Magellan – In The Know: Episode 25

Spirit of success — Diageo's compounding value and growing market share

Announcement (00:00):

The information contained in this podcast is for general information purposes and does not constitute investment advice. You should seek investment advice tailored to your circumstances before making an investment decision.

Host (00:14):

This is In The Know, a monthly investment podcast brought to you by Magellan Asset Management, experts in global investing. We bring you timely, unique and thought-provoking insights to help you make sense of today's investment landscape.

Ivan Menezes (00:29):

People around the world, and this is universally true across all markets are trading up and drinking better. Not drinking more, drinking better. That plays to our portfolio strength. The second one is in most parts of the world, spirits is taking share of total beverage alcohol or doing better than beer and wine. And our portfolio is well positioned for both those trends.

Host (00:56):

That's Ivan Menezes, the chief executive of the world's leading spirits producer, Diageo, outlining just some of the reasons why the company has been so successful in recent years and is likely to keep growing. Welcome to Magellan In The Know.

Host (01:15):

In this episode, Ivan Menezes speaks about Diageo's impressive corporate philosophy and how it has taken advantage of consumer trends that he says will only strengthen over coming years. He speaks with Magellan's head of consumer franchises, Hannah Dickinson about the crucial role played by bartenders and word of mouth. And how savvy trend-setting investments sometimes decades ahead of products come into market place Diageo well to weather any economic storm. But first a warm welcome from Hannah.

Hannah Dickinson (01:46):

Hello and welcome to episode 25 of In The Know, Magellan's monthly podcast, which has now passed the milestone of 250,000 downloads. So thank you to all of our listeners out there. I'm Hannah Dickinson, head of consumer franchises in Magellan's investment team. And today, I'm joined by Ivan Menezes, the CEO of Diageo. Diageo is the world's largest manufacturer of distilled spirits and it's a relatively recent addition to the Magellan global fund.

Hannah Dickinson (02:18):

The business is in the midst of a powerful cyclical recovery as the world emerges from the pandemic. But as shareholders, we're focused on some of the more sustainable growth drivers that will help Diageo to deliver attractive returns for years to come. So Ivan, welcome and thank you for making time for this discussion to help our listeners understand the investment case for Diageo.

Ivan Menezes (02:40):

Great to be here, Hannah.

Hannah Dickinson (02:42):

So Ivan, you've been at the helm of Diageo since 2013, but you've been at the company since 1997 across various roles and geographies. Perhaps you could start with telling us a bit about your career journey, your pathway through the business and how you've seen it evolve over time.

Ivan Menezes (03:00):

Sure. This is my 25th year at Diageo and my first podcast. So I'm happy to be doing your 25th podcast.

Hannah Dickinson (03:07):

I'm glad you're here too.

Ivan Menezes (03:09):

I grew up in India and actually left India when I was 25. And my first job was with Nestle in India. And when we were building these amazing brands like Nescafe and Maggie noodles and the like, and I was in marketing new products for several years and then I went to America, ended up working in strategy consulting for consumer businesses and through a variety of moves, then came to a predecessor company of Diageo called Guinness PLC. In 1997, I came in as the head of strategy and within a few months, this incredible merger of equals happened. Guinness and Grand Met were put together to form Diageo.

Ivan Menezes (03:51):

So I've seen this baby right from the start and I've been very privileged in the opportunities I've had. I was the integration manager putting the merger together. I was then the head of marketing, the CMO. I ran international division. And then I was in North America for a long time before I became CEO. So I came in, as you said, in 2013 to be CEO. And I'd say the things that stood out for me coming into that role was how do we create an exciting, reliable compounder and deliver consistent growth and value creation?

Ivan Menezes (04:27):

How do we do the right things for the short, medium and long term? This is a business you've got to think in decades. And how do you create a culture that's a distinctive advantage? People and culture really go with these iconic brands. And I've been on that journey the last nine plus years as CEO.

Hannah Dickinson (04:47):

You might be surprised to hear that you are one of the very few CEOs we hear speaking the language of investments, which is compounders. That's something we talk about a lot, but not something we hear many CEOs talk about. But I'm interested in your view, Ivan, on what differentiates Diageo from other large multinational consumer franchises?

