Diageo 2019 Preliminary Results Investor Q&A Transcript

Ivan Menezes & Kathy Mikells

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Ivan Menezes: Thank you. Hello, everyone, and welcome to our fiscal '19 Full Year Results Investor Call. I have a few opening comments, then we'll open it up for the Q&A. You'll have seen we delivered a really strong consistent set of results. Organic net sales were at the top end of our medium-term guidance range and growth was broad-based across regions and categories.

We delivered organic operating margin improvement ahead of our three-year guidance. We also returned £4.4 billion back to shareholders in fiscal '19 through dividends and our share buyback program. And we're now back within our leverage policy target range.

Our fiscal 19 results are underpinned by the ongoing work we're doing to build a culture of everyday efficiency, to invest smartly to drive quality growth and also our ongoing commitment to delivering ambitious environmental, social and governance goals.

Fiscal '19 was an excellent year helped by the unusually benign volatility, especially in emerging markets and by strong innovation performance, some of which is not expected to repeat in fiscal '20. And so as I look to fiscal '20, I expect to deliver organic net sales growth in the middle of far mid-single digit range.

I also expect to deliver ongoing operating efficiencies and make a step-up in marketing investment. Our capabilities around smart marketing investments continue to get stronger and we see opportunities to invest including behind new to world brands. These will take time to build but will be an important part of our longer term growth strategy.

As a result, I expect organic profit growth to grow about 1 percentage point ahead of organic net sales growth. We've clearly got more to do, but I'm very pleased with our progress in delivering our ambition to be one of the best performing most trusted and respected consumer product companies in the world.

And with that, I'll open it up to questions.

Simon Hales: Thank you. Morning Kathy. Morning, Ivan. Thanks for taking the questions. I've got a couple please. Obviously, Ivan, you've talked again there about the step-up in investment you're making in 2020. I think you mentioned in your earlier remarks that there'll be a focus around the US for that increase in investment. Could you just talk a little bit more about where that uplift in marketing spend will be going in the US and probably perhaps broadly across the wider group? Secondly, just on the FX guidance though 2020, £135 million tailwind to EBIT. I wonder, Kathy, if you could provide a split of that between translation and transactional benefit? And also, as I look forward beyond 2020, I assume that the transactional benefit from FX, given where rates are, will continue into 2021. And I wonder if there's anything you can say in terms of guidance around that? And then finally just on the cash return story, the multi-year cash return story you've outlined today. Should we expect the £4.5 billion over three years perhaps to be skewed a little bit more to years one and years two in order for you to be able to stay within your target leverage range?

Ivan Menezes: Hi, Simon. I'll take the first and then, Kathy can do the next two. In terms of our investment in marketing, as you saw at our Capital Markets Day, we now have a much more rigor and analytical discipline behind understanding the returns on our spend and the effectiveness of our spend.

As you point out, we have up-weighted in the last year, our spend in both the US and Europe. You could see our reinvestment rates are higher there. And within the US portfolio we're very targeted around – so in the periods that just finished, I mean, you would see up-weight in brands like Crown Royal, Don Julio, some of our scotch portfolio, Ketel One.

And going forward, we still see opportunities to back the big brands, but also to back the brands for tomorrow. So when you look at for example – and I'm saying this globally now. When we look at the gin phenomenon that's happening with say, Tanqueray in new markets, we want to be in a position to lead that trend and support Tanqueray as it builds in markets like South Africa, Mexico, Brazil, or you look at Copper Dog Whiskey, which we are now taking out into many more markets. We want to put the backing behind it.

So the US team has a lot of rigor about how and where to allocate this marketing spend. And I'd say the shift in nuance is not just backing the big growing brands of today. We also want to back the brands that are going to be important for us three, five years from now. And that's what's reflected in how we characterize our guidance for next year.

Kathy Mikells: And then I'll start with your question Simon, on FX. So you referred to the impact on operating profit. If I look at that translation relative to transaction, more of the benefits are going to come from translation versus transactions. And then all I would say with respect to looking out further than 2020 is we do hedge at, what I'd call, on a rolling basis, right. So 2020 hedging would be much less than what we would have – I'm sorry, 2021 hedging would be much less than how we're hedged for 2020 as we stand here today and I think it's a little early to try and call rates and therefore hedging impacts looking out beyond next year. But that's roughly what the split would look like for us.

