Diageo Preliminary Results 2023 Q&A Call Transcript

Tuesday, 1st August 2023

Debra Crew

CEO, Diageo

Good morning, and thank you for joining our Preliminary Results Call for Fiscal 23. I'm Debra Crew, CEO of Diageo. Fiscal 23 is the first time I'm presenting results as the CEO of Diageo. I was appointed in early June, taking over from our much loved and respected former CEO, Sir Ivan Menezes. I hope you had a chance to read our fiscal 23 results press release and watch our presentation on diageo.com. I'm pleased to share that we delivered a strong performance in fiscal 23, organic net sales growth of 6.5% and organic operating profit growth of 7%. Both are within our medium term guidance. We expanded organic operating margin by 15 basis points in a challenging cost environment while continuing to invest in the business. Our culture of everyday efficiency and strong pipeline of productivity initiatives drove 450 million pounds of savings in fiscal 23 and is fuelling sustained investment in brand building and future growth.

Our business is now 35% bigger on a constant net sales value basis compared to fiscal 19. Globally, we have gained or held share in 70% of total net sales values in our measured markets in fiscal 23, and I am comfortable with overall inventory levels at the end of fiscal 23, both globally and in the US market.

Looking ahead to fiscal 24, I expect operating environment challenges to persist with continued cost pressure and ongoing geopolitical and macroeconomic uncertainty. We expect organic net sales growth and organic operating profit growth in fiscal 24 to improve from the second half of fiscal 23 and accelerate gradually through fiscal 24. Over the medium term, we expect to consistently grow organic net sales between 5% to 7% and deliver sustainable organic operating profit growth in the range of 6% to 9%.

Thank you.

Q&A

Operator: Thank you. If you would like to ask a question, please press star, followed by one on your telephone keypad. If you choose to withdraw a question, please press star followed by two. When preparing to ask your question, please ensure your phone is unmuted locally. And our first question today, go to Celine Pannuti of JP Morgan. Celine, please go ahead. Your line is open.

Celine (JP Morgan): Good morning everyone, good morning, Debra. Thanks for taking my question. My first question would be on the outlook that you just spelled out. If I think about the top line, you talk about macro uncertainties. Can you talk about the US market more specifically, what kind of underlying market growth you've seen so far, and what are you baking as you look into the next 12 months?

And if it would be as well, if you could tell us about how volumes and price mix have been shaping up in this market and how you intend to, to gain share there.

And then my second question is on the gross margin. You talk about cost pressure challenges. Can you talk about what kind of cost pressure you still expect to see in 2024? I saw that your gross margin was under pressure in 23. Can you talk about the potential for upside in 24, especially we heard that organic cost also coming down. So if you could put all these together in order to understand the moving path for gross margin in 24. Thank you.

Debra Crew: Thanks, Celine. I'll take the first one on the US market, and then Lavanya, if you can take the second one on gross margins.

Look on the US market, as we talked about in the presentation, the fiscal 23 results, it's from a NSV, it's really a story about the supply chain normalisation. But the underlying consumer, which I think is really kind of getting to your point, the underlying consumer, we're actually seeing a lot of resilience. If you step back and you look at the industry, from an industry perspective, we are seeing it return to kind of mid-single digits, which we had projected it would, and we are seeing that that it is. And we're pleased to see that that is, is getting better over time.

So, from the fundamentals, we still feel very good. The spirits industry is still gaining from beer and wine, which we feel very good about as well. We're still premiumising as an industry. What's driving this growth is really at the super premium plus price point. So that's really driving, frankly, almost all the growth. We do see at the luxury end some moderation of growth there, but that's a very small part of our portfolio. We also see, if you look at mainstream and below, that's really where you're seeing a lot of the pressure. We are seeing consumers do kind of smart shopping. But fortunately for us, we've got a broad portfolio across a range of price points. So, we're feeling like we can navigate that as we go forward.

You asked about gaining share. I think what happened, if you take a look at what happened to us this year, there's really two places where we have not performed the way we have wanted to. First on RTD, which we talked about during the presentation. You know, this is the segment, it’s the fastest growing segment right now of spirits. And you know, in this emerging area, the last couple of years we were out early with it and we performed quite well, and we're gaining share. This year our innovation has not hit at the same rate, but we know what we need to do, and we feel like we've got the right pipeline going forward on that. I will also add, this is an area of spirits that's largely sourcing from people whom are trading up from seltzers and from multi beverages. So, we see that going forward really as an opportunity.

The second area is on Crown. While we did gain share in Canadian whiskey, we did not gain share of total beverage alcohol with Crown. And that's a big brand. It's important for us. Once again, this is a brand that was really impacted. One of the places we had the most shortages was on Crown. It's also the area where from a supply chain normalisation, the results that you see on Crown from a net sales, actually our depletions and consumption is much better than what that shows on there. That being said, we still think we have opportunity with Crown. We're now able to innovate on the brand. So that will come through the year. We've also got some really strong marketing plans as well coming back. So those are really the two share hotspots.

