Diageo F20 Preliminary Results Investor Q&A Call

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Operator: Good morning and welcome to Diageo's 2020 preliminary results investor Q&A call. Your call today will be hosted by Diageo's CEO Ivan Menezes today, please signal by pressing star one on your phone keypad. Mr Menezes, please go ahead.

Ivan Menezes: Thank you. Good morning, everyone, and welcome to our preliminary results call. I hope you and your families have been staying well through this time. Fiscal 2020 was a year of two distinct halves. In the first half we delivered good, consistent performance with broad-based organic growth across regions, categories, and we had margin expansion. Our second-half performance, however, was significantly impacted by the global outbreak of COVID-19, with the peak of the impact occurring in Q4. We adapted quickly and acted decisively to protect our people and our business. We supported our customers, trade partners and communities. We stayed connected to our consumers and rapidly responded to their changing needs. We reduced expenditure, conserved cash and raised additional liquidity. The strong foundation we built over the last six years has increased our resilience and agility, and smart investment has given us the technology to be effective in this environment. Our insights have enabled us to stay close to consumers, and we've continuously refocused our marketing investment to capture opportunities and strengthen brand equity.

The US, our largest and most profitable market, has been most resilient. Off-trade demand was strong during lockdown and our tequila and Canadian whiskey brands continued to perform particularly well through the year. Depletions were ahead of shipments, which resulted in a reduction in distributor inventories. In our other regions, we had a much higher on-trade exposure, which meant the impact on our business was more severe. For example, in Europe, around 50% of our sales are normally on-trade, and Africa is a strongly on-trade oriented region. As these two regions are our largest beer markets, the decline in our beer business was significant during COVID-19. In aggregate, around three quarters of Guinness sales are on-trade in the larger Guinness markets in Europe and Africa. The impact of COVID-19 was also disproportionately high for our Scotch category, due to its greater exposure to emerging markets and travel retail. Together, they account for over two thirds of our Scotch net sales prior to COVID-19. So, across all our markets, we moved rapidly to adapt to the reduction in consumer demand caused by COVID-19, in keeping with our disciplined sell-out culture. Our decision to take back around 500,000 Guinness kegs from customers demonstrates our commitment to quality. We've also been very disciplined in our working capital management,

While the on-trade is gradually reopening in many of our markets, we expect volatility to continue. Given the significant uncertainty around the pace and shape of recovery, we're not providing specific revenue and profit guidance for fiscal 2021. We expect organic net revenue in the first half of fiscal 2021 to be significantly impacted. However, within Q4 of fiscal 2020, we saw sequential improvement. We expect that to continue into fiscal 2021 with sequential improvement in the first and second quarter, as the on-trade continues to reopen and consumer demand begins to recover. Today, we announce that we are recommending a final dividend in line with fiscal 2019, bringing the full-year dividend growth to 2%. This reflects our long-term confidence in the resilience of our business and the robust fundamentals of our industry.

As we manage through this period, we're determined to emerge stronger. We are rapidly responding to changing consumer opportunities, investing with agility in marketing and innovation, partnering with our customers to win across all channels, driving efficiencies in cost and cash management, and continuing to do business in the right way from grain to glass. And with that, Kathy and I are ready to take your questions. Let's open the line for questions.

Operator: Thank you, sir. We have a first question from Sanjeet Aujla from Credit Suisse. Please go ahead.

Sanjeet Aujla: Morning, Ivan and Kathy. A couple of questions from me, please. Firstly, as I look at the Nielsen NABCA data from the US and also the Nielsen data from Europe, it seems like Diageo is underperforming the category within the off-premise channel. Can you just talk a bit about your competitiveness in the off-trade, in particular post COVID? And then, in emerging markets, are you seeing any signs or consumers downgrading from the spirits category to illicit or even to beer? Thank you.

Ivan Menezes: Sure. Hi, Sanjeet. Your question on US share performance in the off-trade – if you look at our performance across the portfolio, we've got share-gaining brands and share-losing brands. Clearly, tequila, our North American whiskey brands, are doing very well. Vodka and rum are tougher. What I would point to is, firstly, Nielsen and NABCA represent about 40/45% of the market. As I had indicated, our depletions ran ahead of our shipments. However, we're slightly behind the markets. If you go back the past 18 months, the US had got to be in line with the market. We're slightly behind right now, when you look at our depletion growth relative to the industry growth, and we very focused in our actions to make sure we improve that going into fiscal 2021. I have to say, overall, the strength of our US performance, I'm very pleased with. And you will see our price mix is higher than the industry, and one of the actions we have taken is not to chase share but to really keep the quality of share growth strong. So our price mix is running well ahead of the industry price mix if you look at the last/ recent few months.

