First one, if you can comment a little bit, what gave you the confidence to raise the cost savings guidance to GBP 700 million? And if you could comment, where those extra GBP 200 million are coming from?

Second question, still on your U.S. performance, when we compare your performance against NABCA and Nielsen, your performance does seem to be a little bit better, although you commented shipments are running in line with depletion. So is there any technical factor that we should be aware of that are not captured by those two, please?

And lastly, your local and mainstream spirits seem to have done pretty well. If you can update us on the strategy, please, on mainstream spirits?

And also if you could provide a bit more detail on what drove this very strong growth for Shui Jing Fang in China, please?

Ivan Menezes: Sure. Why don't I deal with the U.S. and mainstream spirits China? I'll ask Kathy to come back on the step-up to GBP 700 million of productivity.

On the U.S. performance, on the points you raised, Fernando, there is a technical difference in how Nielsen and NABCA report because we are overweight in those channels on brands that are weaker for Diageo, like Smirnoff, like portfolio brands, like Captain Morgan, and we are underweight on brands that are performing better, like Johnnie Walker, Bulleit, Don Julio and Buchanan's. So actually, we've run the exercise.

If you weighed our business appropriately, in terms of where the actual weight of the U.S. performance is, you would see an uplift in the growth rate that -- out of Nielsen and NABCA, and that explains why our underlying business is running at just over 3% growth in terms of depletion and offtake terms.

On mainstream spirits, we're very pleased with how the performance is going in Africa, in particular, which it was up 21% in markets like Kenya, where it's really strong. And what we're seeing is, the penetration of mainstream spirits among beer drinkers is increasing.

The past 4-week consumption and crossover between beer and mainstream spirits is happening more and more across many markets in Africa. In Nigeria, we launched a whole range of new products. In Cameroon, we set up manufacturing. We're building...we set up the cube where we're bottling Black & White locally. Primary scotch whiskey, which is part of mainstream spirits, continues to do well. Black & White was up 16% this year. In Brazil, we've taken market leadership in primary scotch. Mexico continues to do strong.

So we see the strategy on mainstream spirits working well. We see a lot of opportunity and in markets, across the emerging markets, getting consumers to affordable price points, which eventually ensures that they get into spirits and then create upward in spirits.

With all the data and analytics we look at right now suggest that, that strategy is working, and I would expect this to continue to be a strong engine for growth for us. And in Africa, for example, the margin for mainstream spirits are better than beer, and we take an asset-light approach. It's relatively less capital-intensive. So the runway ahead for mainstream spirits remains very attractive.

China, very quickly. Shui Jing Fang is having a stellar year. They announced their results yesterday, so I can give you the numbers. I mean we were up 65% in their last quarter, the business doubled. And what we are seeing is the sweet spot of RMB 300 to RMB 500, where we have made new product introductions and we're expanding distribution and we've got -- our route to market is much stronger. The brand is really on a roll. We got a strong team executing really well. We're upweighting our marketing investment. We're spreading out town by town slowly into further provinces. And I expect us to see very attractive growth orders ranging in the years ahead.

Kathryn Mikells: And then I'll go ahead and take the question about, overall, the increase in our guidance around productivity. We feel really confident around this for a number of different reasons.

So I'll start with our fiscal '17 performance. Our overall organic margins expanded 37 basis points, and as you know, we don't ex-item or count out as exceptional kind of costs associated with the productivity program. So we digested that this year and still produced 37 basis points of margin, which I think was a really strong performance.

As we look across the different things that we're really pursuing in the productivity program, I wouldn't say there's a single line item that's accountable for the increase in the 200. I'd really say that we continue to look for more and have confidence that we're going to be able to achieve more. So when we look at things like everything we're doing with the cost of goods sold from our tramlining programs that we talked about in a fair amount of detail, including at Capital Markets Day, to how we're running our plants better, right? And that all starts from better planning and forecasting right to enable us to actually run what we plan to run, and then doing that in a way that reduces waste and also is more friendly from an environmental



perspective with less water, using less from a utilities perspective. Those programs are all going really well for us. And as we look out, we see more opportunity.

Now the one thing I'd point to which we're doing more and more of is, we benchmark not just internally, right across light markets, we benchmark across the CPG group as well, and we also benchmark to the other industries where that makes sense. So I'd say we see the bars being raised. We see future opportunity for ourselves and we're absolutely chasing that future opportunity. We feel great about the results that we have today and it's a really good line of sight to be able to deliver that GBP 700 million over the three years and at fiscal '19.

Sanjeet Aujla: Just on scotch, clearly, you saw improvement in fiscal '17. But I think the scotch performance decelerated a little bit in the second half of the year. Can you just give us a bit of color on the moving parts there? And I was just hoping if you could, just coming back from the productivity, help us break down how much was delivered in fiscal '17? And what the restructuring costs were included in your underlying profit performance?