I will add, though, we have a lot of really great performance in share as well with tequila. We're feeling good also that we won a category share in scotch and in American whiskey; Bulleit is having a great year. So, overall we feel like we've got still the tools and the portfolio to do it. We just need to get back on our innovation game in a couple of areas.

Lavanya, you want to take on the gross margin question?

Lavanya Chandrashekar: Sure. Thanks Debra. So, Celine on gross margin on cost pressures that we are seeing in fiscal 23, we saw inflation pick up from like the high single digits all the way to the low double digits. And the single biggest exposure we have from a cost perspective is energy costs. And that impacts us through the entire supply chain, all the way from serial pricing that's impacted by the cost of fertilisers going up through to glass and you know, logistics, our own distillation costs, also have a high exposure to energy. So, that's what we've seen happen.

Now as we go into fiscal 24, what we are seeing on inflation is it is moderating, not necessarily coming down but moderating, I'll come back and talk in a minute about agave specifically, but we have multiple levers to help offset inflation. We have premiumisation is a good driver of margin because premium products tend to be – the more premium products tend to have higher margins. Revenue growth management is another area that we use to help offset inflation with both in terms of headline pricing, but also trade spend optimisation, managing mix.

Productivity, I'm really proud of the work we've done from a productivity perspective this year where productivity picked up from historic average of about 400 million pounds a year to about 450 million pounds a year. And so – and as well as volume growth, I mean, spirits volumes were flat this year. But if you kind of exclude the impact of the lapping of the repipelining in the US, spirits volume would have been up 1%. So, all of this helps us to offset inflation.

Coming back to your question very specifically about agave, we are seeing agave prices moderate again. There's two things that I say about this. One is more than half of our tequila is aged liquid. So there's a phenomena here where the benefits of agave prices coming down will be a little more delayed on our portfolio because of that ageing.

And then the other thing I'd say is that we have a mixed model to how we procure agave. I mean, we produce some of it ourselves. We grow some of it ourselves, so it's owned. We contract with farmers to grow on our behalf, and then we buy some on the spot markets. So, all of these do play into what we expect to see with agave prices. But if you look at planting data that the Mexican government puts out, you know, we do expect, you know, supply to increase over the next few years. And so, with that, prices should be coming down.

Debra Crew: Thank you.

Operator: Thank you. And the next question, goes to Trevor Stirling of Bernstein. Trevor, please go ahead. Your line is open.

Trevor (Bernstein): Thank you very much. Big question Debra, Lavanya is concerning guidance but great that you reiterate medium term guidance, but I'm trying to put a sense of where fiscal year 24 would fit into that. So, if fiscal year 23 ended on 3% in the second half, if the first half of fiscal 24 should be a little bit better, because you don't have the SJF destocking and the comps from the US a little bit easier, so that might be edging towards four. And the second half of fiscal 24, you lapse that SJF comp, so that should better second half, as you say, should be better than the first, that has me somewhere around the low end of the medium term guidance. Now, I appreciate you're not going to give a number today, but is that the right way, directionally to think about things?

Debra Crew: Lavanya, you want to address this?

Lavanya Chandrashekar: Yes, sure. So Trevor, I'll start by kind of reiterating what you just ended on, which is that we are not giving any guidance. And maybe stepping back a minute you know, the reason we don't give in year guidance is because we run the business for the medium to long term. And there's still quite a lot of volatility out there in the marketplace and we're going to do what's right for the business and we are going to continue to invest in the business, we see substantial resilience in the consumer and the category as Debra laid out. And we are very confident about our medium term guidance of 5% to 7% on the top line and operating profit growing slightly ahead at 6% to 9%.

Now having said that, you know what, what we wanted to do was to be as helpful as possible for the short term in year guidance. And so, we just wanted to point out the fact that this year has continued to be a lumpy year. Fiscal 23 has continued to be a lumpy year as the last two years have been. And so just from a lapping perspective, the comps are easier on the second half of the year than for fiscal 24, than they will be in the first half of the year. So, I'll leave it at that. And you know, we are focused on making sure that we drive the business in the right way, that we gain share of total beverage alcohol across markets, that we drive the productivity that we need to be driving to continue to reinvest in A&P behind our brands.

Trevor: Thank you very much, Lavanya. And if I could ask just one follow up. The one region where it seemed to have the biggest swing in growth rates between H1 and H2 was LatAm from sort of roughly 20% growth in the first half to a small decline in the second half. Maybe we could just comment a little bit on what drove that big deceleration in Latin America.

Debra Crew: Yeah, I'll go ahead and, take that. And then Lavanya if you want to add anything to it. You know, certainly we were impacted by timing. If you think about the live events that were going to happen in quite early in the second half, things like Carnival in Brazil etc, we did have certainly some shipment timing that landed in half one for half two, that certainly did impact. And we do continue to see you know, a more sensitive environment for consumer pricing in Latin America. But I do think, look, overall, we still feel very good about our performance in Latin America. Remember, this is a business that that is [62]% bigger than what it was, you know, prior to going into Covid. So, we've clipped along even considering this year with some shipment timing, things happening; you know, it's still a 15% CAGR. So pretty incredible and also really nice you know, margin growth as well. I think the margins have doubled, looking at Lavanya, and she is nodding. And the margins have doubled in Latin America during that time. So, you know, we still feel good about the overall health there. And we are still seeing premiumisation from the consumer in Latin America, albeit it certainly is you know, an environment where consumers are kind of more sensitive to price.