And then overall, I think if we then point to the £4.5 billion in capital returns that we've discussed over the next three fiscal years, I start by saying that we were really pleased that we sized the program appropriately in this fiscal year to get back within the leverage range and that's at the EBITDA that Ivan had referenced in his opening remarks.

So we're now at 2.5 times and we're looking to operate between 2.5 and 3 times. And so overall, the sizing of the program in any given year is going to be targeted to keep us operating within that leverage ratio that we're looking to target. And I would say we'll continue to look at all the different ebbs and flows during the course of the year.

Two that I would point out to most specifically would be FX, which can move Diageo's results and then how much M&A are we transacting in any given year also just impacts how much surplus capital we have in any given year. So those are the things that we'll take into consideration.

And then lastly, I would say we will obviously give you an update on the execution of the program as we report results at interim and during the year.

Simon Hales: Perfect. Thank you.

Ivan Menezes: Thanks Simon.

Trevor Stirling: Morning Kathy and Ivan. Two questions from my side please. The first one relating to the buybacks, or rather to the cash returns. Kathy, I think you say cash return to shareholders over the next three years was up to now it's all been 100% buybacks. As you're trying to look at the mix of buybacks and dividends, is that change in policy largely just because the share price is so much higher than it was a couple of years ago? And the second question relating to the second half. There was clearly a slight slowdown, which you warned us to expect. If you look at that slowdown, is there anything that slowed down a little bit more than you expected and anything that slowed down a little bit less than you expected?

Kathy Mikells: So I'll start. We've obviously giving guidance on capital returns over a three-year period. And as you would expect, and is prudent, the company is looking to maintain flexibility in terms of ultimately how do we deliver that surplus capital back to shareholders. So I wouldn't at all call it a shift in policy. I would say the company is just looking to where we've given guidance in other areas, maintain flexibility for whatever kind of market conditions and other changes may occur and then again we will update you as we execute the program.

Ivan Menezes: Trevor, on the phasing H1, H2. I wouldn't say there's anything substantial that's changed. If you look at our underlying momentum of consumer off-take across North America, Latin America, across our regions, it's fairly consistent. We had some things which we flag to you. There was some phasing in India where we were lapping. The first half was stronger than the second half. There were some things in innovation phasing but as of now, we're not seeing a shift in trend, consumer demand trends of any significant in the second half versus the first half.

Trevor Stirling: Super. Thank you very much indeed.

Sanjeet Aujla: Hi. Couple of questions for me please. Firstly, a lot of investment seems to be going into North America and Europe, and part of that seems to be coming at expense of some of your emerging markets. And just wondering for how long can you keep sustaining that? Is there a risk that you might be under-investing in some of the emerging markets? Or are you just investing more efficiently there?

Ivan Menezes: Yeah, I can take that. Our investment levels in the emerging markets are at the appropriate levels. We have the same discipline of Catalyst in looking at the effectiveness of our spend. As we've gone through the last couple of years, we've clearly found a lot of efficiency in our marketing spend. We are buying point-of-sale material better. We’ve rationalized agencies. Non-working spend has come down. So the effectiveness of our dollars has gone long ways.

So while we're increasing our overall reinvestment rates, there's a big effectiveness surge as well. And then we're responding to volatility, right. When you have markets that are in tough shape, like in certain parts of Africa and parts of Asia, we are adjusting our spend accordingly. But our core brands and our core markets are being invested in strongly. And so I don't see this as a reallocation of advertising and marketing spend from emerging to developed.

We look to optimize it for every market and we want sustained healthy growth across our emerging markets as well.

Sanjeet Aujla: Got It. And you talked about benign volatility over the last year in emerging markets and that's unlikely to repeat. Which markets might you be most concerned about as you look out over the next year?