On the emerging markets, you've got a couple of impacts. One is imported products like Scotch, particularly when you have currency devaluations and economic slowdown, you do have a natural impact of some down-trading that takes place from there. And this is not new; we've faced it over cycles over many, many decades. So you would see some of our primary Scotch brands like Black & White and Vat 69 etc picking up, and the top end of deluxe and super deluxe Scotch slowing down. I would say, overall, spirits continues to be healthy, and the breadth of our portfolio gives us the ability to say our mainstream spirits play in Africa we see as a real opportunity for spirits to gain share from beer through this period. So it's market-specific the trends within Scotch in emerging markets, particularly where currencies have – and economies have taken a downward trend. We will see some short-term down-trading in Scotch whisky, but overall spirits is healthy, and the actions we've taken to broaden our portfolio position us better to maintain our positions and, indeed, grow share as we go through 2021.

Sanjeet Aujla: Great. Thank you, Ivan. And, just following up on Europe, any comments on share trends in Europe share trends in the post-COVID environment in the off-trade channel?

Ivan Menezes: So, just the context on Europe. One is we are heavily skewed to the on-premise in Europe, right, because of our beer business. Guinness is significantly on-premise skewed. If you look at our performance in the most recent months, the at-home performance is – or the off-trade performance on beer is improving. Guinness is actually gaining share in the off-trade. And as the on-trade comes back – and I – I'm just using the data point of the last few weeks in the UK – we are also seeing Guinness perform relatively better within the beer category. So I'm feeling very good about Guinness. On spirits, we are underperforming the market slightly, but we feel confident going into the first half of fiscal 2021. We've got strong programs, good innovation, and fully expect to do better in our spirits performance going into F2021. We have some specific commercial issues in markets like Germany, where there were – because of price increases, we have taken some short-term hits. I do believe the European – you'll see sequential improvement in our share performance as we go into fiscal 2021.

Sanjeet Aujla: All right. That's very helpful. Thanks, Ivan.

Operator: Thank you. Our next question is from Simon Hales of Citi. Please go ahead, sir.

Simon Hales: Thank you. Morning, Ivan. Morning, Kathy. Just two or three for me as well, please. Can I just go back to your outlook comments, just so I understand the messaging into the first half of next year? Clearly, I appreciate you're going to see some sequential improvement in the volume picture from Q4 into Q1 and Q2, but with regards to the margin development in the first half of the year, you also say you expect to see a sequential improvement from the H2 level. Is that improvement relative to the sequential decline we saw in H2 on organic margins of around 600, 700 basis points, or is it in terms of the absolute margin level in the second half – a pickup from that level?

And then secondly, on stock levels, I think, Kathy, in the presentation, you talked about stock days in trade being up in a number of markets due to the reduced demand. I wonder if you could expand a little bit on that, and I wonder should we expect to see some further destocking in the first half, not only in travel retail, but perhaps around Scotch whisky in emerging markets.

And then just a final quick one, if I can. Back at the capital markets day last year, you talked about a further 100, 150 million of efficiency savings to come by the end of F2022. Is there any opportunity for you to accelerate some of those savings a little bit more quickly into the current fiscal year, please?

Ivan Menezes: Shall I take it stock levels, and maybe you can take one and three?

Kathy Mikells: Sure.

Ivan Menezes: Okay. So, on the stock levels, we feel really good about where we closed the year. Clearly the big variable on stock levels is forward demand – forward consumer demand. And we're tracking that very closely, and our sell-out culture and the data we have now has us moving very rapidly. We indicated global travel. It's really hard to call the recovery on global travel, and so that could be an area, we think, which is going to be much slower in coming back. So we will not sell into that channel till we start seeing end demand pick up. In the rest of the emerging markets, I feel good about where we are on our stock levels. And we will continue to monitor it – monitor it real time and adjust very quickly. So I'm not expecting destocking in other emerging markets in a big way happening, unless of course end consumer demand really drops off, which we're not anticipating. So we're in good shape on the stock levels.

Kathy Mikells: And then I'll go ahead and address the first question about our outlook comments. So we've clearly said, as it relates to top line, that we're expecting to see sequential improvement in the first and the second quarter in the first half relative to what we saw in the fourth quarter in fiscal 2020. As it relates to overall margin improvement, I do expect that – absolute margins in the first half to be better than what we saw in the second half of fiscal 2020. I also commented that we continue to expect to see some pressure on a year-over-year basis.

