INVESTOR CONFERENCE FOR GUINNESS NIGERIA-FY19 INVESTOR CALL

Presentation

Ayodele Alabi

Corporate Communications Manager

Good afternoon everyone and welcome to Guinness Nigeria's F19 full year investors' conference call. My name is Ayodele Alabi and I am the Corporate Communications Manager for Guinness Nigeria. I will be hosting this call today with my Finance and Strategy Director Stanley Njoroge and my Managing Director Baker Magunda. Also in the room with us is our Legal Director and Company Secretary Rotimi Odusola.

Before we begin please let me apologise for moving the conference call. We had some unexpected technical issues. So let's get straight to why we are here. Baker will take us through the business strategy and performance and Stanley will speak through the financials after which we will open the lines for questions. Thank you again for joining us and I will handover to Baker now.

Baker Magunda

Managing Director

Good afternoon, good morning, good evening wherever you may be. Excited to be back here with you, speaking to you. Thanks for making out time to join us. We are here to speak about the results of the year just ended. We are calling you out of Lagos. The team is here and we have got a full room.

Let me start by just giving a reminder of an overview of our strategy here. I know we've said this many times but it's always good to go back to what it is that we are trying to do at Guinness Nigeria.

I would wish to start with the ambition we have for the business in the country. Like we've always said it's to be the best performing, most trusted and respected consumer products company in Nigeria. To get to that ambition we drive it through our five values, freedom to succeed, to be the best, proud of what we do, valuing each other and passionate about customers and consumers. Those are the values that anchor our ambition.

Our main areas of must-dos: winning with a total beverage portfolio, strengthening and accelerating our premium core brands, winning in value and mainstream, innovating at scale to make new leads, building and constantly extending our route to consumer, driving out costs constantly to invest in growth and guaranteeing our plan with the right people and capabilities. So those are the areas of the must-dos that anchor our strategy.

Moving on then to F19, the period that is under review, specifically the focused areas that we had. For those who have been with us before we called out three big buckets, which we call the focus areas. One was the main effort, the things that we really had to go after and that was growing our premium core faster, under that was reserve brands, international premium spirits, brand Guinness, mainstream spirits and Malta Guinness.

We had two flanking efforts. One is to transform the commercialisation of innovation and the other was to deliver target cost absorption in lager and non-alcoholics driven by Dubic.

All of this was anchored by increasing our effort on driving out costs, which we call productivity, but also enabled with capable and engaged people and like I said an advanced route to consumer.

Just looking at the environment in which we operated in the third annual review, we [inaudible] where there was modest growth, GDP growth, but largely the growth that came through quarter by quarter continued to [trot] behind population growth. It was also important to note that throughout the year we experienced inflation of between 11 and 11.4 percentage points which in a way was anchored by much more [civil] exchange rates. But when you look at all the evidence we grew behind population growth therefore per capita income became lower and we shall be seeing the implication of that on the industry and our business performance.

Inflation continuing to be a double digit in an environment where we [didn't] take much [price], that also caused pressure on the costs of running the business, distribution with warehousing. Population growing ahead of GDP clearly is an opportunity for the future but for now I think puts pressure under domestic - the domestic income available to look after many dependents, that came through again in the consumer choices that we saw throughout the year.

Talking a little bit about the beer market, we continue to see decline on total markets on volume and value throughout the year. Different levels of decline but overall beer volume and value to our assessment and the readings that we use to run the business indicated that we continue to see a decline in the total market.

However, it's also important to note that where we saw the shift coming through quarter by quarter it was becoming clear that the mainstream and lower mainstream segment of the market came under much more pressure than the low value brands. It is something we discussed before, but we saw that maintained throughout the year. So lots of pressure on mainstream and lower mainstream.

We saw a bit of growth beginning to come back at the lower end of the market that [inaudible] brands. Very stable at the top end on the premium end of the market and that is a shift that we saw and continue to see over the last eight quarters.

How do the [inaudible] do in the market. Bottle format in returnable glass tends to be higher margin in our business and in the total business actually in the categories in which we operate. We saw that overall non-returnable glass [SKUs] like PET and cans grow much faster than the returnable glass format and as you know from various conversations we've had cans and PET tend to attract a much lower growth margin than we have in returnable glass. So that was another pressure point that we saw coming through in the year. Of course the categories especially for non-alcoholic brands like Malta.

Therefore, we always wish to go back to what it is that we are trying to do. Going forward is to remain focused on the strategy as we've described it earlier. For the year that we are about to start or just begun we will be continuing with most of the strategies that we ran last year. And just to reconfirm, it's going to be really driven by growing value share and enhancing our margins in beer occasions, winning with international premium spirits, growing mainstream spirits faster and continuing to improve our route to consumer.

The enablers are productivity. We have got a big ambition and we continue to go after that removing [cost labour return]. Transforming the [inaudible] reputation and communities. This is an important [inaudible] and I'll be sharing some of the work that we did in F19. The things that really show up in this for us is leading the industry in shaping policy, supporting communities through increased use of local materials and being an ambassador for moderation. The final enabler is engaged to workforce. We are continuously investing in our employees to ensure that they are capable, more engaged and inspired to work at Guinness Nigeria.

We are the only TBA beverage company in Nigeria and what that allows us to do is that we play in all the segments. For those familiar with our brands in beer and in spirits, we have a big range and we continue expanding that. For Ready to drink, we've got four options in there and we're continuing to see a bit of growth coming back. We will be sharing some of the numbers in that. And of course non-alcoholics led by Malta Guinness.

So how did that show up to us in the year we are reviewing? Under innovation we are proud of the many things we did but I just want to call out three. One is for the first time Guinness brand went into a lager brand so we launched Guinness Gold, which is a premium lager brand extending the offer that Guinness gives premium consumers. It's going well. There's still a level of funding and we remain excited about the opportunity that it brings. It's higher margins than other lagers we've had in the portfolio before, therefore it is consistent with the strategies that we're trying to run.