Ivan Menezes: I wish I knew! So if you look at the history – and again, this is one of the strengths of the company, right. We have a very diverse footprint of geographies across the emerging markets. So all I'm signaling is that even in the year we've completed, we've had some tough markets like Brazil, Thailand, Russia, Nigeria. But in the scheme of things, we just want to be in a position that we can handle more volatility and we don't know where it's going to come from but that's how we manage – that's really what we want to deliver is consistency through potentially a higher degree of volatility next year. So there's no specific markets that we're calling out at this time, but it's more looking at the total geopolitical and economic situation. If we get more volatility, we want to be able to handle it.

Sanjeet Aujla: Got It. And just a final one on the US. You seem to be a bit more optimistic on Smirnoff and Cîroc. Can you just talk a little bit about some of the work you're doing there and how sustainable some of those innovations might be?

Ivan Menezes: Yes. On Smirnoff, I would say that I'm feeling good that the total trademark and franchise in the US is stabilizing and improving slowly. It's a big brand, but we can see the trends on equity, past four week consumption, the quality credentials are all moving in the right direction. We have innovation which is an element that we're looking to this year with the Zero Sugar

Infusions line on Smirnoff going into the marketplace. It's too early to call, it's only been in a few weeks. But the base business is in a healthier shape. And so, I expect Smirnoff to continue to slowly improve from there.

Cîroc is still challenged and the flavor dependence and reliance makes the brand a little more volatile. So, I wouldn't – I'd say Cîroc is going to take us a few more years to really get to a more stable, resilient position.

And then Ketel One we're really happy about. So there, the growth is 10%. It's doing really well. Botanicals and the base business are both in healthier shape. So overall, vodka has done well. Cîroc, more to do and will take time.

Sanjeet Aujla: Thanks.

Fernando Ferreira: Thanks. Good morning. A few questions from me please. First one on fiscal '20: Ivan you've been lapping some incredible successful launches, right. So, could you comment on how the innovation pipeline is looking for fiscal '20 and beyond? And also, do you see continued runway in some of those successful launches of last year? And then the second question is, I'm curious on your views on the gin category, right, given how solid it was in fiscal '19. If the gin momentum in GB and Spain continues to slow down, do you see room for the category to maintain a solid performance in Gordon's and Tanqueray to continue to do well at a group level? Thank you.

Ivan Menezes: Sure. Hi Fernando. On the first one on innovation, one of the things I feel really good about is the sustainability of multi-year growth on innovation that's coming through now in a far better quality way globally. So, the quality – our innovation is really capability and our pipelines and how we're executing and getting sustained growth is really a very huge step-up.

You look at brands like a Crown Royal Regal Apple, which was entering its fifth year and it's still having really strong growth. And, so as we look at next year, yes, we are lapping a very strong year, but we've also got a strong pipeline and many of the things we've launched, I – we expect to continue to grow and we're backing them and putting the support behind them.

So, I feel good about the fiscal '20 innovation pipeline. It won't necessarily be bigger than last year, but in total we will see sustained growth, multi-year growth on products we've launched last year and the year before last, etc., so feeling good about that.

On the gin category. I mean, in part, you've got the law of large numbers in some of the big gin markets in Europe. [Inaudible] slow down a bit, but there's still – we see the category is very healthy and we continue to see good growth momentum in Europe. But what's really interesting is we're seeing the gin momentum pick up significantly in many more markets around the world. I alluded to that earlier. And we really want to get behind that.

And so, places like South Africa, Mexico, Australia, Brazil, more places in Latin America. So the overall trends for the category, we remain very confident about that we will continue to see good growth. And both Gordon's and Tanqueray are really well positioned to benefit and indeed lead that growth in many of these markets.

Fernando Ferreira: That's great. Thanks Ivan.

Olivier Nicolai: Hi. Good morning, Ivan, Kathy. Three questions on my side. I mean, you alluded to it earlier. But the guidance for full year '20 obviously is implying a slow down compared to the very strong performance you had in 2019. Now in which region or category do you expect that slowdown to be a bit more pronounced? And do you have any evidence of that by looking at current trends or do you just perhaps prefer to be, I guess, a bit conservative at this stage of the year? That's the first question. You were just commenting on gin, but I had a follow-up actually on this. There's very strong growth in Brazil in gin – well, you highlighted gin. What has been the trigger behind this surge in demand in a market which is not really traditionally a gin market? And do you believe you could see further demand in the rest of LatAm? And just lastly for Kathy perhaps, regarding the use of cash. Could you just remind us of your M&A criterias? And is there any specific category or region that you are keen to strengthen? Thank you very much.