And then you had asked about overall cost savings. What I say is clearly we've looked to continue to push hard on everyday efficiency. And, during this COVID period we especially scrubbed harder at what I would call discretionary spending. So we've tried to take the approach of, I'll call it, blank sheet of paper on discretionary funding and really only do the spending that we think is critical to the business. So overall efficiencies I would characterize as actually running on the higher side, if not ahead, of what I talked about on capital markets day. Now, the flipside of that is we've unfortunately seen the volume decline, and that's causing negative gearing in the P&L. And I would just remind you that roughly 15% of our business is a beer business, and in a place like Africa, 60% of our Africa business is a beer business, and so that business has, I'll call it, higher fixed costs within COGS and so, when volumes decline, we would see a bit more pressure in terms of negative leverage across the P&L.

Simon Hales: That's great. That's very clear. Thank you ever so much.

Operator: Thank you very much. Our next speaker is Olivier Nicolai from Goldman Sachs. Please go ahead. Your line is open.

Olivier Nicolai: Hi. Good morning, Ivan and Kathy. Just a couple of questions, please. On e-commerce, you mentioned in the presentation that you've seen some relaxation of regulation allowing you to do more e-commerce. In the US specifically, what is the current business model that you're using, and how do you see things evolving as we come out of this crisis? And just lastly, can you remind us what's the percentage of your sales in e-commerce as a group, please? Thank you.

Ivan Menezes: Hi, Olivier. The percentage of sales, firstly, is small. Very – it's low single digit. But what I'd point to is, if you look at our Q4 e-commerce sales relative to Q3, it doubled. So there's some accelerated growth, but we have far less penetrated than other consumer product categories, mostly because of the regulatory environment. Now, some of those things are changing in markets, and we are seeing more access to e-commerce channels in Latin America, Africa, in addition to Europe and China.

On your point on the US, the US system is still operating within the requirements of the three-tier system. So you have a platform like Drizly, where the business is running 4x – four times what they expected in the last few months. Now, what Drizly does is it takes its order from the customer – from the consumer, but picks up the product at a retail shop – a liquor store – and then delivers it. You also have retailers within state who are able to take e-commerce orders and deliver within the state to customers, and that business is growing rapidly, but it is from the liquor store to your home within the state. So we don't have national big players like Amazon etc in the alcohol category. It is very focused on liquor retailers and a few platforms like Drizly, and that business is growing. You also have – pickup at the store is growing, where people can place their orders electronically and drive by and have the product delivered at the store so they don't have to enter the store. And you'd seen, in states like New Jersey, that has increased a lot. So the convenience in delivery to the home is – has picked up in the US, but still very much within the framework of the three tiers.

Kathy Mikells: And then the one other thing I would point to is cocktails to go – has also been enabled in the US, which allows people to – you know, especially when they're ordering from a restaurant, to not just pick up great food, but to pick up great cocktails as well.

Olivier Nicolai: Thank you very much.

Operator: Thank you. Our next question comes from Trevor Stirling of Bernstein. Your line is open, sir.

Trevor Stirling: Morning, Ivan and Kathy. Just two questions from my side, please. The first one – Ivan, maybe could you give us a little more colour in the US? Shipments are running a little bit behind depletions. How far behind depletions were they, and that's now stabilizing? And the share trends you mentioned earlier – is that slightly worse shares performance coming from lower share gains from the Casamigos of this world, or is it higher sharing losses from Smirnoff and Captain Morgan? And, I guess, final question, can you just comment a little bit on the Indian run rate performance now we're through the lockdowns? What's the state of demand in India at the moment?

Ivan Menezes: Sure. I'll take the US questions, and Kathy can handle India. So what we're seeing in the US, I would say broadly, is an industry, Trevor, that we think it's a little hard in the last couple of months, but our estimate is growing around 4% in value. I'm talking US spirits. You saw our shipments were up two and a bit, and our depletions are somewhere in between. So we are still slightly behind the market, and the main areas where we are losing spirit share is in vodka, Captain Morgan's, and a bit in Johnnie Walker, and Johnnie Walker's also linked to the lapping of White Walker from the year before. So that's broadly where we are. We have very focused plans that Debra and the team have on improving this picture as we go into fiscal 2021, and we still have very good momentum on Casamigos and Don Julio and Crown Royal, the share gainers. So that how I would characterize US.

Kathy Mikells: And then, if we just talk about India, as everyone is aware, they had a six-week complete lockdown in terms of the alcoholic beverage industry in its entirety – production as well as overall sales. And so, coming out of that, we continue to see good sequential improvement there, kind of May to June and then especially into July. So July, really much stronger. So I would say we feel pretty good and confident about that continued sequential improvement in India now that whole kind of countrywide lockdown is over.

Trevor Stirling: Thank you very much, Kathy and Ivan.