I'm also proud to report about Baileys. The first time Baileys has been produced outside of Ireland following the history of Guinness Nigeria. We were the first market to produce Guinness outside of the UK. This has gone well. It's a variant of the international syndicate that you all know, it's gone really well. We're still in a few places, we're continuing to build our growth consumer but the consumer and customer response so far has been very good.

The third one I wanted to share with you is White Walker that many of you might have seen and experienced last year. That was another big opportunity for Johnnie Walker to come back with something fresh, exciting and new and we will continue to push that through F20 as well.

Then the second area really talks about how our brands operated within culture. It's a big trend that I've shared before and this goes to say brands that understand and operate within culture in a relevant way always tend to do well. Malta Guinness for the first time had a specific regional campaign in the north which really, really went well and we're seeing that come through in the performance we've seen over the last three to four months.

Orijin is a brand we're very proud about. It's anchored in [inaudible] if you want and really this is celebrating our identity and just confirming that our community is modernised. Consumers always want to remain rooted in their identity so we had a big campaign on Orijin in the [inaudible] and that really helped to continue driving the relevance of the Orijin brand.

You can't move away without talking about Guinness. [Inaudible] remains our anchor brand and we continue to drive [brand] Guinness through the pillars of football. We had a lot of advertising above and below the line and we had big consumer promotions throughout the year as well. And you will be seeing later some stats on the numbers that we will be reporting soon.

So overall, broad participation last year, lots of investment of course, innovation of spirits [beer] and non-alcoholic. For the first time, really growing regional with a big global brand like Malta Guinness and for some of you who follow the news Malta Guinness was only this week voted the best non-alcoholic brand in Nigeria for three years in a row. So it gives us confidence that that's something we're doing right.

Community impact, it's our stated view in our strategies that as we progress, as we grow we grow in the community. And we did a lot of stuff in the year under review but I'll just speak to a few. The one we should start with is water, delivering potable clean water to communities across the country. It's a project that we started many years ago and we continue to expand every year regardless of the difficulties that one experiences in the communities. We think this is important and we always try as much as we can to protect the investment in that area.

Last year we drove a lot of water in water scarce communities and we are about to hook 3500 new homesteads onto clean water. In the area of health, we have for a long time, since 1965, been supporting eye clinic centres and we continue to do that, helping people to regain their eyesight. We think this is important, it's very helpful and it's something that is core to our values.

Because we are the only TBA we also want to lead the conversation on moderation so last year we drove a big campaign on don't drink and drive and this really helps to bring back attention of drivers, road users, on the dangers of drinking and driving. So a lot of campaigns we run across the country well supported by many of the government departments and most of these campaigns [inaudible] as well as some of you might have seen.

The final one which we are really proud about I would like to share with you is underage drinking. It's part of our intention for alcohol in society where we want to lead the conversation on moderation. This is about ensuring that underage people do not get access to alcohol, they don't use alcohol, they don't abuse alcohol. And in this we run a very successful programme called SMASHED in which we just did 60 schools and reached over 13,000 students. What that allows us to do is to [inaudible] on the dangers of underage drinking and working in collaboration with schools and parents ensuring that our youth do not come into alcohol consumption early.

So in summary we continue to execute the strategies that we think are working. It is all about ensuring that our portfolio continues to grow and serve more customer occasions through spirit, beer and non-alcoholic and [RTDs]. It is also in giving back to communities every time that we have an opportunity to do this through areas we have chosen of water, of health and underage drinking as a big idea. And then bring our grants to life through platforms that we know work in the available space.

So I just wanted to give those highlights before I pass on to Stanley, our Finance Director who will be speaking to you about the numbers. I'll be coming back to you to answer any of your questions that you might have after Stanley has shared the numbers. Thank you.

Stanley Njoroge

Finance and Strategy Director

Thank you Baker. Good day everyone. Stanley Njoroge is my name. I'm going to take you through some slides in terms of how the performance of the organisation has been for the financial year ended 13 June 2019, what we call F19 for us. Baker mentioned about the key focus areas, what we as a business agreed to do in F19 in the face of a very, very tough macro-economic and a competitive environment. He mentioned about the focus areas being Guinness, being Malta Guinness, being the mainstream spirits and also being the international premium spirits portfolios.

So quickly how has that come through for my revenue? Top line perspective; Guinness grew by 1% and that growth also was helped a little bit by Guinness Gold which came towards the end but even the [FES] itself showed some growth. On the other side Malta shows a strong growth, a strong double digit growth and that kind of offset some - a little bit decline in the non-alcoholic Dubic. Such as in total our non-alcoholic other drinks grew by 3%.

Mainstream spirits grew by 4%. Within that we saw strong growth in Orijin, we saw strong growth in - from Smirnoff X1 and Gordon's which offset the Mr Dowell's decline. Mr Dowell's decline is not because (inaudible)- it's purely because we were changing the branding and as a result of that we had about three or four months of no shipment within the beginning of the financial year. But generally all the other core brands showed double digit growth and we also introduced Baileys Delight as well and Orijin Gin within the portfolio.

On international premium spirits again we grew by 2%. Within this it might look low but [scotch] grew double digits driven mainly obviously by the iconic Johnnie Walker range of brands. At the same time we had a bit of a (inaudible) in terms of a decline because we were kind of rebasing the Ciroc offering so there was a decline in Ciroc.

Other brands where we have started producing locally also showed some bit of decline, the imported Gordon's and the imported Smirnoff. As more and more of our consumers and our focus move towards the more locally produced brands.

On the other side of the coin is that we saw significant declines in lager, our Satzenbrau and our Harp declined double digits. Our RTD offering had a mixed bag in terms of our performance. Smirnoff Ice RTD actually grew double digits but we saw decline coming from the Orijin RTD and Snap. So as we go along focusing on this very, very crucial battle where we believe we have a right to win will be very, very crucial for us.