Ivan Menezes (05:07):

Sure. So a few things. One is we are in a very attractive sector. Premium drinks around the world has good growth and people are drinking better. Secondly, we have put together an advantaged portfolio. Now, this has taken some shaping. We've exited businesses and added brands and businesses. And today, I'd say a core strength is a brand and category portfolio and our geographic footprint. This is a lovely business because it has great growth in the emerging market still, but we have a very profitable and nicely growing business in the developed world.

Ivan Menezes (05:46):

The US is a powerhouse business for us and I call it the world's most exciting developing market because the demographics in the US are very attractive for us and for premium spirits, and the taste changes that are happening. And then I would say, we get this right balance about sustainable value creation and performance and creating a company that's here to endure and do the right things for the planet, for our people, and most importantly for responsible drinking and ensuring that people who choose to drink, drink in moderation and drink better.

Ivan Menezes (06:24):

That's what we are out to create. And the combination of growth outlook and the kind of culture and company we are creating, I think that's what's really distinctive about the Diageo.

Hannah Dickinson (06:37):

Ivan, most consumer staples companies are lucky if they can grow in line with GDP, but your global revenue has compounded at a rate of over 9% since 2019. Despite all of the ups and downs of the pandemic. Can you talk about some of the structural tailwinds that are fueling the growth of the spirits industry?

Ivan Menezes (06:57):

A few key things. Firstly, let me just remind you, we are only a four and a half percent share player in the premium drinks value globally. So I like to think of Diageo as a startup. We have a lot of opportunity out there. Now, within that premium drinks alcoholic beverage market, the two trends of note is, one, people around the world. And this is universally true across all markets are trading up and drinking better. Not drinking more, drinking better. That plays to our portfolio strength.

Ivan Menezes (07:33):

The second one is in most parts of the world spirits is taking share of total beverage alcohol or doing better than beer and wine. And our portfolio is well positioned for both those trends. But I think if you look at our category, it is an affordable luxury. The average American household that buys spirits spends a dollar a day on the spirits purchases for at-home consumption.

Ivan Menezes (08:03):

It's an infrequent purchase. You're typically shopping five or six times a year. The brand stands for a lot and that gives the trading up resilience because people are willing to spend a couple of dollars more for a bottle of Ketel One Vodka, because what you serve at home says a lot about you. And you want better quality liquids and brands, and are willing to pay a little more for it.

Ivan Menezes (08:30):

So you put this all together and you see a very attractive runway ahead. And as you pointed out since the pandemic, we've grown at a compound growth rate of 9%. Now, we're not saying that will sustain our medium term guidance as we want to grow the company's top line at 5 to 7% consistently and expand margins while we reinvest into the business.

Hannah Dickinson (08:56):

Perhaps as a result of your innovation and acquisition strategy, your performance relative to peers has been improving in recent years and you're now consistently gaining share in most markets. In your mind, what are the key drivers of that improvement and how sustainable are they?

Ivan Menezes (09:14):

I'm very pleased with our share gains in recent years. So we set an ambition actually at our capital market stay about seven, eight months ago to take what we call total beverage alcohol market share in value globally from 4% to 6% by 2030. Now in 2021, we achieved 4.6%. So we went from 4 to 4.6 and group share much faster than any of our major competitors in beer, spirits or wine. In 85% of our business, Diageo is gaining a holding market share, which is a high bar.

Ivan Menezes (09:56):

Now, what's behind that? A few things. One is this is a company that's obsessed with consumers and excellence in brand building. So we put amazing digital and data capabilities in the company in the last few years, but you match that with real creative flare. So how we build Johnnie Walker to be an aspirational, vibrant brand for the emerging generations coming through in emerging markets and the developed world, it takes both. Great analytics and great creative flare.

Ivan Menezes (10:30):

So that helps us where a strong innovator and our track record on innovation has continued to build every year, and then we're investing. So our reinvestment in our marketing spend, which is a huge driver of our business has gone up substantially from a little over 15% of sales to approaching nearly 18% of sales, 17.6%. This is a huge step up in hundreds of millions of dollars that are being deployed much more effectively in how we are engaging with consumers.