Ivan Menezes: Okay. Sanjeet, I'll take the scotch, and I'll ask Kathy to handle the productivity one. We did have a slowdown in the reported numbers, but it was driven by a few specific factors. One was the India highway ban. Our scotch business in India for the full year was up 10%, but we took a big hit in the fourth quarter because of the highway ban.

The second was we had -- with the currency fluctuation, some of the free trade zones in Latin America were softer. And then we have taken -- there were tax increases and price increase timings in Colombia and South Africa, but none of that affects the underlying consumer demand. So the underlying business is trending at the 5% growth rate that you can see for overall scotch.

Kathryn Mikells: Yes. And all I would say on the productivity side, so we don't specifically disclose exactly what our productivity expense is, et cetera. But if you went back and said, our original target was 100 basis points kind of over the 3-year period and sort of just roughly divide that by 3, we were going to have to deliver more than that in the first year in order to be able to absorb the incremental productivity costs that we were taking on, right?

And so clearly, the 37 basis points that we delivered was a little bit better than that. So I think that gives you a little bit of kind of rough color around what it is that we saw in fiscal '17. And importantly, as we look forward, again, I would say, based on the strong fiscal '17 results and the detailed plans that we already have in place for fiscal '18 and looking out further in fiscal '19, we feel really confident on our ability to deliver that GBP 700 million.

Sanjeet Aujla: And can you just give us a bit more color on the phasing of the remaining margin expansion to come up to this couple of years? And just final one, can you just break down the FX guidance for fiscal '18 between transaction and translation?

Kathryn Mikells: Yes. So if I just kind of break down incrementally. So we delivered 37 basis points. We said 175 basis points over the 2-year period. The phasing will be more in fiscal '19 than fiscal '18, and what sits behind that is, there are some things that we're still putting in place in fiscal '18 that'll have stronger delivery in fiscal '19. And so things like new capabilities and tools that sit behind. Net revenue management would be a good example of that. So rolling out, in developed markets earlier in fiscal '18, and we'll be coming to emerging markets a little bit later. We have our catalyst tool now, fully deployed, but we have incremental, I'll call it, add-on capabilities to that tool, which are also coming in fiscal '18 and will give us more delivery in fiscal '19.

If I then go back to talk to your question about FX, so FX gives us kind of two different impacts as we look forward to fiscal '18. So from a top line perspective, we expect FX is actually going to be negative to the tune of GBP 80 million. Conversely, from an operating profit perspective, positive to the tune of about GBP 70 million.

The way I would think about that is when you think about revenue, it's going to be a bit back-end loaded, so call it roughly 40-60, and kind of the opposite effect when you think about operating profit. So the OP effect we're getting is largely as a result of our hedging book, just naturally rolling off. And so it will be a bit more front-end loaded, so call it more like 60-40.

And then I think you wanted to hear a little bit more about translation versus transaction. So on transaction, that's going to be on an OP perspective. That is going to help to offset what's probably about, call it, GBP 30 million or so of negative translation that we expect to see. So obviously, that means transaction is going to be much larger, given the net GBP 70 million on net benefit. Okay?

Trevor Stirling: Kathy and Ivan, just one question from my side. I think, you talked about Cîroc and Ketel One in the presentation and laid out some of the activities going on in marketing. The big share gain in your superpremium vodka has been Tito's. Can you give us a little bit color on what you think the consumer driver of Tito's success has been? And then how does that relate to what you're doing on Ketel One and Cîroc to try and address that?

Ivan Menezes: Yes, I mean you've got clearly a brand that has been building phenomenally for a long period of time and it has got great momentum, right? And as you know, Trevor, in the spirits business, when you have a brand that's been seated well and built, and I'd just point to the momentum you see on our Bulleit and Don Julio, it's really accelerating. And I think they've done a great job above that. We had -- and it's got America on a craft credentials, et cetera, associated with it.

Ketel One is actually a very healthy brand when we talk to bartenders and consumers. So we're not seeing eroding equity. We're just seeing, as I said, an amazing set of competitive dynamics layout in vodka. So we've laid out the route we're going to take on Ketel One, which will unfold in the next few months. I'd rather not disclose it right now on a public call.

And on Cîroc, it's a slightly different dynamic. On Cîroc, we need to stabilize the flavour up and down in the U.S., which has been what's really made the brand more volatile. And we're expanding the base of support. We're growing at the urban Hispanic markets. We're going to build it more into the general market, put more focus on Blue Dot, the core variant, and also widen the span of endorsers and celebrities that will support -- the base of celebrities that are going to support the brand that Sean Combs is personally picking, like we've got a few more that he's involved in getting the next generation of support. So it's -- the category is challenged. We know what we've got to do.