Overall revenue declined by 8% despite [inaudible]. The growth in the Guinness, Apnads, MSS and IPS was not sufficient to cover the decline in the lager and the RTD category.

Moving on, to look at (inaudible)- just talking through that I think that we are generally on strategy in terms of where we want to win. Guinness growing, Malta growing and spirits growing higher than beer as a result obviously increasing in terms of its contribution to the business. What we obviously need to correct and focus a little bit more is on RTD as we move forward.

What does this mean from a profit and loss position, so the 8% decline in [NSV] came with a 33% decline in operating profit. So from ₦142 billion, around ₦143 billion in terms of net sales we are about ₦131 billion while operating profits declined from ₦13.4 billion to about ₦9 billion.

One of the main causes of the decline in terms of operating profit is royalties and technical service fees which we had to catch up for the previous two financial years. As you might be aware the Financial Reporting Council had actually issued a notice earlier, I think basically that because of the [inaudible] that if something is not approved by NOTAP you cannot accrue the expenses.

So we had two years of [un-accrued] royalties and technical service fees which we hadn't accrued for in their respective periods. We called this out in the previous financial statement as contingent liabilities. Now that the ruling has changed and the FRC has also revoked the notice we have taken that into account. So in this year’s financial there is about ₦3.1 billion which relates to expenses which would have otherwise have fallen in F17 and F18.

I've just shared a little bit in terms of what [inaudible] obviously it's not allowed under [FRS] but if you actually look through in terms of what will be underlying is the ₦10.1 billion F17 would have been about ₦9 billion in terms of operating profits that is. The F18 operating profit of about ₦13.3 billion would have been about ₦11.4 billion and the F19 ₦9 billion that we have been talking about would have been about ₦12.1 billion.

So on an underlying basis there's still a bit of growth in terms of that. That growth is driving mainly by productivity. So the underlying performance has been held by productivity and we have shown very, very clearly in the numbers our unit cost of sales, what we call costs, cost of goods sold actually yes they increased but increased at less than inflation.

Our distribution costs by unit decreased by higher. So in other words we got quite significant productivity savings from our distribution costs. Our A&P we look at our portfolio with [what our] focus areas and as a result of that [inaudible] a decline in terms of advertising information.

And if you exclude the impact of IFRS 9 adoption in terms of impairment you will have administration expenses being below last year. But generally the operating profit on a underlying basis, although the [reported one] is ₦9 billion, what we are saying is that there on a underlying basis it will be about ₦12 billion driven mainly by productivity.

As we go ahead we've got some news that we don't have further risks relating to the prior year's royalties and technical service fees and obviously that we are progressively and actively seeking the approval by NOTAP so that we can make the payment. At the moment we do have quite a large number which is pending payment once we get NOTAP approval.

Just looking at the balance sheet, the cash delivery and leverage, we generally continue to see - on the basis of the operating profit or EBIT decline we have seen some decline in EBITDA. We still delivered positive EBIDTA of about ₦19 billion down from ₦22.6 billion in the previous year.

Our operating cash flow generation remains strong. It is actually higher than the previous year. So we delivered about ₦13.4 billion and on the free cash flow which just looks at operating cash flows and then knocks off whatever we have invested in so far. As capital expenditure is concerned, it is negative but it is improved over the prior year.

More importantly for us obviously we continue with having a reasonably robust capital structure and if you look at our net debt to equity it's only about 17%. We feel that a net debt to EBITDA of 0.8 x is a pretty good place. And this is helped by the rights issue which happened in F18.

From an earnings per share that has declined from [330 kobo to 250 kobo]. We do see that from a capital structure balance sheet perspective, we are running - we do have a pretty solid Company which is generating cash and continuing to ensure that we have the right levels of debt to fund the business.

So that's the performance of the organisation in the financial year F19. Looking forward to F20, we will continue with our strategy but we do expect that the current macro-economic environment, regulatory challenges and actually even competition will continue being intense. We still think that the GDP growth will lag population. We are still expecting inflation to remain in the double digits around 11%. While there are significant regulatory risks which we keep on hearing about especially relating to taxes but we will continue engaging the government on so that we do not disadvantage the industry and the investment by people or by our shareholders but also the employment within the organisation.

There is [inaudible] stabilised there is obviously conversations especially around the items which are based on the government trade. We do recognise and keep a close eye on that. And we still expect that the consumer disposable income will remain pressured. It may ease a little bit with all the conversations around a wage increase but we don't know - we at the moment feel [inaudible] that on the overall it's going to be a pretty pressured consumer economy.

In this environment therefore we will continue focusing on our strategy. We will continue being very, very clear that our choices are around ensuring that we continue margin growth. So we will be focusing on where we have right to win, where we think that we have the right margins, Brand Guinness, Malta Guinness and RTDs. We will continue driving significant expansion of [inaudible] spirits [inaudible] to ensure that we actually remain ahead of beer.

We'll continue driving aggressively as far as international premium spirits and especially as Scotch is concerned. We have some exciting innovations across categories to build the business for the future. We will continue to underpin that by ensuring that we are very focused on productivity such that it drives and it provides the funds and the air for growth for our brands. And we'll also continue ensuring that we remain an operating cash generating company and while also ensuring that we are responsible corporate citizens with communities but also ensuring that we have capable and engaged talent pool.

So that's our focus in F20. It's all about growing margins and the choices will all be based on that so it's not really different from what we decided to focus on in the previous year. I think I'll handover to Ayodele to handle the question and answers that - the questions that may come through.

Q&A Session

Ayodele Alabi

Thank you Stanley, thank you Baker. We have now come to the Q and A part of the call. We will take as many questions as we can, as time will permit. We will take it in batches so we'll take three questions per time and we will pause for Stanley and Baker to respond before we take the next set. So before we begin let me allow our operator [inaudible] to take us through how to ask questions and then we'll begin.