Ivan Menezes: Thank you, Trevor.

Operator: Thank you very much. Our next question comes from Edward Mundy of Jefferies. Please go ahead.

Edward Mundy: Morning, Ivan. Morning, Kathy. Three ones from me. The first is on capital returns for fiscal 2021. I think, Kathy, you mentioned in the pre-release that H1 2021 net debt to EBITDA's going to be impacted, given the way the numbers are falling. As the board thinks around dividends, are there any financial metrics that will help you provide a steer around the capital return? For instance, if you hit four times net debt to EBITDA. The second is on innovation, which has been an important driver of Diageo's growth over the last couple of years, with some really good innovations. How does COVID-19 impact your ability to launch innovations? And then the third Ivan, is on sustainability. You've got the paper-based Johnnie Walker bottle; it looks really interesting. I see you're launching a new 2030 social and environmental strategy and targets. Without giving away too much, can you talk about what the main changes will be following your 2015 to 2020 target?

Kathy Mikells: Well, I'll go ahead and take the first question. So you would have seen our leverage ratio increase to 3.3 times, and we have said that we target to maintain that ratio between 2.5 to 3 times. We made the decision – our board made the decision, and we announced today, although this needs to be approved at our AGM, that we're maintaining our final dividend flat. And we earlier announced in April that we've paused our share repurchase program as a result of that leverage increase that you've seen. And we've further said that program continues to remain paused in fiscal 2021. As you think about the impact of COVID-19, clearly it's had its peak impact in this fourth quarter, and we've said we expect to see sequential improvement in the first quarter and the second quarter. But when we get to interims and report at that period of time, we'll be reporting a leverage ratio off of our 12-month trailing EBITDA, right? So that's going to take into consideration a 12-month period of time that will have been fully impacted by COVID. As a result, I expect our leverage ratio is going to peak at that point in time and then we will see improvements as we go into the second half of fiscal 2021 and into fiscal 2022.

I kind of take a step back from that. Ed, and if you look at the total financial picture for Diageo, we do have real financial strength. We're an A- rated company. We've taken actions to further bolster what was already a strong liquidity position. We've got £5.3 billion of standby credit facilities. We ended the year with 3.3 billion in cash. So I think we're in a quite good position to continue to make balanced decisions, I would say, with regard to shareholder returns, but ensuring that we really support the ongoing investment in the business for the long term.

Ivan Menezes: And, Ed, on innovation, this is one of the areas – we very quickly kind of reassessed our pipeline and our approach. And quite what we are leaning in more to is big recouped and re-recouped innovation on big brands. And I'll give you an example: in the UK in the last few months, the line extensions on Gordon's – Sicilian lemon and Mediterranean orange – we've had three of them. And literally in the last three months we've gained seven – I think eight points of market share in the UK with those launches. They're doing very well. There's a Captain Morgan line extension going into the US, or has gone into the US. So we're – we're going back to big brands with innovation. Brands that need feeding and building and particularly on-trade support we are delaying, because this is not a time to be building, let's say, Roe & Co Irish whiskey in the US when the on-trade is down. So we're slowing those down, and then we're looking at new opportunities. And, as an example, the whole space of ready-to-serve cocktails and pre-mix we see as very attractive, and so we are – we're doubling down on being much more ambitious on our goals there. So Diageo has had a strong track record of innovation. We're not backing off. We're reshaping it to the times. And I feel confident, going into fiscal 2021, we have some pretty exciting things in the pipeline which should help our performance.

On sustainability, as you point out, yes, the Johnnie Walker bottle was – got a lot of excitement around it – the paper bottle and Johnnie Walker. Also we – our Bulleit distillery, the new one, is carbon neutral, which is really a big first as well. You will see in our, we're just coming to the end of a period in 2020 where we had set our goals five years ago, and you'll see the results with our annual report. We've done very well. I'm really proud of our performance on carbon and water. Going forward, and the 2030 goals, it's going to be in three areas. One is sustainability, so carbon, water, recyclability, packaging – the standard metrics there. The second area is inclusion and diversity, and the third is on positive drinking. And on all three we are setting pretty ambitious goals. Diageo leads in this area. We want to continue to lead. And later in the second half we'll be releasing our 2030 objectives, but I can assure you they are going to be ambitious and they are very core to our strategy, so we're putting the resources and effort behind it.

Edward Mundy: Thank you. And, Kathy, just to come back to the first question, there's no sort of hard leverage target that could preclude you from paying a dividend? I mean, you look at a number of things, including the run rate, your liquidity. Just to be clear, there's no hard leverage target that would put you off paying a dividend?