I'm looking for improvement relative to the declines we've had this year. And outside the U.S., both these brands are in very good growth. And we've had a terrific year on Ketel One. And Cîroc continues, in fact, in the U.K., it's now the #1 ultra-premium vodka. It's overtaken the incumbent and it's growing really fast, and we're seeing that across Europe and indeed in Africa as well. In Nigeria, it's doing really well in our reserve business. So work to do. It's tough, but we will -- we've got

actions in place and investments and ideas behind these brands that I expect to improve.

Edward Mundy: A couple of questions on the cost piece. For the GBP 700 million, does that include any improvement in the ratio from gross to net sales through more effective trade spend, which I think you have quantified recently as being about GBP 3.5 billion back in 2015? And then second one, is it net -- the 175 basis points, is it net of positive geographic mix with India quite subdued and, obviously, low margin at the moment? And then the third piece on cost savings. It's about the reinvestment you fund another GBP 200 million on which 2/3 is going to get invested. Is it fair to assume that it's going to get reinvested back in the U.S.?

Kathryn Mikells: Okay, I'll go ahead and start. So if we just start with the GBP 700 million, that's across everything that we're doing in our productivity program. And so it absolutely includes trade spend and looking to get bigger efficiencies in trade spend.

In response to one of the earlier questions, when I talked about phasing of the remaining amounts of the 175 basis points over three years that we have left to deliver, one of the things, from an IT, data information perspective, it is actually a tool for how people manage trade spend that we're deploying right now. So one of the things that we're doing is to really ensure that we get more efficient with our trade spend. Overall, in terms of mix, so I would say the 175 basis points of margin improvement over the 3-year period ended '19, absolutely, it takes mix into consideration. So if we will look at, I would say, mix both in terms of the brands across our portfolio and in terms of geographic mix. And where we expect growth to come from is baked into that already.

Edward Mundy: And in terms of the additional GBP 133 million of that, can you reinvest it back in the business?

Kathryn Mikells: Yes. So a couple of places I will mention, and Ivan may want to jump in. We started to upweight investments in U.S. and A&P in the second half, and Ivan's talked about some of the brands that incremental investments is going to go behind, that's going to continue into fiscal '18. We're also upweighting investments in Scotch, obviously, 25% of Diageo's top line. So a very critical part of our business, and so those are some of the areas that we're specifically up weighting A&P.

Ivan Menezes: And I would say, Edward, we talked about it at the Capital Markets Day. We now have 70% -- 80% of our A&P is covered by catalyst methodology, right? So we've got much more rigor now on understanding what's working, what's not working at a very granular level and we'll be dynamic.

I think, as I look at the next three years, one of the things I believe Diageo is now much better equipped to do is to be far more agile in our resource allocation decisions. And if we see opportunities, we will have the capacity to kind of really invest behind that, and that to me is part of what will ensure that we deliver this consistent mid-single digit top line growth. But the U.S. will always be a priority, given how attractive that market is for us.

Chris Pitcher: I had a couple of questions. The first one on the Scotch. You're talking about a consistent 5% sales growth outlook. From my perspective, the drivers of that has changed slightly and some of it is more volume and less price mix. Could you talk a little bit about the pricing outlook?

I mean, we saw Johnnie Walker price mix positive in all markets, except Europe. Black & White, obviously, you've taken pricing down, probably, taking advantage of currency in Latin America, but Buchanan's in the U.S., I was quite surprised by that.

And then going forward, if it is sort of a 4% growth model, perhaps ahead of where you were previously talking of 2% to 3%, and what does that mean in terms of production and working capital lay down?

And then second question, apologies for dragging it, in the presentation, you show your engagement scores, and we talked about this at the Capital Markets Day, but it has dropped in the year. Could you just talk a little bit about where that came or why that happened?

Ivan Menezes: On the second one, the engagements scores are, from a relative benchmark standpoint, very high. And so I don't read anything into that shift. The company has gone through a lot of change and we actually were pleased with the results that came through because by external benchmarks, we have a highly engaged and committed workforce. So I feel good about that.

On scotch, Chris, I wouldn't extrapolate the volume, value mix trend as the one going forward. We obviously will continue to drive to improve price and mix in scotch. So you had a series of one-off factors in certain markets, like in Brazil where primary scotch did a lot better than deluxe scotch right now. But our goal would be to get it more in balance across volume, price and mix. So I wouldn't extrapolate what you see in this year's results on volume price mix, and we clearly want better price and mix coming through.

Chris Pitcher: And can you share with us, given the factors on cash conversion within your cash flow this year, what you would expect in terms of incremental stock lay down for scotch?

Kathryn Mikells: So as we said, we lay down scotch for the long term in that 2% to 3% range, and so we're not going to be changing that.