Ivan Menezes (11:09):

We have the tools to track the effectiveness of it. So this helps us recruit new consumers to our brand franchises and keep our brands really healthy. I'd say that combination coupled with our capabilities in brand building, commercial execution, supply chain have all enabled us to enjoy this excellent market share performance. And we certainly intend to sustain that momentum.

Hannah Dickinson (11:37):

I'd like to delve into one of my favorite topics, tequila. For our listeners, your tequila sales grew 57% last year. And a lot of that exceptional growth was driven by the Casamigos brand, which your team acquired from George Clooney in 2017 for $1 billion. What gave you the confidence to make such a large bet on the category and what made you choose that brand, specifically?

Ivan Menezes (12:05):

When I came in as CEO in 2013 one of the biggest strategic gaps we saw in our portfolio was tequila. We didn't own a tequila outright. And in 2015, we were able to acquire Don Julio. And then in 2017, as you pointed out Casamigos. Now, why did we do that? I mean, we could see... Diageo doesn't create trends, but we can spot them early. And that I say to our teams all the time, "The most important thing is spot a trend early and be quicker at seizing the opportunity."

Ivan Menezes (12:40):

So we saw this development of the super ultra premium end of the tequila market accelerating. There were early signs. The Hollywood set was drinking high-end tequila, NBA players. The basketball set were... It was on trend. And our projection said this was going to be one of the most attractive growth sectors in the US spirits market.

Ivan Menezes (13:05):

So we went after these two brands and very fortunately, they're now two of the hottest brands in the tequila category. Our teams have done a phenomenal job in building them and growing them. And so today, globally tequila from 0% is now 10% of the company. And that's primarily in the US and a bit in Mexico. We're excited about the category. We see a lot of runway ahead. Casamigos has been a phenomenal addition to our portfolio. Don Julio continues to build and premiumize and our job is to keep these brands vibrant, aspirational, and we haven't yet begun building the category worldwide where there's a lot of interest developing. We see in the next decade, a good international growth as well for the top end of tequila.

Hannah Dickinson (14:00):

How long do these types of consumption trends usually last?

Ivan Menezes (14:05):

They're quite long dated. This is the beauty of the Spirit's business. They don't turn on a dime. So we anticipate seeing another five to 10 years of the tequila category growing faster than the US spirits industry. And a couple of data points. The penetration, say, of a category like whiskey in the US is 27%. Tequila is only 15. So it still has runway to go.

Ivan Menezes (14:32):

The other way to look at it, there's certain states in America like California and Texas and Arizona where tequila is more developed and it represents about 20% of the spirits market in those states. But you've got a lot of America, New York, Florida, the Northeast where tequila is under 10%. So you put these data points together and you look at the consumer traction. There's a huge amount of interest in this category. It cuts across demographics. It cuts across day parts. It cuts across the versatility of drinks. It's not just the shot and the margarita, but you're now into classic cocktails made with premium tequila. Tequila on the rocks. So with club soda is very popular in America. The Paloma is a great, refreshing drink.

Ivan Menezes (15:24):

So all of these suggest... Agave has a wonderful association, positive association with consumers. So all of these point to the fact that we see a good runway ahead, as I said for the next five to 10 years. Not at these incredible growth rates, we've experienced. Those growth rates will come down, but we still expect the category to go faster than the US spirits industry in total.

Hannah Dickinson (15:50):

And you said earlier that you were looking for strategic gaps in the portfolio. So I assume that's something you're doing all the time. Is there anything at the moment that you're thinking about, or what do you see as the next big category in spirits?

Ivan Menezes (16:04):

Firstly, I'd say I'm very pleased with portfolio strength we have now. It is a momentum portfolio. We're well positioned. Whiskey is the core of this company. And whiskey is hot. Scotch whiskey, American whiskey. We've got a phenomenal whiskey portfolio where very active managers of our portfolio, both selling businesses and acquiring brands. Our interest in acquiring brands is really around the high quality brands at the top end of the spirits market. That's what we're focused on. I mean, we bought Aviation Gin recently to add to our portfolio.

Ivan Menezes (16:46):

Now, we had Tanqueray and Gordon's but Aviation was a brand that we saw really had a very attractive runway ahead. So we'd like to be doing Bolton acquisitions, but it's really the quality of the brand. Not so much a category gap. We're also interested in the no-zero alcohol and low alcohol space where we think there's a real runway for attractive growth.