Kathy Mikells: No. And in fact, Ed, I would have said, if you went back into Diageo's past history, at about the time that we acquired the USL business in India, we also would have exceeded our leverage targets at that time. So we really take a holistic view, and a big part of that is just getting more data and information on the pace and overall slope of the improvement and positive trajectory that we'll be seeing in the business as the on-trade starts to open up. So that's something we'll obviously be keeping in mind, and we've said that the capital return decision will continue to be under review throughout fiscal 2021.

Edward Mundy: Got it. Thank you.

Operator: Thank you very much. Our next question comes from Pinar Ergun at Morgan Stanley. Please go ahead.

Pinar Ergun: Thank you. Good morning. I have a quick follow-up to Simon and Trevor's question on the US. With depletions running ahead of shipments, should we expect some catch-up in H1? And do you see wholesalers stocking up ahead of potential tariff risk? Another quick one on the US. Did demand for your products benefit at all from the government stimulus plans year-to-date? And do you see down-trading as a risk at all going forward, or would you see continuation of solid demand in the US? And finally, a quick one on India. How's your long-term view on the growth potential of this market change? What was the key driver behind the impairment charge you've taken? Thank you.

Ivan Menezes: Okay. I'll handle the US and then turn to Kathy on India, Pinar. On US spirits, firstly I would not – this depletions being ahead of shipments is on the margin, this is not a big deal where – so I wouldn't factor it. The key factor that's going to be important is consumer uptake in the second half, and that's what we're very focused on, because the – we are encouraged by the trends we continue to see in the US, and you can see it in the overall industry trends. The Nielsen NABCA remain strong. To your point on demand and how much of it is supported by stimulus, there's no question there is an impact that consumers have the spending power right now, and, while they are stuck at home, we are seeing, both in food and drink and entertaining generally, that there is a willingness to spend. I would point to previous economic recessions, Pinar, and the global financial crisis to me is the best set of data to look at, where there was a severe impact. And what we saw was a very short period of slowdown and down-trading that happened. It was literally two or three quarters. And right now we're not seeing down-trading. In fact, if you look at US spirit industry data, the higher price points are the ones that are growing the fastest. But could we see some? We could see it moderate, but I don't expect it to be a sustained trend, because the main source of growth on spirits in the US is still spirits growing faster than beer and wine, and younger Americans in the 21-plus are consuming much more spirits. And in the time of lockdown, where cocktails at home have only gone up, and so I see the long-term trend here in terms of premium spirits brands continuing. We could have some short-term impact as – if consumer spending gets severely hit, but history would say that that's not a – it's not – I don't see it as a sustained or structural trend. It could be short-term for a little while.

Kathy Mikells: And then specifically with regard to India, we continue to have a lot of confidence in the long-term opportunity that we have in India. More recently, we would have seen in the first half GDP starting to slow in India. So, even ahead of the pandemic impact, they were starting to see the economy slow a bit, so that softened our results in the first half. India was up about 2% in the first path. That is lighter than what we think the potential of the market and our business is in India. And then, as we've already mentioned, in the second half literally the entire industry was closed down for six weeks. So their impact from COVID in the second half was very significant and much more material than you would have seen at the total Diageo level. We obviously had to take that into consideration, and you've seen the impairment that we've taken, but if it doesn't change our view on India at all for the long term. The long-term trends there in terms of population growth over time, per capita income growth, enabling more people to afford our brands, both our international spirits brands as well as our prestige and above brands. And, really importantly, the people in India just love whiskey, and that really bodes positively for the long-term for our business. So I would say, over the long term, we continue to be really bullish that that's a business that's going to be good for Diageo and good for its shareholders.

Pinar Ergun: Thank you.

Operator: Thank you. Our next caller – our next question is from Chris Pitcher from Redburn. Please go ahead.

Chris Pitcher: Hi, thank you very much. A couple of questions and a – and a clarification, please. Firstly, on China, it looks like you had a very dramatic stock reduction in the final quarter there. Could you give us confidence that you've now cleared out the excess Chinese new year stock and that you should start to see the recovery early in the new half? And can you give us a feel for what you sense your Baiju market share is doing?

And secondly, on the US, you mentioned your price mix is running ahead of the industry. It does look like it faded a bit in the second half, despite what I would expect would have been a period with reduced promotion. We've been here in the past before, where you've priced and mixed ahead of the industry and driven good margin expansion, but market share has suffered. How should we think about your relative price positioning? You are comfortable with the price gaps on some brands or, going into a softer economic backdrop, should we expect increased promo in the new financial year?

And then, just finally, a clarification. I think you said you wouldn't ship to global travel retail until you saw a recovery. I assume you must be selling something into global travel retail, or is it – are you literally not shipping anything at the moment? Thank you.