Trevor: Thank you very much, Debra.

Operator: Thank you. And the next question goes to , Edward Mundy of Jefferies. Edward, please go ahead. Your line is open.

Ed (Jefferies): Morning Debra. Morning Lavanya. I've got a couple of questions on tequila please. The first is on the US on Don Julio and Casamigos, which saw a bit of a moderation in the second half, looks like Casamigos sales was sort of flattish and Don Julio down to the sort of low single digit after quite a strong first half. Are you able to sort of provide a bit more colour as to sort of why that happened is the first question.

And the second is you've got some great, you know, tools to read the consumer, you talked about Radar on that part, you've got great social listening tools. Are you seeing any evidence of downtrading from sort of the premium and towards the more mainstream level? Is the second question.

And, the third question is about the international opportunity you know, for tequila. I think you mentioned it drove 10% of European growth, and in which market do you really seeing it within Europe and which of the other markets outside of Europe and the US where you're starting to see some early signs of tequila adoption?

Debra Crew: Yeah, I'll take that, Ed. So I think look, starting with Don Julio and Casamigos in the US, I mean, remember this is a bit of a law of large numbers in many ways because certainly we're still seeing very strong growth on both brands. You know, I, and look super premium tequila has always been growing as well. So, what, what you really see within tequila is you see super premium tequila and you see kind of what we would call ultra-premium tequila. So, take it from a kind of a $40 range up to a $100 range, that is all growing very fast, and that is really what's driving the growth. At the lower end, kind of the, the more mixto tequila, that is not growing as fast. And that has been pretty priced, much more price sensitive and promotion sensitive.

And then at the luxury end, I mentioned this earlier, at the luxury end, we are seeing moderating of growth there. That's not surprising to us. We always have known that a lot of that is aspirational consumption. So still growing, but just not at the same rate.

So, we're still feeling very good about Don Julio and Casamigos. I think when you look at sort of the second half versus the first half, I do think there's quite a bit of noise in that data. We've got you know, a lot of on-premise, which is not in track, is really where a lot of the tequila growth is still growing quite strongly. So we feel really good. And of course, we do have some innovation for the first time ever coming on Casamigos. We know that that's going to be exciting for consumers to see some new innovation.

You mentioned Demand Radar. Yes, we are closely, and we are using all of these tools. We're just not seeing things go from premium to mainstream. Like I said, you certainly are seeing some heat and kind of that, that super premium plus tequila as well as ultra, but we're not seeing kind of a premium to mainstream you know, slide really anywhere. And then on international tequila, look, I mean we see this across multiple kind of big cities, that high energy occasion. You know, this is really where particularly 1942. We also are seeing from a global, from a tourism standpoint, and a lot of these big tourist hotspots, we're seeing you know, great growth. So, you think about like Southern Europe for us, Greece, so that's Italy, Spain. And then, I don't know if you've had a Paloma yet, Ed, but if you haven't, I think on the cocktail side, we're really seeing internationally things like the Paloma cocktail really driving a lot of excitement for us.

Ed: Very good. Thanks Debra.

Operator: Thank you. And the next question goes to Sanjeet Aujla of Credit Suisse Sanjeet, please go ahead. Your line is open.

Sanjeet: Hi, Debra, Lavanya, two from me, please. You, you very helpfully give us a bit of context on your US distributor levels, but can you just talk about the retailer inventory situation that you see it? And against that backdrop, would you expect depletions and shipments for your US spirits business to be more closely aligned in fiscal 24?

Debra Crew: Yeah, I'll take the first one and then Lavanya, if you want to talk about depletions and ships. You know, so on retailer-wise, I mean we certainly did see a difference in depletions in the second half versus what we were seeing in the tracked channels on Nielsen and NABCA. You know, that being said, that – a lot of that, that – that's fairly noisy data as well, because if you think about last year's environment, last year there were a lot of price increases sort of coming in. And so, for retailers it would've been a very smart decision to sort of buy early, and once again, creating this lumpy data, we keep talking about lumpy data, but it would've created that within the retailer inventory levels as well.

So, look, we took price increases last year. We took big ones in the spring, and we also took another one August 1st. So, you know, that might explain some lumps certainly within our data. But at this point I wouldn't signal really anything else on what we're seeing on retailer data – kind of inventory levels other than that. Lavanya?

Lavanya Chandrashekar: Yeah. So, Sanjeet, depletes and ships, look as we laid out, we ended fiscal 23 with very healthy levels of distributor inventory back to pre-covid levels. And we are we are very comfortable with where those inventory levels ended. If you go back and look at history, like even before covid, there was always small variations between depletes and ships. I mean, it's never a perfect size. We run the business from a sellout with the sellout culture, really paying more attention to depletions. And, you know, I would expect minor ups and downs to continue to exist as they did in the past. Although I'd say that versus the last couple of years, I mean, things have normalised here going forward. So, I think that that's probably the best read we have today.