Ivan Menezes (17:13):

We're doing that with our own brands. We have a lovely brand called Seedlip that we acquired. We have Tanqueray and Gordon's 0.0, Guinness 0.0. So you can expect us to do more in that space. And then we are tracking trends. Just like I've talked about tequila. It's interesting to see the high end of gin, the high end of rum has attractive dynamics right now. We're watching what's happening with Mezcal. We have three lovely plays in that space.

Ivan Menezes (17:43):

So one of the things in our category is you can't predict with certainty what the next big trend is going to be. You've just got to spot it very early. And so we are well positioned to understand what shifts are taking place, but the most enduring strength of a company like ours is these trends don't change overnight. They last typically decades. And then when they turn, you've got to just be in position to benefit from them and to exploit the opportunity as you see it.

Hannah Dickinson (18:17):

And I assume that's why it's so important to have a portfolio of brands rather than just a single brand.

Ivan Menezes (18:24):

Absolutely. I think that again is when you look at our portfolio across categories, price points, brands, we are very well covered for shifts in long-term consumer trends. We also have a good innovation capability to organically develop new brands and new line extensions. In addition to acquiring big brands, we have this division called distilled ventures where we invest in early stage brands with entrepreneurs, leave the brand with the entrepreneur. We have about 25 investments in that space. It gives us access to some of the best entrepreneurs and ideas that are coming to the spirits market.

Hannah Dickinson (19:14):

You mentioned Aviation gin before. Do you mind just reminding our listeners who started that brand?

Ivan Menezes (19:20):

Yes, it was Ryan Reynolds and his team. It's a lovely brand. It's got a lovely taste profile, very distinct from classic gins, less Juniper forward, lovely packaging. And Ryan has done a great job in the brand building around Aviation.

Hannah Dickinson (19:40):

Maybe we should get him on the podcast next.

Ivan Menezes (19:43):

I'm sure it'll be a lot more entertaining.

Hannah Dickinson (19:47):

One thing I've always wondered about is how you can get a bartender or a restaurant or a pub to select your brands when they're making up a cocktail. Is there a trick to that? What goes on behind the scenes there?

Ivan Menezes (20:05):

It's a great question, Hannah and it's really important in our business. The advocacy of bartenders and opinion formers in setting trends in our businesses is really important to how you build brands. Word of mouth is the most powerful way. It's not advertising. It's when you step up to that bar and the bartender tells you a story about Tanqueray 10 gin or Don Julio 1942. So we spent a lot of time and investment in supporting the on-trade. And so some of the things, for example, we run... And we're now well over a decade into this, the leading global bartender mixologist competition. It's called World Class.

Ivan Menezes (20:55):

It's run every year. Different city every year. This year it's going to be in Sydney. This is a grassroots competition that starts around the world and you have knockoff stages where the top bartenders emerge in every country and they come to this final. So that's been something we've been doing over 10 years. We have a platform online called the Diageo Bar Academy, which has incredible content in terms of the business of bars and educating bartenders and mixologists on categories, on brands, on cocktails. Our commercial teams support and call on the on-trade and put a lot of focus on it.

Ivan Menezes (21:36):

As we went through the devastating impact of COVID on the on-trade, the hospitality sector was in huge stress through the lockdowns. I mean, we stayed very close to our on-trade partners and customers and invested strongly in helping them recover through COVID. And all of that makes a difference. So to your point, the bartender in our business is hugely important and we really value those relationships and spend a lot of time in how we can help bars and restaurants and the on-trade make their businesses more successful.

Ivan Menezes (22:19):

That's where you build the connection and that's how we get our brands to perform. I'm really pleased with our market share gains in the on-trade, where for example, in the United States, we've come out of COVID with really strong gains in the on-trade in market share terms.

Hannah Dickinson (22:37):

Hot categories like tequila will inevitably attract competition. And we have certainly seen a number of new entrants like Kendall Jenner's 818 brand and The Rock's Teremana brand. Many listeners will draw parallels with the explosion of craft beer brands that took place over the past decade. So how do you think about the risk of new entrance in the spirits category?