Ivan Menezes: I'll take – I'll take two and three, Chris. Hi, Chris. Global travel, yeah, it's a trickle. I don't know. Very little, because clearly there's a dramatic reduction in in passenger numbers. So we would – we're ready to respond quickly as it picks up, but right now we're not doing – virtually no – very little business.

On the US, no, we're very – one of the things I feel really good about is the NRM capabilities that we have built in the team, and they've been at it the last 18 months. And the second thing I would say – we are hyper-local in our focus in the US. We now have data down to the zip code, to the store level, and so the analytics and data we are putting behind the execution, behind pricing and the management of mix, is – has moved significantly in the last couple of years. And we've got to get the right balance of share, price, mix, margin. And I feel very good about our capability and focus here, within our team and working with our distributors, to get it right. We have eased off some lower-ROI programs that we used to do in the past, and we are leaning in more to ensuring our execution at the point of sale, in terms of visibility and display and the launch of innovation and the pace at which we are measuring our execution at stores now with our EDGE 365 capabilities. All of that is significantly ahead. So our focus going forward is to get that right balance of price, mix and share, and by managing it at a very micro and very sophisticated level now, I feel good about going into 2021, seeing improvement in our share performance, as I talked about earlier.

Kathy Mikells: And then specifically as it relates to China and overall stock production, so our Shui Jing Fang business has reported publicly, and so you would see that in, I'll call it, our third quarter and fourth quarter, their first quarter and second quarter, top line was down as we looked to reduce stock in trade. So for the – for their first quarter or our third quarter, the top line is down 22%, more like 90% in their second quarter or our fourth quarter. And that was all about reducing stock in trade so that they could basically end what our second half was in good stead in terms of the stocks that remained in stock in trade. So they made commentary on their call about ending the half with stock levels closer to kind of 2018, 2019 models. So I think they're feeling very good about where they ended stock in trade.

And I would have said the same thing overall for our Scotch business, in that we're beginning to see especially the deluxe part of our Scotch business now pick up in China and, overall, the Scotch business in Taiwan, which is reported in our greater China market actually was very resilient during this period of time.

And then, finally, I think you asked a question about our Baiju market share. One thing I would say is, if you look across the industry in this most recent period of time, the price point sort of at the 600 RMB level and below has not performed as well as some of the higher price points, and our business participates in the price points at the three to 600 RMB level. That's in part because banquets and especially business occasions have not yet picked up to the same degree as other occasions, but if you looked at how our business was performing kind of ahead of his period of time, we were gaining very strong share. And so I would say we're very confident that we'll get back to that place pretty quickly.

Chris Pitcher: Thank you very much.

Operator: Thank you. Our next question comes from Nick Oliver at UBS. Please go ahead.

Nick Oliver: Hey, hello. It's Nick here. Thanks, Kathy, Ivan, for the question – well, two, actually. One – the first is an extension of Pinar's question on the US in that I guess, if we look back to the financial crisis, I guess that the US market held up fairly well volume-wise. I think it was, like two, two and a half percent if we look at NABCA. Would that be kind of a sensible run rate to assume going forward?

Ivan Menezes: I would say, based on current conditions and what we see, the US spirits market's showing kind of modest volume growth and little better value growth will continue. So – and as I said, the biggest source of that volume is coming out of beer and wine. It's going faster than that, so the occasions are shifting. So we remain confident about the long-term consistent trend of growth in the US spirits market. And, as I said earlier, could you have a quarter or two if things – if the economy really gets tough and spending gets constrained heavily, you could – you could see some slowdown and some down-trading, but we don't see that sustaining. And so that's a reasonable assumption that we will continue with low-single-digit volume growth.

Nick Oliver: Okay. Thank you. And then one final one of the Scotch portfolio, and you called out obviously Lagavulin, the malts doing very well, and I guess obviously the blends obviously comping the launch of White Walker last year. How are you thinking about, like, malts versus blends over the next 12 months?

Ivan Menezes: Are you talking about the US or overall?

Nick Oliver: Yes, US, yeah.

Ivan Menezes: So we have a big focus, clearly, on our malt business, as well as on Johnnie Walker and Buchanan's and the blends business. In the early stages of the COVID lockdowns' consumer habits, American whiskey has done better than Scotch, and in part because Scotch is more about the – malts are more about discernment. We're also skewed to the on-trade in many of these brands. But we've got a focus on really getting Johnnie Walker coming back. In the last few weeks, the share performance is a little better. And so we've got big plans on the brand. And single malts continues to be positive, and we expect that to continue as well.

Nick Oliver: Okay. Thanks so much.