Operator

Thank you. If you would like to ask a question please press star one on your telephone keypad. Please ensure your line remains unmuted locally. You will be prompted when to ask your question. We have some questions coming through. The first question comes from the line of [Damilola Olupoma from R Securities]. Please go ahead.

Unidentified Male Participant

Thank you very much for today's presentation. I just have a few questions and clarifications to make. First off, I would like you to share with us your spirit contribution to overall revenue on the standard as the last time we had this call you shared that with us and you told us it was around 18%. So I'd just like to know spirit contribution to overall revenue.

And secondly as well, I understand that the new Guinness Gold is a high margin brand so I will assume that's in the premium segment. So if you can split the slump in volumes, that for your [BA] if you can split it into premium and mainstream I would really appreciate that as well. For now, those are my two questions.

Ayodele Alabi

Thank you [inaudible]. Can we take another question?

Operator

The next question comes from the line of [Louis Culiquo from EFG Caramas]. Please go ahead.

Unidentified Male Participant 2

Hi, thank you very much for the call. I have some questions. Probably my first one is regarding the one-off cost that we saw at the P&L level. Where do those costs sit on the P&L, administrative costs? I haven't seen those costs being added back in the cash flow statement. So does that mean that this one-off cost represented a cash outflow?

My second question is regarding the effective tax rate. It was I think positive in the fourth quarter. If you can explain what happened over there. And my third question is probably more generic, but having in mind that you are struggling in the lager segment, do you think that in the long-term we can see you probably underinvesting or even getting out of this lager segment and focusing your attention mainly in stout and spirits? Thank you very much.

Ayodele Alabi

Thank you Louis. We'll take one more for now.

Operator

The next question comes from the line of Fola Abimbola, FBN Quest. Please go ahead.

Fola Abimbola (FBN Quest)

Hi, Baker and Stanley. Thanks for taking my question. My first question has been asked by the previous caller but I just wanted to know if there were price increases during the year and if - or I just wanted to get clarification, if the excise duty was actually implemented and if you passed this on or not? Thank you.

Stanley Njoroge

I will take then the questions which have element of numbers and Baker will talk through the Guinness Gold and will also talk through the lager strategy. So let me start with the contribution from Damilola. So the contribution for spirits is at 17% of total revenue which is broadly - still shows within the trajectory of our strategy that we want which is to move towards 25% to 30% range as far as revenue is concerned.

To Louis' question, the technical service fee and royalties are within the cost of sales are [inaudible] in the income statement. They did not really impact cash because in this case this is an accrual because the payment itself is only allowed once it gets the NOTAP approval, as I mentioned before.

On the tax rate we did and we had some accruals from the previous year that we released as far as that is concerned and that is having a positive impact in terms of the tax rate. The tax rate is down to 23% this year but that is purely because of adjustments relating to prior years.

Then to Fola's question in terms of price increases, yes, where possible we do take targeted price increases, not so much on the beer portfolio but on some of the other parts within our portfolio.

The excise duty rates increased first of all to ₦13 per litre for beer in the prior year over F18 and for beer then increased to ₦35 from June. So we did implement all those duty increases. There was no pricing which was done. We did a bit of adjustment on - [first of all] in June. So generally it's targeted price increases, not across the board. For the beer industry specifically and the [Malta] there has been no price increases per sale across the industry, although we've not seen that other than sometimes some correction and some reduction within the year.

So I'll hand over to Baker to talk through Guinness Gold and Damilola to be completed honest we will not be able to break it down for you in terms of completely by category. We will - but Baker will talk through the Guinness Gold strategy and also talk through the lager investment.

Baker Magunda

All right. If you remember in my opening remarks one of the pillars that we've called out is to participate in lager profitably. And what that means for us is go for price points that make sense and we think where we positioned Gold answers that strategy. So Gold sits within the premium category, it's within the market. We are seeing good response from consumers since we put the brand in the market. We remain in one city in Lagos and that's our plan to remain in Lagos for some time.

Therefore, it's not true that we're going to be diverting from lager. Actually we are investing in lager. You already know to launch an innovation in a premium segment you spend almost three or four times the amount of money you spend on a value brand, therefore without giving you specific numbers you can imagine the advertising and promotions that is going behind Guinness Gold is much higher than what you'd spend on [inaudible] for instance. So we are investing in lager, we are not divesting from lager. But we're only going to do that where we think it makes sense and it's enhanced with our overall strategy of improving our margins.

So that's on Guinness Gold. Is there something else I was to answer? I think that's it really on Guinness Gold and lager.

Ayodele Alabi

Thank you Baker and Stanley for those answers. Let's get the next set of questions now.

Operator

The next question comes from the line of Abiola Gbemisola from Chapel Hill. Please go ahead.

Abiola Gbemisola, Chapel Hill

All right, thank you for this time. A number of my questions have been asked already but I would like to understand what's happening with your CapEx spend. I realise that in full year 2019 around ₦16 billion was spent on CapEx. I'd like to understand what was driving that expenditure? What exactly? Is the Company still investing in expanding capacity? If yes, or to what extent is the Company spending money on.

Going back to Guinness Gold, you've answered the question as regards that but I want you to provide more clarity in terms of the brand which was launched this year. Can you give a sense as to if the brand on its own grew in that period, in the period that it has been launched? What amount of growth? Is it single digits, is it mid-single digits, just give us a sense of what about growth or the [expense] of Guinness Gold.

With that I think that's it. I'll come back if I have more questions.

Ayodele Alabi

Thank you Abiola. Can we take another?

Operator

The next question comes from the line of [inaudible] manager. Please go ahead.