Sanjeet: Great. And thanks for that. And just one quick follow up on just coming back to US tequila. When we look at Nielsen NABCA, it does seem like your share within the category has slowed a little bit. So, can you just give us a little bit of context behind that and how you see that evolving over the next 12 months?

Debra Crew: Yeah, I think, look, we have led you know, pricing within the tequila industry and we are looking out for the long-term health of tequila. And so, we're not going to chase any more share than what we kind of think is, is a sustainable share within that. But we do, like I said, we feel overall very good about both brands and the health of both brands. We have always had higher shares on the aged variances of tequila, and those continue to perform very, very well with consumers a little less promotional-driven versus Blanco.

Sanjeet: Great. Thank you.

Operator: Thank you. And the next question goes to Simon Hales[?] of Citi. Simon, please go ahead. Your line is open.

Simon (Citi): Brilliant. Thank you. Morning Debra, and Morning Lavanya. So just a, a couple from me. Can I just sort of go back to the, the commentary on inventory levels? I mean, Debra, you talked about you're comfortable globally with where inventory levels are sitting at the end of the year. I think it's in Latin America, you referenced in the statement there was a little bit of inventory normalisation in the second half of the year. That obviously explains some of that slowdown in organic sales growth that sort of Trevor referenced in his question.

Is that the stocking, if you like, in Latin America now complete? So that's my first question. Is there anything else in other regions outside the US we should be aware of as we go into sort of H1?

Debra Crew: Yeah, so I think look, we do feel comfortable overall. We do have – there are a couple places, one of them you mentioned in – you know, within Latin America, Brazil still a sitting you know, higher than usual inventory. But, but outside of that, Latin America, I think largely you know – I'll just reiterate overall we feel good. Every once in a while you'll get in a market you know, a little bit of extra inventory and mostly because you, you – returning to live events for Covid we were expecting big things there. And while it materialised, just didn't materialise to the level of which the, the team originally thought. But once again, we feel great about our Brazilian business, it's going really strong.

And you know, by the way, the other thing just to mention on, on Brazil, it is a long supply chain because it's mostly for us a scotch market. So you know, it is the type of thing where you have to plan these things months in advance. But like I said, the team there is quite confident that this is inventory that, that they can move it's great inventory. So, I wouldn't say anything probably beyond that.

Simon: Okay. That, that's very helpful. And, and, and secondly, can I just come back to the, the US market sort of more generally? I mean, you, you, you referenced in your presentation the fact that you under-index as a business in RTDs. Clearly there's a lot of pre-prepared cocktail growth in the US that you are, you haven't got access to at the moment. When you look at the, the, the size of the addressable market for you in the US at the moment, given that you underplay in the RTD area, what do you think the growth rate is really of the US market on a go forward basis?

Debra Crew: Yeah, I mean, I'll start with saying, I actually, we're, we're a pretty decent player in RTDs. It's just the spirit based RTD. So if you think back, we've been in the Smirnoff Ice business for 20 years. So and actually Smirnoff Ice continues to be great and, and has nice growth rate continuously through that. You know, there are times where it, it has been bigger and smaller, but we do know how to run that, that RTD business. We really don't play much in seltzers outside of we've got Lone River, but you know, that's a very specific kind of agave you know, kind of background seltzer. So that we do have a broad portfolio and we do see that moving up into spirits.

I think what we have said is that we want to play selectively, we want to play where it's premium, we want to play where it will grow the category, we want to play where it will, will ultimately help our brands. Because when you think about LDA Plus kind of coming in to, to TBA today for them to come in through an RTD spirit, that that just leads them right into cocktails, which is right into where, where we want to play. We also have some very nice other convenience plays that we're very excited about, things like our Bullet ready to serve which is a really high quality you know, old fashioned in Manhattan. So these really high quality serves, and we're feeling really great about that innovation. So we broadly think that convenience is important and we can play in it. We are just going to play in it at the premium end. The good news is, is the consumer is premiumising. They are coming up from seltzers and from FMBs into RTD kind of spirits. And so you know, people will are developing this taste for better quality in this space. And that is, that is right on the bullseye for where we want to play.

You know, as far as, look, it is still a small part of overall TBA I think, you know, even taking into account, I think that beer kind of what in the beer space, the beyond beer space, you know, it is still a, a smaller player. So – and you know, we look at this, we're a total TBA player you know, we're not, we're not trying to, to carve up shares into too many different segments.

Simon: And, and if I could just squeeze in one quick final one. You know, you delivered 450 million pounds worth of productivity savings in 2023. How do we think about the size of that savings opportunity in 2024? Clearly, you've got the final year of productivity programme benefits, and maybe some early benefits coming from the supply chain agility programme. Should we be expected to see more than 450 million of benefits this year?