Operator: Thank you. Our next question comes from Alicia Forry of Investec. Please go ahead, ma'am.

Alicia Forry: Hi. Good morning, Ivan and Kathy. Three questions from me, please. The first one, on the US. You mentioned distributor destocking in the US, but we've also heard from many consumer companies in alcohol and in other categories that US retailers are also destocking, so I was wondering if you can give us your assessment of the US landscape over the near term. And then, secondly, beer trends at the end of the H2 period. Some peers have reported significant improvement around June. Have you seen a similar development? And then finally, on excise, you mentioned excise in India. Are there any other key markets where there is a risk of excise or other unfavourable regulatory developments over the near term? Thank you.

Ivan Menezes: Thank you. I'll take the US and excise, and I'll ask Kathy to take the beer question. Broadly, for the US, distributor and retailer stock levels are normal – are where they should be. So I don't see – if your question is are there going to be big changes going forward in stock levels in the trade on the spirit side, I'd say no. They're pretty stable.

On excise, we've not seen – India had a few states who have just jacked up the excise when they opened up, and many of them have reversed the duty increases. Generally, so far, we have not seen significant changes. One of the things I'd say that's very much in the message we are getting across to government is the hospitality industry is so critical to the recovery of the economy. One in ten jobs in the world, and in most countries, sit in the hospitality industry. It's mostly young people, and this is not a time to be penalizing the hospitality industry. And I think that message is landing. There's far more appreciation for what bars and restaurants and pubs mean to the economy and to society now probably than pre COVID, and we are in the industry and working with bars and restaurants and hotels are really getting that message through to governments.

Kathy Mikells: Okay. And then, as it relates to beer, I would say you have to look at the specifics of our beer footprint, because Europe and Africa is the largest kind of overwhelming majority. Kind of two thirds of the overall beer business are in those two large regions. And so what we see is the improvement in our beer business as the on-trade opens up, because both of those regions are also heavily weighted to the on-trade. So we mentioned Europe – we're about 50% weighted to the on-trade, but our beer business would be even more heavily weighted than that given how popular Guinness is in Europe specifically. And then similarly in our Africa business, you've got countries like Kenya, where Senator Keg is a very strong part of that business, and it would be over 90% kind of weighted into the on-trade, and so very much tied to the on-trade opening up. When you dissect this on a market-by-market basis the impact of COVID and the closing of the on-trade was very different market by market, and it kind of came to Africa and Latin America later, right, than it landed in Europe. And so, as we've seen the on-trade start to open, we see that improvement coming through our beer business, but it's very market-specific. And we would certainly expect, now that the on-trade is opening up more broadly across markets, that we would see that sequential improvement in beer, as we talked about for the overall company.

Alicia Forry: Thank you.

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

Nico von Stackelberg: Hi. Good morning, everyone. Can I just summarize here? It sounds like you're saying that you do expect modest recessionary environment, and maybe some down-trading for a bit of time, but the recovery of the on-trade should certainly overwhelm any temporary impact from recession-linked down-trading.

My second question is on just the growth rates. Could you provide me with your growth rates for Q4 – how you finished Q4 and the start of Q1? I hate being so short-term, but it would be interesting to hear. And then finally, I'm not sure if you'll give me the answer, but I'd be curious to hear if you have any comment on consensus for FY2021, so you can see what we can see, but do you think it's achievable and what's your thoughts on consensus? Thanks.

Kathy Mikells: And so clearly what we're saying as we talk about sequential improvement to our top line in the – in the first quarter and the second quarter of this fiscal half, we are saying that, while we are expecting some impact from both a recession overall impacting different markets differently, and some level of down-trading, that we think volumes coming back are going to overcome those other impacts, hence this sequential improvement we expect to see coming from the fourth quarter. As it relates to kind of overall what did our fourth quarter look like, top line overall for the half was down 23% and, for the fourth quarter, it was closer to 40%. And then specifically as it relates to the first quarter, we're not – we're not giving out monthly numbers for the quarter. I would just go back and again tell you we've clearly already seen an improvement, in terms of July relative to June. And we'd expect overall the first quarter to sequentially be better than what we saw in the fourth quarter.

Nico von Stackelberg: Good. And on consensus?

Kathy Mikells: We're not giving specific guidance, so I'm not going to comment on consensus.

Nico von Stackelberg: Thank you.

Operator: Thank you. Our next question comes from Nikil Chenbak from Landmark Family Investment Office. Please go ahead, sir.

Nikil Chenbak: Yeah, good morning. Yeah, I had two questions, basically. One was on the US market. Clearly the seltzer market there is booming and taking significant share from traditional market. I understand we don't really consider that as a focus opportunity. I was just wondering why? Any specific reasons why we've not looked at the hard seltzers market in the US and try to expand that?