Unidentified Male Participant 3

Good afternoon, thank you for the call. I don't know if you clarified on the receivables. What is the factor responsible for the 9% jump in receivables? And also I just want to clarify also on the Guinness Gold and Satzenbrau. I know you have Guinness Gold and Satzenbrau and then Dubic and Malta Guinness. So in terms of cannibalisation how will Guinness Gold cannibalise into Satzenbrau, how will Dubic cannibalise in Malta Guinness? Thank you.

Ayodele Alabi

Thank you [inaudible]. Let's take one more in this set before we can handover for response.

Operator

The next question comes from the line of [inaudible] [from SBG Securities]. Please go ahead.

Unidentified Female Participant

Good afternoon and thank you for this call. I'd like to start by going back to the strategy for lager and really back to Louis' question. If you look at how lager has performed and looked at the brands that have been launched recently, so you had Royal Kingdom launched last year in 2018 in the mainstream segment. You've launched Guinness Gold now in the premium segment. Satzenbrau, which was your core mainstream brand is in steep decline, I think that's maybe a valid consideration in terms of maybe starting to slow down your investments in lager. Or actually maybe you need to increase investment in lager.

So I want to understand partly the reasons for launching Guinness Gold just in Lagos in the meantime. I go to the stores regularly and I can't see them on the shelves. What would be the reason behind that? And if you want to stay in lager could you perhaps be looking to increase spend on marketing? I know that that has been in decline also. So could we possibly see that that goes up in this next FY?

And then moving on to the weakness we saw in the last quarter of this FY under review, what were the key drivers of that weakness? Was that still coming from mainstream lager or was that also coming from your spirits portfolio?

Thirdly, there was a conversation around reversing the excise duty on spirits, did that come through at all for this spirits category?

Then lastly, you've spoken about margin expansion, when you look at the performance for this year the performance has really been driven by the premium category and so if we haven't been able to see that margin expansion come through where do you think the margin expansion could come through in the next FY? Are there any considerations for price increase? These would be my questions. Thank you.

Ayodele Alabi

Thank you [inaudible].

Stanley Njoroge

There's quite a lot of questions on our lager strategy, Guinness Gold and so on and so forth and I'll take the questions relating to CapEx spend, receivables and margin expansion.

Baker Magunda

I think everybody has almost asked the same questions on Gold. I'll just try and say what's [possibly what I've said] already. The choice to invest in that brand is driven by the strategy we've chosen. [Inaudible] category in lager and we've launched as a premium proposition. As to why we've launched in one city only, that's a choice we've made as the rollout plan that we have [and it's no more]. You see across the world you can choose to go everywhere from day one or choose to go in a specific location and grow or choose a specific channel and then grow out of there. We've chosen to be in a specific location first and we will be expanding out of there once we land above the [true line] of the brand performance.

Somebody asked whether the brand is growing. I don't have the history for the brand therefore it's difficult for me to get comparisons with prior periods because we only launched it in F19 but all I can say to you is that we are delivering against the plan that we set out and we are hitting the KPIs that we wanted to hit in the period in which we are. So, we're very excited and good about what it is we are seeing on Gold. So, I have no comparisons because it has only been in the market for a short period of time.

The lady asked that where she lived she can't find it on the shelf. That's true, it's possible, because we are not in every single outlet yet. In Lagos, we've chosen where we want to be first and it's possible that where you live or shop we haven't got in there yet but we should be doing that soon. We have a team that are dedicated to making sure that this brand is available in areas and locations where we think consumers who can buy it live, or reside, or shop. Very soon, I'm sure, you'll be seeing it in the places where you shop or live.

There was a question around is Gold cannibalising [Satzenbrau]? It's difficult to imagine that but from all the evidence we're seeing the answer is no, it’s not, because they are quite different consumers we are going after. Very different channels that we execute Gold in and in any case, it's a very different geography. Satzenbrau is big as compared to where we put Gold, so the answer is no it's not. We are not seeing that yet.

Is [Dubic] cannibalising Malta Guinness? Malta Guinness grew as you know and actually Dubic did not, so [one of the things] is Malta Guinness taking from Dubic just by looking at the numbers. However, remember, we say that the category on Malta shipped out almost the same way that beer shipped out, by seeing that the valued brands at the bottom of the price point grew faster than those at the top end. We don't think that Dubic's performance or decline had anything to do with Malta Guinness and vice versa.

We had some [internal choices] that we had to make on how we manage the portfolio in Malta, in order for us to mix up and get the margin outcome that was decent and acceptable within the year. This is nothing to do with the two taking away from each other. The price points are so far apart from one another and areas where we've really executed them is also different.

Innovations remains a big part of what we do and what we shall continue doing. For some of you who have run brands or launched brands you know that usually the first one year or two - your brands are not positive at cap level because you are investing in advertising and promotions. After that point you are likely to be flat or negative at cap level.

Stanley will be speaking to a bit around the mid-term growth margin and what we intend to do but again, we're just going to do what we said we're going to do in the strategy: drive a mix of brands that have a higher margin. There will be some years where not everything comes together but the strategy is right. A premium spirit like [inaudible] Ciroc was under pressure but costs grew very well and we're excited about that.

We've launched as we speak to you now additional offers under the scotch category so I talk about White Walker for last year. In the last six weeks we've launched another two scotch brands in the premium range. It's early days but we're seeing very good consumer reaction to those. We will continue driving premium spirits led by scotch and we think it's the right thing to do.

On the menthol spirits, again we had some brands which we launched like Orijin Gin. We're very excited about Gordons [inaudible] going on there. We expanded our ability to supply the market last year from around November. When we spoke to you during our half year call, we told you that we doubled our production capacity on mainstream spirits. We are faithful that the plan is working well. The response in the market is good. There will be some challenges but we think the strategy is right and we see that the focus areas we want to grow are actually growing.

That’s how I would attempt to answer all the questions on Gold and cannibalisation, geographical availability, launch plans, strategy and Stanley will pick up where we invested the CapEx and the performance by margin by category. Thank you.