Ivan Menezes ([23:01](#)):

Now, this may sound a little counterintuitive, but I welcome lots of high quality entrance into our categories. And the reason I do is it brings more interest cache vibrancy to the category. And the most classic example of the last decade, I'd say to you is if you look at what had happened in gin, particularly in Europe, you had a huge number of new entrants come into the gin category. And these interesting gins were being built in the on-trade entrepreneurs behind them. And what it did was in that early evening occasion brought consumers out of the boring defaults of wine and lager into these beautifully crafted gin and tonics.

Ivan Menezes ([23:53](#)):

So the gin category expanded significantly. And through that, as long as we are doing our job right, which we did with Tanqueray and Gordon's, we actually gained outsized market share in the gin category. So I really do welcome entry into the spirits category because our main source of growth is from other forms of alcohol. And interesting new brands and entrepreneurs behind the brands actually help grow the category faster. And then brands like in tequila, the main job we have to do is ensure Casamigos and Don Julio remains vibrant and aspirational and recruiting new consumers. So that's how I see it. It's a good thing, but it raises the stakes for all of us to be fabulous brand builders.

Hannah Dickinson ([24:47](#)):

So does that mean it comes with an increase in marketing spend on your end?

Ivan Menezes ([24:52](#)):

Well, if you look at our marketing spend, it has gone up, but what goes along with it is we can measure the effectiveness of the spend very well. I mean, our growth algorithm is to have strong top line growth, medium term. We've said five to 7%. As you've seen in the last few years we've up weighted investment in marketing and capital spending. But at the same time we want to drive margin expansion. So this is a growth algorithm that takes investment, but we have the levers to ensure that we can drive. We want high quality growth, which is a combination of volume mix and price.

Ivan Menezes ([25:36](#)):

We want to get those three imbalance because volume growth is when you're bringing new consumers into the franchise. Mix is people drinking better and we're well positioned for that. And then price is the third lever, which you have strong brands that are well invested. It gives you an ability to take the appropriate levels of price. And so investing is fundamental for us to ensure sustainable high quality growth.

Hannah Dickinson ([26:05](#)):

Well, speaking of price, inflation has been a topical issue for consumers and consumer companies. Over the past few months, you were able to take mid single digit pricing over the past year to offset the increase in your cost base and to protect your margins, which I think speaks to the strength of your brands. How do you expect the inflationary environment to affect your revenue growth and margins over the next year or two?

Ivan Menezes ([26:30](#)):

Well, we're still seeing the inflationary pressure. So certainly we just started our new fiscal year, fiscal '23. We expect the impact on cost of goods inflation to continue and that's certainly what we're planning on. I think longer term, it's a little hard to call, but what I would say is our approach is to stay very close to the shifts in the cost environment. And then as a company, we have multiple levers to work through offsetting the impacts of inflation.

Ivan Menezes (27:02):

We talked about revenue growth management. I mean, really making sure we do that superbly. We have a mix in our favor. Just in the results we announced in July. Johnnie Walker grew over 30%, but Johnnie Walker Red Label grew 20% roughly. Black Label grew 40% and Blue Label grew 60%. So you can see mixes are real positive for us and higher price point products. We make better margins. So that helps us. Getting volume growth is hugely beneficial for leverage through the P&L and we had 10% volume growth in the year we just completed, so that helps.

Ivan Menezes (27:48):

Then we have aged liquids. The youngest whiskey in a bottle of Johnnie Walker Black Label is 12 years old, the youngest. And it's got all these lovely molds from all over Scotland in that beautiful whiskey. So we have a buffer there because that whiskey was made years ago. So you put that all together and productivity. We are doubling down on our efficiency and productivity programs internally. It's not a program, it's our culture. And we're really focused on ensuring everything that the consumer doesn't see or touch, we are driving very hard to get even more productivity.

Ivan Menezes (28:26):

So that gives us the levers to be able to handle inflation and ensure we stay invested in the business and have the capacity to expand margins as we've indicated in our three-year guidance for the next three years.

Hannah Dickinson (28:42):

And you were one of the few consumer staples companies that was able to increase your gross margins over the past year. So that's very impressive. As the US federal reserve has started to raise rates, investor concerns have shifted from inflation to recession. There is a risk that consumers start to trade down to cheaper brands or pull back on their consumption of spirits altogether if their disposable income falls. What are you seeing at the moment in the US in terms of changing consumer purchasing patterns and perhaps emerging pockets of weakness?