Ivan Menezes: Thank you. I'll take the first two, and yeah. So on the basis of – as we said, we did, in guiding on our top line for this fiscal year, fiscal '20, it's less about specific regions or markets decelerating. In total, we want just the ability to make sure we can handle, as I've mentioned, potentially a little more volatility in the world. And we also have innovation, which I talked about earlier. It was very big this year and we will be lapping a bigger innovation number, but I wouldn't point to any particular regions having a big shift in trend as driving that.

And again, our approach to managing performance in the company is to deliver consistency, which is really what we're about, is – part of this is creating the capacity for us to move quickly to handle things that are done on us on the external environment. And that's partly behind our philosophy of how we're guiding on this consistent mid-single digit growth going forward.

On gin, we are seeing a pick up. It's a similar trend what is happening, and in Brazil, for example, it is the early evening occasion. It is in the on trade. It's you see occasions where young people would have all been drinking beer. And now in that group, you'll see a couple of people drinking beautiful Tanqueray and tonics. And a lot of the growth is coming out of beer in where these occasions are developing. And our business there's more than doubled in the last year.

And so we're very excited about this trend and we want to keep building upon it as I mentioned in many markets outside of Europe. But it is drawing from wine and beer and other occasions in the early evening occasion where – which is how it started in Spain and then moved on across Europe as well. So, fairly similar dynamic at work here.

Kathy Mikells: And then Olivier, just in terms of kind of M&A, obviously we wouldn't talk about where we might be targeting in advance of actually doing any transactions. The market for M&A I would say is quite competitive, and so we wouldn't be looking to give any competitors any sort of edge in terms of what we might be thinking. But you should understand that we're very inquisitive, right. So we would look at a lot of things and we will look to acquire things that are both a great fit with our portfolio that help to position us into new occasions or into areas that today, either across categories or geographies or price points, we under index.

And I would certainly point to the acquisition of Casamigos as being kind of very spot on in terms of consumer-backed and looking to make acquisitions in areas where we think we're just not fully participating in kind of the growth opportunity that's there, and that's obviously an acquisition that we're really pleased with. We had under-indexed in tequila and specifically were looking for something in super premium tequila that could fit alongside of Don Julio, which is also very well performing.

Both of those brands are very well performing for us and tequila was up 29% in the last fiscal. So we'll continue to be very active in looking – and then the other thing I'd say is we're obviously also organically launching new brands of our own. And one that I would point to that we've just launched recently is an Italian premium gin, Villa Ascenti. And so that's something else that we'll continue to append to our overall portfolio of brands.

And then the last thing I would just refer back to Ivan in terms of we need to both be investing in the big brands in our portfolio today, but also seeding those investments for the future to make sure that our portfolio continues to be very strong as we look forward over the next five to 10-year period. And so we're doing just that. And that's part of the reason that we point in fiscal ‘20 to continuing to look to upweight our marketing.

Olivier Nicolai: Perfect. Thank you very much.

Laurence Whyatt: Hi. Good morning. Thanks very much for the question. Firstly on the margins. You've had a significant improvement in the margins over the past three years and it's almost double what the initial margin target was. How do you know that you are not cut the margins too much? We've had a number of other consumer companies that have made that realization only having to reinvest back into the business. Secondly, it's a bit of a follow on to Fernando’s question on the innovation. The Scotch markets that you've highlighted have all benefited significantly from the Johnnie Walker White Walker line extension. Whilst I appreciate that you want to get multiyear growth out of your innovations with the end of the Game of Thrones TV series can you still continue to be able to grow that particular product? And then finally on the Captain Morgan's brand you mentioned in the US that you need to do more to get that brand out of decline. Could you let us know what sort of plans you have for the Captain Morgan brand? Is that just innovation, or is there – or marketing or what are you looking to do there? Thank you very much.