Stanley Njoroge

All right. Thank you Baker. Just to give (inaudible)- to answer I think it was [inaudible] in terms of CapEx spend, we did not have any major CapEx or expansion of our capacity within the year. Most of this is what we call maintenance CapEx. Part of it is a little bit vague and elements relating to final payments are relating to the prior year CapEx projects like for example the [VAT] from the previous years. There's nothing major in terms of the capacity. We believe we have the right capacity.

Obviously a business of our type of business, you always need things like returnable packaging, bottles, crates. You always need to ensure that your plans are in top shape, and that will include some CapEx just to maintain and to ensure that there is environments. One thing I'd like to just touch on and something that will be beginning - I'll come to and will begin to come to is that Diageo of which Guinness is part is very, very big in terms of sustainability agenda, in terms of making sure that we are ensuring our footprint - environmental footprint is as minimal as possible.

Towards this, Diageo recently announced £180 million across Africa relating to different projects. For Nigeria, the elements which are there - it's around water conservation, ensuring that we are using - we are utilising the water as well as possible. Then recycling where possible. That is part of the CapEx spend. Most of it is maintenance CapEx, returnable packaging in terms of crates and bottles. Some of the assets which we require for our sales forces like fridges, chillers and vehicles, and a bit of cover for some of the projects which are just ending.

There is no (inaudible)- and we expect to be at that (inaudible)- at about that level for within this financial year with [mainly in] CapEx. We believe we have the right capacity. To answer your question in terms of receivables, yes, they did go up. We had a bit of a (inaudible)- I mean, if you speak to most of the players and you'll have seen this in quite a lot of the industry is there's quite a bit of cash crunch. Especially because of the election now across the business.

As a result of that, we did end up with receivables - trade receivables higher than what we expected. We don't believe that they are at risk. We believe that we have the right level in terms of the current value. However, it is a factor that where the current economic environment is today, our trade partners, our distributors, our wholesalers have quite a bit of challenge where the cash is concerned. [Inaudible] so that we are supporting as best as we can, we are working with banks where possible but still we ended up with a slightly higher receivables.

Let me just talk through then the softness in quarter four. It is both a factor of (inaudible)- more if you look at it from what we are lacking, how was the quarter four from the previous year? I don't know whether you remember, that was the first time we were carrying out (inaudible)- we had duties, and at that point everybody thought as a result of excess duty happening in June that there will be price increases. We did see quite a bit of pre-sale in May in the previous years.

At the same time, quarter four last year in anticipation of the change of [inaudible] we shipped quite a lot in terms of - and we knew that we were going to be dry for about four months. Obviously that is what we are lacking. It's mainly an element of lacking what we had last year, with a bit of softness as well on some of the premiums, especially in reserve which came through in towards the last part.

Also obviously we had the [rum account] last year, the same as this year, but it still had a slight impact. Remember there was also the excitement of World Cup in the previous year, which was not there in this year. Most of the Q4 softness for that had to do with what we are lacking. A few other things like the impact in terms of number one the impact of the World Cup, number two things like duty and the [pressure] in the previous year.

Excise duty on spirits remains a conversation we are having with the government. We have tabled our case. We have had a [inaudible] with the government. We feel confident that the government is hearing our story, but we do know - as everybody knows - that quarter four, the period quarter four, we did not have a Minister towards the end.

Everything was in limbo a little bit. We are hoping now that the government is in place that will move faster.

We are still engaging the government. There's really nothing much more we can do other than continue to talk to the government really for that. Then we come in terms of margin expansion. The way to break it down is like this. We are in an environment where [taking] price is [how to grow] in a good level is not possible. We might have targeted but you don't have good pricing opportunities. Number two, you are in a place where duty has increased. It's increased in '18. It has increased by another 17% in June.

Number three, we are in an industry which - where the inflation is at 11%. So when you take all those three together - number four, you are in an environment which is very highly competitive and therefore spend and trading is significant. When you take those four items, you do realise that we are in an industry and an environment which is going to be pretty challenged from a margin perspective.

Now how do we react to that? How we react to that is thinking, if I look through my portfolio and the good things that we have [are TBA], then what do I focus on? Therefore I focus on things which are bringing in the most money and I spend much more on those areas. Things like Guinness, things like mainstream spirits, things like international premium spirits.

That is the strategy we have preferred to do, because in the [option] (inaudible)- if you don't do that [inaudible] in terms of [inaudible] from a macroeconomic perspective. Unless the economy improves, our pricing will continue to come through or for example inflation improved significantly. So we do have (inaudible)- we have made changes [inaudible] relating to that, just don't know where we are. We believe they are the right ones and we (inaudible)- our work is to escalate and continue to deliver on that strategy. That really is it as far as what we have.

Ayodele Alabi

Thank you Stanley and Baker for those responses. Because of time and because we have so many callers on queue to ask questions, may I ask that each caller limits the questions to one or two so we can take as many as we can within the timeframe that we have. [Inaudible]. May we take the next set please?

[Kathleen Barne] - (Analyst, Credential)

Hi, thanks for the call. Just to go back to your margin where you said that taking [price] is not possible. Is that mainly because of your competitors, because it seems like everyone in the space is making unsustainable margins for three years now? Is there a worry that if you take price you'll lose share or is the concern that consumers will switch to the illicit markets? Thanks.

Yinka Ademuwagun - (Analyst, United Capital Plc)

Hello, good afternoon, thank you for answering the call. Can you hear me? In terms of (inaudible)- someone already asked (inaudible)- a couple of the questions I want to ask have been asked by other callers but yes, the ones that are yet to be answered is the one about percentage contribution of spirits because I noticed that there is a continued drive towards promoting more of the spirits based on the narrative of the discussion so far. So far, what (inaudible)- can you put a percentage to what the spirit have - the spirit segment has contributed to top line and where do you see this in 2020, by full year '20? I think that's my question for now, thank you.