Debra Crew: Lavanya, you want to go?

Lavanya Chandrashekar: Yeah, thanks Debra. So, yeah, no, we are very proud of the work that the entire organisation has done on driving productivity in fiscal 23 up from our historic levels of about 400 million pounds to 450, as you said. Going forward, look, I do expect that we will achieve and overachieve on the 1.2 billion of productivity that we guided to two years ago. So, this is our third and last year of that programme. But you know, for us, productivity is very much something that we work on across the board. The supply agility programme will be in addition to the 1.2 billion of productivity that we had guided to. I'd expect to see some small benefit of that starting to flow through in fiscal 24. You know, the vast majority of that is really going to come fiscal 25 and beyond. So, I don't think that's going to be a very large contributor in 24 itself. But we will continue to work on manufacturing productivity. A lot of the work that we do on sustainability drives productivity, like being more efficient in our usage of water and energy, you know, the decarbonization work that we have done. Even as an example, I think you guys saw when you were up there in Scotland that now we do have the ability to run that factory partially on solar power. And so, all of that definitely helps contribute to productivity as well.

Simon: That's very helpful, Lavanya. Thank you so much both.

Debra Crew: Thank you.

Operator: Thank you. And the next question goes to Mitch Collett of Deutsche Bank. Mitch, please go ahead. Your line is open.

Mitch (Deutsche Bank): Morning, Debra. Morning Lavanya. I've got three questions please. First, just to go back to the US shipments, depletions inventory question again. This year, your shipment growth lagged depletions by two percentage points. Last year, shipment growth exceeded depletions by 300 basis points or three percentage points. And then F21 shipment growth exceeded depletion growth by five percentage points. I don't think you disclosed it in F20, but can you confirm that the absolute level in US dollars of shipments match depletions in F23, and therefore we should expect shipments and depletion growth to be broadly aligned in F24? Apologies for the long-winded first question.

Second question, you said that you gained or held share in 70% of your end markets, can you split that into gained and held?

And then thirdly, you show that you are broadly flat in terms of market share of TBA in the US. I guess that means that you are losing share of spirits. Is holding share of TBA, but losing share of spirits something you're comfortable with in the US? And if not, what can you do to fix that, given that you've already significantly stepped up marketing investment within the market? Thank you.

Debra Crew: I think Lavanya, if you want to take the, the first one on the shipment.

Lavanya Chandrashekar: Yeah, so, Mitch, I think, in Debra's presentation today, we added a slide in that we haven't historically had in the, in our traditional results deck, but addressing this question of distributor inventory levels because there's been quite a bit of noise around this topic. And, but what I point to over there is in – because at the end of the, reconciliation between ships and depletes in distributor inventory levels. Distributor inventory levels started fiscal 23 broadly in line with historic levels and ended fiscal 23 at a very comfortable place, very much in line with historic pre covid levels of inventory. Okay. So, what you had from a ships and depletions perspective, I mean, if you go back to fiscal 20, you saw the big reduction in distributor inventory levels. We run this business very much with the sellout perspective. If you go back to June 2020, height of covid, no one knew when markets were going to reopen, what the shipments, what the depletions rates were going to be. And so, we were very responsible and pulled down distributor inventory levels. And as it turned out, the category performed quite well, and the consumers were extremely resilient in the off trade. That last drink that was being had in the on trade came home. Cocktails were being made on Zoom calls all over the country as way more exciting to make cocktails at home than baked sourdough bread. And so that further accelerated the reduction in days inventory from a distributor's perspective. Where we ended 23, we are very comfortable with inventory levels. I expect ships and depletes to move more in line with each other as they've historically done. There's always been fluctuations. I'll say that again, there will be minor fluctuations, but it's far more normalised than it has been over the last three years.

Debra Crew: And then your, question on the 70% of markets holding or gaining share. The big one that's holding share is the US, which is why we kind of drew that out also on a slide in the presentation to, to really talk about. Look, within that being flat, absolutely we did gain on beer. But we did lose on spirits. And I think I've talked about a couple of the areas that are the hotspots, that in prior years were helped for us that this year were not. And this RTD, which I've talked a little bit about, our plans there, we do have plans but we are going to play very selectively there and really play in the right places where it most compliments our business versus playing at the low undifferentiated, you know, kind of heavily promoted area that's not of interest to us.

You know, we always measure ourselves on quality market share, and so that's really important. It's not we’re – we're not interested in sort of the short term sort of hits. And that – so that's RTDs is a big part. And then, look, Crown, I mean, within whiskey, we're the biggest whiskey player. You know, in the US our North American whiskey portfolio is you know, is bigger than rum and, and vodka combined. And so, for Crown, it's really important for us to get that business you know, back in a place where we can innovate. Again, this was a business that we were short; we were short on liquid, we couldn't do it. Historically, if you look at things like Crown Apple, Crown Peach, this has driven a lot of incremental consumers into Crown. This is not like the, the vodka flavours. These flavours on Crown have really brought in new consumers in new geographies in the country. So missing out on that innovation has been a big deal for us. So to be able to get back to it, we're very excited about. And to your point, we have been spending on A&P. We're very thoughtful about how we spend that, that A&P. We always make sure that we look at every event that we do to make sure that we get a return for it. So within that, we feel like we do have the A&P to go do what we need to do and get back to a share winning place in TBA sustainably. Thank you.