Ivan Menezes: Sure. Kathy, why don’t you take the first and I’ll take the next one.

Kathy Mikells: Sure. I'm happy to talk about margins. I think it's important that you step back and think about the sustainable model that Diageo is trying to drive. We talk about everyday efficiency and driving that t really gives us kind of the fuel for growth to smartly invest back into our brands, into technology, into consumer experiences, which then enables us to drive kind of consistent top line quality growth.

And if you look at what we've done over the last three-year period, over the last two years our marketing investment rate’s gone up by 50 basis points and over the three-year period, I'll call it roughly 30 basis points. So unlike I would say some other companies, within CPG, we have not at all been looking to, I'd say, kind of harvest or shrink A&P and marketing investment, kind of quite the opposite of it.

We see great opportunities to invest in the business and we're getting smarter and smarter about those investments because we've gotten much better data and information to tell us what those investments are going to earn in terms of a return, both across brands, across our different geographies and within a brand, what we would call across different growth drivers, we're able to actually look at, even when you get into things like media spend, how can we best spread it over the course of the week and the season, etc.

So, I'd say we're quite smartly targeting that investment and we're absolutely continuing to increase our investment back into the business. And then I would just have people recollect that three years ago when we started down this journey and we originally gave margin guidance, we talked about the fact that the everyday efficiency benefits that we were looking to generate, we were looking to reinvest about two-thirds of that back into the business, and we've certainly accomplished that.

So we're absolutely looking to manage the business for the long-term, for consistency and stability. And you see that by how we're investing back in the business.

Ivan Menezes: Thanks Kathy. On innovation in Scotch, just a few points. One is, if you – we were really pleased with scotch performance this year, not just because of innovation, but the core business, our malts business, Johnnie Walker core. I mean, Blue Label was up strongly. Buchanan's was in stronger shape. Old Parr in Latin America is doing much better. So Scotch is stronger.

Now, we clearly – the team has been on to this for a long time. How do you lap White Walker? And so we've got a strong pipeline of innovation in Scotch for fiscal ‘20. And what the White Walker innovations have done is recruited new consumers into Johnnie Walker and made Johnnie Walker cooler. So the equity measures have moved. And you will see in our marketing on Johnnie Walker, which I'm really excited about as we roll out in fiscal ’20, we've got some very exciting brand building and marketing on Johnnie Walker coming up.

So, I believe we will – in total, Scotch and on Johnnie Walker, we'll be able to continue and sustain the momentum we enjoyed this year where Scotch grew 6% and Johnnie Walker grew 7%.

Captain Morgan is a tougher challenge. The rum category has been challenging for the most part of the past decade. The category is in decline. And in the US, we are – we've got a huge amount of focus on this brand to improve the trajectory. It's a big brand, so it will take time. But the core direction is to be recruiting against the broader demographic, the multicultural consumer base in particular.

I’m really excited a few weeks ago we announced the major sponsorship on Major League Soccer in America where Captain is – I mean the whole ambiance of what's happening in soccer in the US is fantastic. A very multicultural dynamic, a much more fun environment, unlike some other sports that have become way too corporate. Captain stands for fun and we are really – we're going to be building that brand. It’s certainly one of the pillars on MLS in the US.

We're also updating the marketing and we have some more, I think, exciting ideas still at the early stages on innovation. I’d just point you to the work we've done on Smirnoff, on Baileys, on Ketel One. In the spirits business, it's not easy to get a quick turnaround, but with the right quality of work and investment, we do believe we can get Captain Morgan into better shape in the US.

Outside the US, the brand is in growth. And I believe we can actually grow it even faster outside the US. So the plans for fiscal ‘20 do have a refreshed approach to marketing and innovation, which we feel good about.

Laurence whyatt: Great. Thank you very much.

Andrea Pistacchi: Yes. Good morning. I have two questions please. The first one is on pricing in the US. Now Deirdre at the Capital Markets Day, I think she was saying there's some signs of improvement in US pricing. Now when you look at Nielsen though and you strip out mix, it shows the pricing is still pretty limited or subdued, except maybe in tequila. And I appreciate obviously Nielsen isn't always precise. So how do you feel about the pricing environment in the US? Is it improving at all in your opinion? And then secondly, a question on GB. You had two very different sort of halves. H1 very strong; H2 was softer, partly reflecting, I think, you say in your – in the press release - commercial negotiations following price decisions. So can you say what is happening please in the UK? And also how do you feel about the outlook for the UK, given – I mean, what's going on in the country? Thank you.