Laurence Whyatt: Firstly, just on the buyback. Even with that buyback, you're still going to be quite below your target of between 2.5x to 3x net debt EBITDA. Can we assume that you've got some sort of M&A in the pipeline? Or you expect to continue that buyback after the full year '18? Secondly, on the single malt performance, it's been somewhat below where you've been doing on the blended categories and somewhat below where the category itself is doing on single malt. I was wondering what you'd say to describe why that would be?

On India, one of your competitors has suggested they are able to put through some of the pricing and, therefore, not take so much of a margin hit after GST. Are you able to put your prices up and have you had that negotiation with the states?

And then finally, just on vodka. You suggested that Smirnoff has had all the price reductions that it requires. Is that the same for Cîroc and Ketel One? Or would you assume to take low prices on those brands as well this year?

Kathryn Mikells: Maybe I'll start in with the discussion about the buyback. So our sizing of the buyback, GBP 1.5 billion -- up to GBP 1.5 billion is really us just being consistent with managing for that leverage ratio adjusted net debt-to-EBITDA roughly within the range of 2.5x to 3x.

We already have acquisitions in the pipeline that are built into that number for fiscal '18, and specifically Casamigos which we would expect to close in our first half of this fiscal '18, after we receive regulatory clearance for that. And we clearly have incremental capacity to do more M&A, if we're able to find the things that are additive to Diageo's portfolio and that we think are going to generate good returns for shareholders. So we take all of that into consideration in terms of how we upsize the share repurchase program.

And then if I came back just to talk a little bit about India, we are getting some pricing increases as an offset to GST in India, and obviously we're continuing to pursue those. But even taking those into consideration, we would expect to have a margin impact in fiscal '18 from GST.

Ivan Menezes: Okay. And I'll do on single malt. Yes, that number is -- we expect to do a lot better than 2.5% growth on single malt. If you look at what's underlying this year's numbers, we've actually accelerated growth in the U.S. and in Asia, and we had a slow down in growth in Europe. And the European growth was -- and reduction was driven in part by changes in commercial arrangements in terms and pricing. So I don't see anything in terms of consumer health and offtake of our malts portfolios offering.

So we'll do better in FY18 and beyond. And some of the work we're doing on singleton is really phenomenal, brands like Lagavulin, Oban, and Talisker. The U.S. had a strong FY17 and I'd expect malts to perform better going forward.

On vodka pricing, as we said, Smirnoff was -- adjustments were done in H1. Ketel One, we had to make a few more adjustments as we went through the fiscal year. I mean, we want to be at about a \$6 premium to Tito's. So we were beyond that in some places. We've adjusted that. So you'll see a bit of carryover into fiscal '18. But overall, the major adjustments in vodka are done.

Laurence Whyatt: And just a follow-up on the M&A. Are you only looking at the spirits categories for M&A? Or do you consider adjacent categories and perhaps in other beverage categories or other acquisitions?

Kathryn Mikells: So I would point to within Distill Ventures. We talked about the fact that we've entered into nonalcoholic beverage categories, and so we're looking to be out in

front of consumer trends. And so we'll look broadly. But obviously, our major area of focus would be within spirits.

Simon Hales: Ivan, but I just wondered if you could perhaps talk a little bit about Crown Royal, because I think the underlying performance in the U.S. is clearly helped by another very strong year for Crown Royal. How should we think about the sustainability of growth, particularly should we begin to lap the launch of Vanilla?

Ivan Menezes: Yes. So the overall health of the Crown Royal franchise is very good and we grew in the U.S., 13%, clearly helped by Vanilla. I don't expect the growth trajectory to continue into double digits, but we should have very solid mid-to-high single digit growth on an ongoing basis. What I'm particularly encouraged by the brand is that the core deluxe Crown Royal is in growth and the flavours are bringing new consumers into the franchise.

But if you look at the penetration of Crown Royal today, about 54% of Americans have tried Crown Royal, regular Crown Royal deluxe. Only 16% have tried Apple and 5% have tried Vanilla. And when people try these variants, we're drawing new consumers in and they stay repeat consumers. Crown Royal Apple was up in growth in FY17 over FY16. And we've still got a big gap in distribution, both in the on and off-trade to build.

So the marketing is working. The generosity platform that we've launched behind the brand is working well. The equity is building. So the growth rate will clearly slow down, but it's still going to be very accretive to North America or to U.S. spirits. And I would expect that momentum to grow and for the brand to continue to grow market share.

Okay. Well, why don't we call it to a close there? Thank you, everyone, for joining Kathy and me on this call. We will be around the next few days on our roadshows. I'm sure we'll meet many of you, but appreciate your interest in Diageo. And thanks, again. Have a good day.

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