[Dio Yeni] - (Analyst, Renaissance Capital)

Thank you very much. Just the question is on the excise. I don't know if you reported but I can't seem to find where you report your (inaudible)- the amount you paid on excise and if it's not disclosed could you just share with us what your excise as a proportion of your gross revenue is? Thank you very much.

Ayodele Alabi

Thank you. We will take the answers now from Stanley and Baker.

Baker Magunda

Okay, so let me go first and respond to why are we not taking price. When we were setting up the call we tried to paint what we know about the economy. Growth has been tentative and predictable, disappointing. Overall the GDP growth has been going slower than population and when you do that, the per capita income is going down. People who live in that country are getting poorer and therefore they don't have too much money to spend. When you look at measures of consumer spend in Nigeria you will see the same pattern.

First thing is people don't have too much money around them and therefore appetites for paying for things which are going up becomes absent. You have a choice then. You understand the environment, you know what's going on with the consumers. Would you be able to take price in those circumstances? We took a judgement call and said no, we don't think consumers can take a price now. That's the call we made.

You asked a question why not just take a price, if you lose volume and lose share what's the point? Why are you not doing that? We have fixed assets. We have the breweries to run, we have got lots of equipment which whether you sell one case or 1000 cases you have to pay for. Therefore, you have to have a certain amount of size and scale in your business to be able to spread around the fixed costs. We had to be careful on how much price you take, how much volume are you prepared to lose and whether the upside you [inaudible] can more than compensate that production you lose on your fixed assets.

That's a judgement call we made. We [inaudible] it's not worth pricing up now. That's value because it doesn't compensate the loss we make on the side of production. That's the call we made. I'll not comment on what other people are doing. On the contribution of spirits to our business, I thought Stanley had spoken to that so in the interests of time that has been addressed. I'll then hand over to Stanley to talk about excise duties. All right.

Stanley Njoroge

All right. I think the portfolio for us is obviously a bit - quite mixed because you have things which are taxed as spirits and for excise duty in some parts are beer. We also have others which are taxed on importing like the international premium spirits and you have non-alcoholics which do not have excise duty on them at the moment. We'll not be able to give you the percentages relating to that as far as the revenue is concerned.

Just suffice that we do make the payments - we do accrue the numbers in line with what is out there even as we engage the government. We are,- like I said, on spirits we believe that we have sold our care. We're still having those conversations and for the beer ones which have closed we've already taken that into our portfolio. We're not really [at labour] to disclose the percentage in terms of excise.

Ayodele Alabi

All right. Operator, we'll take the last set of questions now.

Ayorinde Akinloye - (Analyst, CSL Stockbrokers)

Okay, good afternoon and thank you for the presentation. Quickly, still down to the question on spirits and contribution of spirits. I know Stanley mentioned the 17% contribution earlier but it looks like there's not been any significant change in terms of the pressure on increased spirits contribution to the overall revenue. I don't know if you can just give a [history] of how like,- from say 2017, what has been the contribution of spirits to overall revenue so we can have an idea if we're actually seeing the growth in terms of how much spirits contributes to total revenue.

Then my last question is on your costs. You say although unit costs grew slower than inflation but definitely still grew, even if just by the fact that your volume has declined. What were the key materials that gave you the cost pressures that you saw in 2019, from value prices or boxes and things like that, materials that gave those price increases. Still on the cost aspect, in terms of [inventories], looking at the cash list it looks like you took on some additional inventories during the year. What look like when instead of [high price spirit] for some of your clearer materials so I was just wondering why you decided to take on those additional raw materials in 2019? Thank you.

[Ermund Teller] - (Analyst, [Inaudible])

Good afternoon, thank you very much. Just a quick question on volumes. I know when you were talking earlier you talked about some of the pressures that we had seen in mainstream segment. Can you give a sense of where the numbers (inaudible)- so are we talking single digit or double digit movement for volumes? That's across premium mainstream and discount.

Unit cost question has been asked, so in terms of your professional domestically sourced raw materials, at the moment, can you give a sense of where that is? Finally on capacity utilisation, can you give an idea of where that is as well?

Prashant Premkumar - (Analyst, Consilium Investment Management)

Hi. My question is on the royalty and the technical fee. Fiscal 19 I think we're at 3.6 billion. That compares to 500 million last year and I think 1.3 billion in FY17. My question is has anything changed in the way we calculate, were there any one-offs in this year and how should we think about this number for the next fiscal?

Baker Magunda

Let me take the last set. There is quite a lot of repetition in some of the questions so I'll be very brief in some of the answers. On fees, I think I did mention about 17%. I don't have it in front of me the historicals but as we know that we did not have spirits backed as much in terms of spirits backing for example [S4] or anything like that. I do remember I think in around F16 we were about 12% so there's definitely an improvement towards the 17%.

Like I said, our target is to get to the 25% to 30% range, which we believe that will be great as far as unlocking margin is concerned. Cost of sales is across the board - I think if you look at the materials, if you look at things like for example anything, everything relating to ports in terms of importation. We've seen a bit of stabilisation on some of the [periods] relating to local sourcing. However, most of the other items including things like [preformed tins] to [inaudible] have increased over time.

Obviously there is (inaudible)- although the currency is stable, a small movement will obviously impact both the cost but also the duty and also the importation costs. That really goes across the board. In terms of the inventories, again, yes we did - part of that is obviously pre-purchases, especially of imported products. We were expecting - like we said - I think a little bit slower towards the last quarter as far as some of our international spirits are concerned. Most of those things had already been ordered and were on the high seas.

We are launching - we are launching like Baker has said two brands. We have launched [inaudible], we have launched Johnny Walker Green Label. We have - we are going to launch other brands and obviously as you can expect, those will have to have been brought in in advance and therefore impacting already our inventory. Volumes, no I will not give a volumes kind of breakdown. Capacity, all I can say is that we have enough capacity. We delivered (inaudible) we are there or thereabouts as far as the size of the business which we are running.