Ivan Menezes: Sure. Hi, Andrea. On pricing in the US, if you look at US CPI, it’s running, I think, 2%, 2.1% and spirits is running about 0.8% if you look across Nielsen and NABCA. And I do expect the US spirits pricing environment to get better slowly. And we are clearly, depending on the categories, in tequila, in whiskey, in the high-end brands we’re getting price. Then you've got categories like rum and vodka, which are much more competitive and tougher. But I would expect gradual improvement over the next few years in pricing in the US spirits environment. So that would be my comment on US pricing.

Kathy Mikells: And then overall, I think if we look at GB, we have been looking to improve our overall approach with regards to net revenue management. And the pricing actions in GB, we're all about us looking to cover more of inflation, right, and we're looking to do that in more places across the globe to set us up for kind of quality growth going forward.

So I say as we look at, I'll call it, off-take in GB, that continues to look strong, and we would expect our results in GB to improve over time relative to what we saw in the second half. But on a full year basis, GB was still up 4%, so we felt pretty good about the performance there. Gin continuing to be quite strong still in GB.

Andrea Pistacchi: So the weaker –

Ivan Menezes: Also very good about the Guinness brand performance. The Guinness brand is in really good shape in GB and continues to do very well.

Andrea Pistacchi: Thanks. So the weaker sort of second half is much more a reflection of these commercial actions around price increases rather than a sort of softening consumer environment, right?

Ivan Menezes: That's broadly correct. And we're not seeing any signs, to your question about the current environment in GB. There are some channel shifts in the last few months, but we're seeing the on trade strong for us. A little more weakness in the off trade, but I'd say nothing major overall going to a big change in trend.

Andrea Pistacchi: Thank you.

Nico Von Stackelberg: Hi there. Yes. A quick question on your growth rate for gin in Spain. What was it and how did it compare to the industry? Secondly, there's a lot of growth of flavored gins right now and that led to flavor fatigue in the vodka category. Do you think that's a fair comparison for gin? Why or why not? Then just a quick one for Scotch. Are you guys guiding for growth in your Scotch portfolio for FY20? And then finally, the last one's for Kathy. Kathy, I'm still intrigued by the fact that interest income was 232 on average cash of 903. That's 25% and some change, which is 7% of your earnings. So I appreciate a lot of the cash is sort of in emerging markets, but what's the sort of real rate on your cash? And when – what's your ability to get the cash if you need it? Is it easy to repatriate if you need to do so?

Kathy Mikells: Okay. Why don't I start with the last question and then we'll kind of go back up to the beginning for you. So, the place in the press release that you're looking for interest income in, it also reflects kind of swap gains. And so the swap gains makes that interest income look outsized, hence your calculation of 25%, which I would just loosely say is not the return that we get on actual cash sitting in bank accounts across the globe.

So overall, I would say we definitely earn a little bit higher interest rate on cash because more cash sits in emerging markets than it does in developed markets. But we have quite good processes for how we extract cash out of emerging markets over time. We don't have any significant trapped cash anywhere. So hopefully that addresses your question.

So then I think we'll come back a bit to just kind of questions about gin overall and what's happening in Iberia.

Ivan Menezes: Yeah. So the Gin business grew nicely in Iberia mid-single digit for us. To your question on flavors, we do not see – and again, we are very careful about how we think about labor proliferation. And our goal in line extension is very much to recruit new consumers, not to trade existing consumers within the franchise.

And the terrific success we had with Gordon’s Pink – if you look at what that has done, it has really, as I talked about earlier, brought in consumers from outside the gin, indeed outside the spirits category into the spirits occasion in the early evening. And the taste profile and the color and the deliciousness of the drink has been drawing – particularly in the on trade, it's been an amazing success.