And the second one was a follow-up to some earlier questions. Diageo China market share –China share in total, you know, revenues is, say, less than 5%. Do you think this grows over a period of time, and anything specific which we still have to do with China really becomes a more significant part of overall business pie? Thank you.

Ivan Menezes: Sure. I'll take these. In the US – we haven't talked about it much on the call – Diageo beer company, which sells Guinness and beers and FMBs and seltzers – we have a line of Smirnoff seltzers – is doing really well, right? It's among the fastest-growing beer companies in the US right now. And we have a small position in seltzer, but we have deliberately decided not to make a big investment into that category, because quite frankly we have better places to invest in the US when we look across our total portfolio of beer and spirits. But we're clearly benefiting from the trend right now, and you see it in our beer business performance, or the beer company performance in the US. We have taken the seltzers into Europe. They are in the UK and in Ireland right now – the Smirnoff line-up – so we are participating in that sector but not making it a big strategic priority for investment.

China is – we remain – to answer your question, yes, I expect China to be keep becoming a bigger part of Diageo. And our two main businesses there have a very good runway ahead of it, and we fully expect that to be a business that gets back on a steady trajectory of growth. And we're very encouraged by the early signs on Scotch whisky, and we are building the top end of Scotch whisky – when I say 'early signs', the last few years – where the interest in Scotch at the top end – super deluxe and malts – is really building very nicely. And even in this very challenging period, our Scotch whisky business in mainland China grew. And in fact, if you look at e-commerce, Scotch whisky outperforms other forms of international spirits on e-commerce platforms as well. So, long term, China should be a very attractive growth engine for the company.

Nikil Chenbak: Thank you.

Ivan Menezes: Okay. This is the last question.

Operator: Thank you very much. Our last question comes from Richard Withagen from Kepler. Please go ahead.

Richard Withagen: Yes. good morning, all. Thanks for the question. I have two, please. First of all, in the prepared remarks, you talk about leveraging malts.com and thebar.com. Can you give some more details what initiatives you take in this area and how that benefits your brand portfolios? And then the second question I have is can you talk about what kind of underlying data go into radar, and if the sensitivities to this underlying data in the various regions are very different?

Ivan Menezes: Sure. Firstly on digital commerce more broadly, the posture the company is taking is we want to be a leader here in the shaping of digital commerce in beverage/alcohol. And so we have a number of initiatives, including working with the big platforms, working with retailers and, as you point out, we have some direct-to-consumer platforms like malts.com and bar.com. They're still small. We're very much in experimenting mode in markets in Europe and Brazil etc. And we're doing it for learning, and we will clearly learn and scale up from there. But if I look at what we're doing in Europe and China, and even in the US through the three-tier system, we're really building our digital commerce capabilities and moving very rapidly in that area. We're investing behind it, because we do believe it's going to grow faster than the overall market. And one of the things I'm encouraged by is actually our market share in e-commerce channels, for the most part, tends to be higher than in physical channels. And it is an environment where well-known brands that are well supported do well.

Kathy Mikells: And then the second question was about radar. This is, I'll call it, another module that we're adding on to our catalyst tool. So sometimes we'll talk about our edge tools, which is about everyday execution that, at the outlet level in markets, and that we're able to get a lot of data and information about what's happening around a particular outlet. So, what are consumers drinking in terms of bars in the neighbourhood? What are the demographics of the neighbourhoods? And what would that tend to lead us to believe are the best types of Diageo brands to really have it that outlet, and what are programs that we can run that will be a win/win, both for Diageo and the outlet owner. So it's all about trying to get, I'll call it, hyper-local information and really trying to make sure we're on the ground, getting those local insights.

And so what this next module within catalyst does is something similar, and it's looking to grab external information, not just about the macro economic situation in a place like the US, but about the specific economic situation at a zip code level or within a region, within a state, so that we understand what's happening both at a very micro and local level again so we can determine what are the best programs for us to run so that we have high confidence that our marketing dollars are really going to get a high return. So it's all about having more and more local information so that we can make local decisions. We clearly run some national advertising campaigns, but this is about really being able to, on the ground, do different things locally that's great for our brands and overall great to the business.

Richard Withagen: Thanks, Kathy. Thanks, Ivan.

Ivan Menezes: You're welcome. Well, why don't I draw it to a close here. Again, a big, thank-you to everyone for your interest in the company. I hope you and your families stay well and safe. And both Kathy and I look forward to connecting with many of you in the next few days. Thank you.

Operator: Thank you, everyone. This concludes today's conference. Thank you for your participation. You may now disconnect.