Mitch: Thanks, Debra. If I could just come back to Lavanya on that slide 13. I mean, it doesn't have an access, you don't have a scale. Could you perhaps give the days of stock, days of sales inventory that it shows at the end of June and just confirm that that's based on a prediction of 12 month forward sales?

Lavanya Chandrashekar: So I'm not going to give a number on the days of inventory that we have. We have visibility to it on a daily basis with our largest distributors. We measure, we run our business, as I said, on a sellout culture. And it's pretty much a replenishment model into distributors where we it didn't happen for the last couple of years because we didn't have product. But otherwise, that's how we run the business. And we calculate days as a forward cover basis. And it is based on normalised category growth rate predictions.

So we, just to add a little bit more here, we treat our review of distributor inventories and stock and trade in general very seriously. We have what we call the Finance Assurance Committee. Debra and I lead that. We meet three times a year. And one of the things that we review through that process is are this – is stock and trade levels. I mean, we have auditors present on that. We share this report with the board of directors and the audit committee. So, this is something that we – our sellout culture is really something that we take incredibly seriously.

Debra Crew: And we've been doing that for a decade.

Lavanya Chandrashekar: Decade, yeah. And so I – you know I know there's all sorts of other wholesale inventory level data out there, but that's why we wanted to provide, you know, confidence that we are running this business the right way.

Mitch: Okay. Thank you both for taking the question.

Debra Crew: Thank you.

Operator: Thank you. And the next question, go to Andrea Pistacchi of Bank of America. Andrea, please go ahead. Your line is open.

Andrea (BofA): Thank you. Yes, I have a couple please. On Crown Royal, you said that you are now in the position to step up innovation. So along what axis are you thinking of innovation for Crown Royal? Is it flavours? Is it limited additions or anything different?

The second question is on pricing, mainly in the US market. So for many years there's been little pricing in the US markets, but in the last 18 months, there's clearly been a lot, a lot more because of the cost pressure. So, looking forward, how do you think about for Diageo the balance between volume and maintaining or gaining the sort of share of, of TBA versus pricing and margins in the, in the US market?

And then lastly, if I may, on agave, going back to agave, agave price is coming down is clearly very beneficial to margins medium term, even if it, you're saying it may be a little delayed for you because of the ageing. How do you think about the possibility that more and cheaper agave availability could affect the pricing environment in tequila? Or is this maybe a risk if it is a risk more at lower price points?

Debra Crew: I'll take the, the first one and then Lavanya, if you want to look at the pricing in agave prices. So look on Crown Royal, everything we do on innovation, it is about recruiting incremental consumers. This comes back to, this isn't sort of the, the something just to drive news. This is about really bringing in new consumers. And on Crown, I mean, part of what's enabled us, I should have mentioned we've got a good capex investment in Canada that we've put in, in a carbon neutral distillery, that's going to enable us to have the liquid that we need to get the growth that we need. You know, what we just didn't anticipate was the huge uptick that Covid brought with it. And, of course, with any whiskey you have to know years in advance. So, we just simply ran short.

You know, that being said, like I said, it is about recruit. I'm not going to for competitive reasons, I'm not going to get too into what's coming, but promise that you'll be able to taste it when we launch it. Lavanya.

Lavanya Chandrashekar: Yeah. Pricing. Look, our objective on price is always you know to treat it as one of the multiple levers that we have. You know, a price really plays on two fronts. One is it is definitely one of the levers that we have to offset inflation, but there we also have premiumisation, productivity, volume growth; these are also other levers that we have. And then the second is price is also a lever within the marketing mix. And it helps to you know drive equity of the brand in especially in the higher price points and the super-premium kind of price points. Price sometimes is an indicator of quality as well.

Our objective on pricing is to make sure that it's very balanced. And our – you know, price in itself is not an objective for us. You know, building strong brands for the long-term future is the objective. And as we do that, price is one of the things that we look at, but equally, we want to be driving premiumisation, we want to be driving volume growth. And if you look at volume in the year, while our volume for the fiscal was down about a point, all of that was really a reduction in volume in Africa Beer. And you know, macroeconomic conditions have been tough in Africa, high, you know, inflation as well as devaluation. We run that business in an extremely responsible manner. And so we took price and we lost some volume there. Spirits volume was flat. If you adjust for the lapping effect, spirits volume would have actually been up 1% point. So we do feel good about the balance that we have between volume, price, and mix. I do expect that as inflation moderates, pricing will also moderate as we go forward over here.