Ivan Menezes (29:18):

So I'd say not much shift in trend yet, and we are tracking this very closely. And if you go back over a couple of decades, the spirits industry is very resilient. I mean, it's had volume growth every year right through the last 20 years. In the global financial crisis, you saw a few quarters of down trading, slight down trading, and then it reverted back to premiumization.

Ivan Menezes (29:48):

So part of what helps us is the affordable luxury and the infrequent purchase that I talked about earlier. We do see the continued trends right now of the premium end of the market being the strongest. So our tequila brands, our high-end whiskey brands, our high-end rums and gins, all of that is continuing to do well. Having said that, we're not just sitting here saying all this will just continue that way. We're watching it very closely. And we are going to stay alert and vigilant to any shift in trend.

Ivan Menezes (30:23):

We will adjust and we are comfortable with our portfolio. And our route to market, how we go to market and the channels we serve that if we see shifts happening, we want to be the first to spot them and adjust to them, our investment, our focus. So I remain confident that we will steer our way through this effectively. We take a long view. When COVID happened, I mean, our business got dramatically hit. But we said, we're going to do the right things for our people, our brands, our customers and we want to emerge stronger.

Ivan Menezes (31:05):

And as we look at this phase of volatility, it's very much the same view. Our focus is emerging stronger. We will double down our external focus and connection to consumers and watch what happens there, and we want to play offense. We want to stay invested to win market share. And times of turmoil is when strong companies really... It's an opportunity to perform even better and to gain market share and that's very much the mindset we're taking to the current volatility out there.

Hannah Dickinson (31:38):

The comparison with the GFC is interesting. How would you say the business is positioned today relative to that period?

Ivan Menezes (31:46):

Very differently. I mean, I was running our North America business at that time and I would say our portfolio is much stronger and healthier. I mean, we've exited a number of businesses, which would've been drags today, wine business, tail brands in the US and many other parts around the world where we've exited businesses. Our talent and culture, far stronger. I'm really very proud. We just had our top 100 leaders in London for the first time since COVID a few weeks back. And this is an incredible group, 23 nationalities, very diverse in terms of ethnicity and gender diversity and top talent.

Ivan Menezes (32:31):

More than one in four have come from outside Diageo. So that's much stronger. Our data and analytics is much stronger. So we can track and respond much quicker to changes in the external environment. And we are far more strongly invested behind our brands. So the brands are a lot healthier because we've had multiple years of a big step up in marketing investment.

Ivan Menezes (33:02):

So you put that all together and I'd say the company is in a very different place in a much stronger place to navigate through the volatility that we're facing now.

Hannah Dickinson (33:12):

And the data and analytics tool you've talked about, that was a decision that you made several years ago to invest into those tools and we've seen it pay off in your market share gains relative to competitors. So I'm interested to understand what prompted you to make that strategic decision at a time when many of the consumer staples companies that we look at and follow closely were actually pulling back on investment? They were really trying hard to cut costs and improve their margins and you were really taking a different path.

Ivan Menezes (33:47):

Yeah, I'd say it started on the very simple premise, Hannah, that the key to long term value creation in a business like ours where we are a small player in a big and attractive premium drinks business is to be phenomenal brand builders. Really close to the consumer and really understanding how you build brands sustainably. And to do that well, data and analytics is fundamental in terms of getting consumer insights and foresights, monitoring trends, knowing how to every dollar of marketing spend, what you're getting in return.

Ivan Menezes (34:29):

In the days, I grew up in the consumer products business, I mean, we didn't have these tools. It was quite judgemental in terms of you did something last year, you tweaked it next year. And now the level of sophistication we had, and you're quite right, Diageo was ahead of this when we started this journey several years ago.

Ivan Menezes (34:50):

We have tools. Well, this is our names like Catalyst, and Sensor, and Radar, these are proprietary tools that give our marketing communities and our commercial teams incredible data and insight into the decisions they make and supporting them to make good decisions. So the days are long gone where a brand manager comes and says, "You know what? I spent a hundred last year this way. And this year I want 110 and I'm going to spend it this way." It's, "No, show me the case."