Going on to the last question relating to royalties and [TSF], like I said in the main presentation we (inaudible)- in the current financial year we had a one off 1.31 billion being the royalties and TSF for the previous two years, which had not been accrued by the - by [inaudible] which we could not accrue at that time. You can look at the details and just see how they have been - what is [inaudible] in the previous annual report.

I think that's really - there are more questions? Okay, cool, all right.

Ayodele Alabi

Because of time we can only take three more questions. We'll take the last questions now.

[Michael Michogie] - (Analyst, [Research Asva])

I have two related questions. The first one is about the July 2019 [pro-shares] report on executive pay. I just wanted to know if it was correct or not. It says that the Guinness Nigeria CEO is the third highest paid at NGN461, that's about US$1.3 million. That's about 8% of net profit last year, and almost double Nigeria Brewery's CEO's pay.

The second question is how is executive pay being addressed in your focus on productivity? Thank you very much.

[Vusela Oitinyele] - (Analyst, Meristem)

Good afternoon, thanks for taking my call. My question is centred around your strategy. We have heard that you want to continue to focus in segments where you have the [inaudible] which is basically concentrating on your home brands and expending less on your less core. This seems to me like a strategy that you've adopted in the past year and we're still not seeing - still not seeing prices good going forwards.

I know that in this area where we have - where generally even beer industry are being very underwhelming. Consumer spending has been [inaudible], slow economic growth and all of that. Then we are just seeing you concentrating on your core brands and spending less on the less core. [Inaudible] these strategies are just [inaudible] and we don't know how that's going to improve going forwards.

I don't know if there is any other thing you will be doing in terms of technological innovation, because it seems to me that most of your innovations are just your product innovations or something you could just do around distribution channels or something disruptive that would probably drag you forwards, I think that would really help. That would be helping you then. I should ask you of course though still - I think someone already asked that - seeing an opportunity because [inaudible] in this past year Q1 cost of sales was about 67% and that has been across the board, even in the other industry players.

I really want to know what exactly is responsible for this high cost of sales. We know that some of them were [inaudible] and some are driven locally. I want to know on the percentages of now of locally sourced materials and want to know exactly what is the pressure point as regards to your cost of sales exactly? Thank you.

Baker Magunda

Let me answer the one question which I don't remember the name of the caller who said he read somewhere that the CEO is paid $1.3 million. I'm the CEO of the business and the answer is no, that's not how much I'm paid. However, you might be interested in reading a report of the year before in which details that were reported in the report are contained. If you go to the annual reports for financial year F18 you will see the details.

The accurate record sits in that report. Don't rely on the newspaper reports because they're inaccurate. In fact they are social reports. Really I would encourage you to go and read the F18 annual report. I joined this business in F19 but the report was quoting a period before I worked here and in any case if you read the other report, it was not referring to the CEO at all. There's an assumption but that record is in F18. Yes, I think that helps.

Let me try and answer the lady who was just asking - honestly, I was struggling to hear your line, it wasn't clear. What I picked up you saying you're not seeing a shift that reflects the strategy therefore you don't have confidence that the strategy is working. You also felt we've not told you enough about what we're doing to reach consumers. You also wanted to hear what is the big driver for your exhibition costs. Okay, cool.

I'm unable to comment on what is driving distribution costs for other players in the industry like you were saying, but what I know in our case - we have been doing a lot of work to ensure that we contain costs so we have remapped where we go to, where we sell to. There's a big process we're doing at the moment to reorganise some of the regions where we sell where we're not as optimal. We are doing a lot of work on expanding our distribution footprint for spirits and some of the innovations that we are putting into the market.

We are feeling good with the team and the support we are getting on getting our distribution right. It's on account of that that you're seeing that in a declining market, our premium core brands - almost all of them recorded growth. You might call it a disappointing growth but actually we feel good that we delivered [inaudible] growth for the premium core brands, some of them in double digits in a market that was declining by mid-single digits.

We are feeling that our strategy is working and we are confident. We review it every so often and we believe it's the right thing to do under the circumstances. You also know that you can choose to go for value brands because everybody seems to be asking the same questions. How do you think you're going to economise your portfolio when consumers don't have enough money to spend on them?

We have done our own [propheticising] and we think there's enough profit pool to go after. We also believe that it's very difficult to make money structurally at the bottom end of the market unless they do something we don't understand, like [inaudible] you save cost of distribution going up, inflation going up, cost of utilities has gone up, taxes have gone up. It's very difficult under the circumstances to see yourself making money at the bottom end.

We've made a choice that there are places where we shall not play, some places where we think they don't make sense. Obviously every time you make a choice like that you have to be able to defend it and we think we've made the right choice and we know because we've been here for a long time there are things you can't do when consumers don't have money to spend. That's the view we've taken.

I hope I've answered your question on distribution, innovation, route to consumer, and whether I feel confident that our strategy is working. For the gentleman who asked about salary report, I think annual report of F18 is a good reference to get the accurate records. Thank you.

Ayodele Alabi

Thank you Baker for that response and thank you Stanley. We won't be able to take any more questions because of time, but if you still have questions you can shoot me an email at ayodele.alabi@diageo.com. I'll get your questions answered and respond to your emails. We approach the end of the call. Before we go, let me hand over to Baker to close the call. Thank you.

Baker Magunda

A very big thank you one more time for everybody for joining us for this call. We always appreciate the time you give to read the reports we put out, to ask us the questions to clarify the strategy we're trying to run. On behalf of the Board and the Shareholders I really thank you for the interest you maintain in our business. It's the commitment of my team and I that we will continue giving you all the information you need so that you know how the business is doing and what it is we are trying to do.

I thank you very much for the time you've spent with us today and we will leave it there for now. Should there be anything more that we haven't answered, Ms Alabi will be available and can drop an email, she'll be able to come back to you with the details. Thank you very much.

[End]