In terms of agave prices, look, as I said before, we do expect that they will come down here in the future as supply increases. Do I see that posing a price risk? Perhaps at the lower end of the price point, I mean, the one thing you have to remember is if you go to a big retail outlet, liquor outlet in the US, like what you find is a very, very long shelf of tequila products even today. And there's a lot of competitors on that shelf. They've been there for a really long period of time, it's not new. So competition has always been very much a part of the tequila shelf. But the brands that have done well, like our brands, Don Julio, and Casamigos have done well because they have been outstanding from a marketing perspective and outstanding at brand building. And this is not a price-sensitive category in general. I mean, spirits in general is not price sensitive. It's, it's usually the total spend for an average US household is still only about $360 a year. It's an infrequently shopped category. It's mostly consumed in special occasions. And what you're seeing drinking or what you're seeing serving people does say a lot about you. So I don't expect that this is – the agave cost coming down is going to lead to some kind of a massive price, you know, sensitive environment here.

Andrea: Indeed. Thanks very much.

Debra Crew: Thank you.

Operator: Thank you. And the next question goes to Sarah Simon of Morgan Stanley. Sarah, please go ahead. Your line is open.

Sarah (Morgan Stanley): Yeah. Morning, I've got two questions. First one was on marketing. You've talked about more innovation coming on ready to drink and more supply coming on for Crown. How should we think about marketing as a percentage of revenues I guess globally as we head into fiscal 24?

And then the second one was just back to, I apologise, back to the inventory question. You said it's based on the sort of ratio of inventory levels to what you expect in terms of daily revenues. Can you give us a sense for what kind of growth you are assuming in terms of daily revenues, in terms of year on year growth, so we can just get a feel for what's behind that decline in the ratio? Thanks.

Debra Crew: So I'll take the first one. So on, look, on marketing, we don't move to sort of a – we're not wedded to a certain rate of return, you know, on marketing, we do what we need to do for the business, and if something is not working, we don't spend it. And so we're not managing to a specific number there. And so we do feel like we are – we do have good levels and we have been investing in places where we see opportunity. We measure all of that marketing and where we see more opportunity, we spend it; where we don't or where it's not working, we move that money. So you know, that's, that's kind of what I've got on that.

Yeah, Lavanya, you want to take the other questions?

Lavanya Chandrashekar: So, I'm not going to give, sorry, guidance for, you know, what our short term, you know, growth rate assumptions are going to be for the US, or for any other market for, for that matter. But rest assured, you know, what we use to calculate those days forward cover is very realistic growth rates based on recent historic actuals and you know, trends. I mean, like, it's, it's well. We do all the good stuff that you would expect a company that runs a very, you know, disciplined business to do.

Debra Crew: Thank you. Thanks.

Operator: Thank you. And the next question goes to Chris Pitcher of Redburn . Chris, please go ahead. Your line is open.

Chris (Redburn): Thanks very much. Good morning, Debra, Lavanya. A couple of questions in Africa, please. You mentioned that volumes have been weak in Africa, but, your performance in Nigeria certainly seems to have held up better than many of your competitors. And judging on the commentary, it looks to have been led by beer. Can you give a bit more colour on what's helped your performance in Nigeria, given all the macro pressures on the consumer?

And then more broadly on your strategy in Africa, there's been a lot going on. You've sold entire businesses, you've sold breweries, you've increased [inaudible]. Are you happy with your footprint as it is in Africa right now? And, and could you share any plans you might have across the continent to help protect share, given some potential new entrants, especially in important profit pools like Kenya? Thanks,

Debra Crew: Lavanya, if you want to take the, the first question, I'll take the second one.

Lavanya Chandrashekar: Yeah. So look, very proud of the work that the team has done in Nigeria through 11%. We took price. We are not the biggest player in beer in Nigeria, but but you know, Guinness is an extremely differentiated brand. And we did take price there and managed to hold the business. The spirits business is doing well in Nigeria as well, gin up [48]% in Nigeria, [6% in Africa region]. And you know, overall, we are quite pleased with our performance over there. You know, did I say Africa footprint is the second part of the question?

Debra Crew: Yeah, I'll take that one. I mean, I think look, we are seeing a kind of political and government instability in multiple markets. I am quite proud of the team and how they perform, because to your point, I think you know, ultimately at the end of the day, they delivered a good set of results and very difficult circumstances in several markets. What we are still seeing is sort of Guinness is doing better than a lot of local beer. We are seeing international spirits do better than a lot of local spirits. So that's still a good sign for our business and that we're still getting, you know, along with pricing, we are getting a good mix as well into the region.

And I mean, look, we you know, you mentioned sort of Cameroon. I mean, we try to run Guinness with a very asset light mentality. So if there is a place where we see that somebody else can do it more efficiently, you know, on those assets, we look at that to make sure. So we are always looking to optimise the business where it makes sense. But we feel very good about what we were able to do in Africa this year overall considering the circumstances.

Debra Crew: Thanks.

Operator: Thank you. And the next question goes to Laurence Whyatt, of Barclays Lawrence, please go ahead. Your line is open.

Laurence (Barclays): Hi, morning, Debra Lavanya. Thanks very much for taking the question. A couple of geographies from me that we haven't touched on yet. Europe was one of your double-digit growth markets in the year, and I think it was the only market that accelerated in the second half. A number of markets did double digit growth. And I was wondering, do you see any of this growth as sustainable? Is there anything in particular that was driving this level of growth this year that you don't see repeating next year?