We don't intend to do multiple flavor proliferation in the gin category. On Tanqueray, we're being very disciplined. Tanqueray Sevilla, which is also up to a strong positive start and Tanqueray Rangpur, two of our core offerings. It's generating more interest. It's offering consumers more approachable, refreshing drinks. And, if you went back to the – a decade to the proliferation in vodka, it was over done and it was all trading within vodka. What we're doing in gin is actually still – there's a lot to go after to bring in new consumers into the category.

By the way, on Spain, we are gaining share, but the gin category is plateauing. So the overall gin growth category has slowed down, but we are gaining share with Tanqueray and Gordon.

Kathy Mikells: And then I think the last question that you asked was just about – was just about Scotch kind of overall and how are we thinking about Scotch in fiscal '20? So I would just start with, we don't specifically give guidance on particular categories or particular brands in a given year. Scotch is obviously 25% to Diageo's top line. And so, yes, we expect that Scotch is going to be in growth next year.

Nico Von Stackelberg: All right, wonderful. Thank you.

Edward Mundy: Morning, Kathy. Morning, Ivan. A couple from me. The first is on North America ready-to-drink growth that has been quite strong in fiscal '19. The category seems to still have quite good momentum. How do you see your performance over fiscal '20 with the likes of Smirnoff Spiked Seltzers and Ice Smash? And then the second is a theoretical question coming back to sort of volatility. I appreciate you don't have a crystal ball on potential tariffs. But is there anything you're able to share at this stage on what the potential growth cost could be, if there are higher tariffs on some of the European imported spirits into the US, perhaps comment through as what happened to American whiskey into Europe? And are you still able to print a 5% to 7% organic EBIT number if those tariffs do materialize? And then I just wonder if you're able to share how do you think about either swallowing the cost of those tariffs or passing them on given the importance of trying to get Scotch going within the US?

Ivan Menezes: Sure. Ed, I'll handle tariffs and you can – or we'll – I'll take both quickly. RTD, the Seltzer phenomenon is extraordinary in the US, and we are riding it and benefiting, as you can see in our RTD profile. I think my direction to the team is don't get caught up in it, right. We don't know when these things turn. And so we're much equally focused on building our beer business in a very solid way there. And I'm encouraged by what we're seeing in terms of consumer trends and equity shifts on Guinness.

So we're riding the RTD trend, but we're certainly not counting on it being a long-term sustained trend and we really don't have an ability to predict that, but we've seen the cycles of the past 20 years, so I'm cautious on it.

On volatility and tariffs, I'd say, first it's too early to see how this aerospace dispute will play out. A lot needs to happen in the next few weeks and months. We obviously have a set of scenarios around various assumptions. I would say, we would not be immune. There will be an short-term impact if tariffs happen and I'd prefer at the stage not to discuss the impacts of them.

Clearly, we are tracking the space and we'll handle it and communicate it as and when things happen. But Diageo's strength, again, is we have a broad base of business, right. Our US business is very diversified in terms of where our products come from in the US, including a lot of it locally sourced. And we do have good experience in managing volatility and that's part of what I alluded to in my earlier comments. That's what we want to make this company strong and ability to handle some of the things that may come our way in any particular year. So that's what I'd have to say on the tariff front.

Edward Mundy: And Ivan, I don't know if I can sort of push you further on that. I mean, some of the back of the envelope math that I've done would suggest that potential growth impact of maybe 40 million or 1% of your EBIT. If that was to materialize, you would still be able to deliver growth in your medium term guidance sort of 5% to 7%. I mean, is that a fair assumption? Would you be able to comment on that?

Ivan Menezes: I think you've run some numbers. I won't comment on, because there's to – till it happens, Ed, I mean we are ready and we've done our modeling. But I'd say there's still a lot of developments that need to happen in the next few weeks and months. And our overall guidance does in fact reflect the fact that we want to be prepared for a little more volatility in the world.

Edward Mundy: Very good. Thank you.

Ivan Menezes: Well, thanks everyone. Appreciate your interest in the company. Kathy and I will be out in the next week and look forward to seeing and meeting many of you tomorrow and next week. And have a good summer for the rest of the summer. Thank you very much.

Kathy Mikells: Thanks everyone.