Ivan Menezes (35:22):

You've got to come with the analytics to say, "If I want to spend 20% more on Guinness in Nigeria, show me how you're going to spend it and tell me the return you expect." And then we will track the actual results to that. So all that data feeding into this is incredibly rich. It is big data and it has to get... We've got tools of machine learning that helps the analytics get better over time. They get more predictive. And we're on this journey, by the way, but no means arrived. I mean, this never stops. And I'd say we really look at this data and digitization of Diageo as a huge source of competitive strength. And we think we can take it much further.

Hannah Dickinson (36:11):

Another area you've been investing behind is your sustainability and social responsibility agenda. As a spirits manufacturer, you're in a bit of a tricky spot. How do you see Diageo playing a positive role in consumer attitudes towards alcohol and responsible consumption of alcohol?

Ivan Menezes (36:31):

This is a very, very important area of our long term health and future of the company. So I'd say it all starts from a very simple but fundamental approach to the business. And it's the following. I may have used the sentence earlier. Our philosophy is for people who choose to drink, we want them to drink in moderation and drink better. And all those words are carefully chosen. We're not in the business of getting people who don't want to drink, to drink, for people who choose to drink moderation is critical.

Ivan Menezes (37:10):

We have no interest in excessive harmful levels of consumption of alcohol. So what do we do about this? I'd say we take it very seriously. It's ingrained in our culture and our operating approach. Our market shares are trained in how we communicate with our brands to ensure we are... Some of our best campaigns are around responsible consumption of our brands.

Ivan Menezes (37:39):

We work with governments right across the world on areas of whether it's drink driving, underage drinking, excessive drinking, working with governments to reduce alcohol harm. We're investing ourselves as a company and we've set out very ambitious goals through 2030 on what we want to achieve on how we impact the behavior of moderation with alcohol, how we reduce, drink driving, underage drinking. We've got programs that are very creative on having an impact on society. So this is core to who we are.

Ivan Menezes (38:21):

It is not in conflict with value creation for the business. In fact, they go hand in hand. I'm really proud of the way our teams, 28,000 colleagues right across Diageo. I mean, this is what we come into work every day, wanting to make a difference on. It is one of the things I am really proud of the company's culture and how we hope to have an impact on this area of what we call positive drinking.

Ivan Menezes (38:50):

Now, there are two other areas which are really important to us, impact on the planet and Diageo leads in this regard on water and carbon. And finally on inclusion and diversity. Again, the company, this is a real competitive strength. Our journey on diversity, which has been going on for well over a decade, we have an incredibly diverse leadership team and organization. And there's no question in my mind, that's a huge driver of the company's performance.

Hannah Dickinson (39:23):

Ivan, I just have one final question for you. What excites you most about Diageo as you look out over the next five years?

Ivan Menezes (39:33):

As we complete 25 years, December 17th this year, Diageo will be 25, what I'm excited about is the best years are ahead of us. The combination of the marketplace opportunity and I'd say the distinctive advantages of Diageo, which include its culture and talent and how we see the market and our commitment to sustainability, positive drinking, while being incredibly imaginative brand builders, I see a lot of exciting growth ahead. We are a business that has to plan not just for five years, we got a plan for 10, 20, 30 years.

Ivan Menezes (40:17):

We are making those decisions. We've just in the process of opening a pristine single malt distillery in Hunan Province in China. Now, that's not going to pay out for decades. We're reopening some beautiful distilleries in Scotland, which will also take couple of decades before you see a meaningful return. So I look to the next five, 10, 20 years and say this is a company that needs to stay sharp, restless, never get complacent, and has the opportunity to be a truly exciting compounder and one that can deliver very good returns and create a really terrific magnet for talent. And that's what I look forward to.

Host (41:04):

That was Ivan Menezes, the chief executive of Diageo speaking there with Magellan's head of consumer franchises, Hannah Dickinson. We trust you've enjoyed this episode of Magellan In The Know. Join us in a month's time for the next episode. For more information on upcoming episodes, visit magellangroup.com.au/podcast where you can also sign up to receive our regular investment insights program. Thanks for listening.