And then secondly, India has now actually quite sustainably driven mid-teens, high teens growth. I think it was 17% this year. Presumably as a result of disposing of a number of your lower end brands and franchising out a number of the brands, you would expect the growth rate of India to have accelerated. Do you think this sort of mid-teens, high teens growth is now sustainable? Thank you.

Debra Crew: Thanks Laurence, and thanks for your question on our some of our best performing markets here. So yeah, look, Europe had a great year, net sales up 11%. And I mean we really are seeing pretty broad scale. You know, GB is a little bit weaker you know, on the spirit side, but on Guinness is, growing double digits super strong; but really across our Europe geography, you know, aside from the industry, we're really gaining share. And so you know, that's really some of the things that really helped us. We're seeing particular strength in scotch. We're seeing premiumisation, we're seeing tourism bounce back in Southern Europe. You know, our non-alch portfolio also continues to grow. You know, we're still seeing on trade – I think we're saying is, a 92% of pre pandemic, so there's still maybe even a little opportunity there. So, we're seeing Europe mostly as this is a really solid performance and it's not sort of a bunch of one-offs. So that's really great performance out of Europe. And to your point, it did accelerate in the second half, by the way, Johnnie Walker up 28% in the market. So just really, really impressive Guinness up 20%. So very exciting.

Look, on the India front and Lavanya, I feel – I was going to say, oh, go ahead and –

Lavanya Chandrashekar: Yeah, I can take that. Yeah. So India, look I think, Laurence, it's been 17% growth. The premium and above grew 20%. The super premium plus grew 32%. You know, Johnnie Walker grew 34% in India with a volume growth of 13%. So we were able to take strong price in India, which is not something that we've been able to historically do on a very regular basis. But the team did an excellent job of being able to get that. And within Johnnie Walker, Johnnie Walker Black, which is the core of the portfolio in India, grew 54%. I mean, this is a whisky market, right? I mean, unlike a lot of other emerging markets, the Indian consumer does not need an introduction to whisky, and they do not need an introduction to Johnnie Walker. I mean, it's a highly aspirational brand. And the consumer in India is very resilient. And our portfolio in that premium, that super premium and above is unmatched in India. And so I feel very confident about our prospects in India.

Debra Crew: And I do think I'll just add from a consumer standpoint, this is a consumer that is quite confident. We're seeing from a premiumisation, you know, our mid and upper prestige is growing. Scotch is growing faster than kind of the local Indian whisky. So – and we won share. So this is another one where the sustainability of this growth you know, looks really good.

Lawrence: That's all really clear. Thank you very much.

Debra Crew: Thank you.

Operator: Thank you. And our final question today goes through Jeff Stent of BNP Paribas. Jeff, please go ahead. Your line is open.

Jeff (BNP Paribas): Good morning. Just a quick question Debra you know, it's early days as CEO, you've got a CMD scheduled for November, but I wondered if you could share some high level thoughts on – are there any subtleties as to how you maybe want to sort of shift direction of Diageo? Is there anything you're thinking about accelerating or decelerating? Just any sort of high-level colour you could give us would be very helpful. Thank you.

Debra Crew: Yeah, thanks. Look, I'm seeing this more as an evolution than a revolution at this point. I've been at the company now, if you include my non-exec time, about four years. So you know, certainly a lot of the strategy already has my fingerprints on it. You know, that being said, we did highlight a couple things in the presentation. You know, we are looking at taking tequila around the world. We've done that with so many brands going back all the way to Johnnie Walker. As the largest tequila company in value already with really being present in only a couple markets, that just feels like a big opportunity. Talking about also just continuing this juggernaut we have with Johnnie Walker. I mean, Johnnie Walker just keeps walking. And so I'm very excited about what we've got there. About a third of Johnnie Walker consumers, you know, are females. So we have this brand that is able to really recruit in, you know, new users. It's over 200 years old, so it's really exciting.

And then I also talked about Guinness. I mean, Guinness is another one where you know, you think about it's Ireland and it's St. Patrick's Day and it's pubs, but we are seeing a lot of strength on Guinness across the board. Guinness grew in every region. And we had big markets that had double digit growth. We are, you know, the number one in on trade in Ireland. We are vying quite competitively in GB. There are weeks that we are the number one in on trade, and we've got a lot of innovation to include going into non-alch, the 0.0 is off to an incredible start. We've invested in capacity. So I really see you know, an opportunity to continue. You know, the growth on these three categories alone are half the business and they're growing strongly. So we feel great about that.

And so thank you. I do look forward to, to seeing you at our Capital Markets Day. Excited to talk more with you. Thank you.

Operator: Thank you. That's all the questions we have time for today. I'll now hand back to Debra for any closing comments.

Debra Crew: And thank you for joining us today and for your interest in Diageo. I hope everyone has a lovely summer break.

[END OF TRANSCRIPT]