



DIAGEO

# DELIVERING CONSISTENT PERFORMANCE

IVAN MENEZES

MAY 2019

No script

### **Cautionary Statement Regarding Forward-Looking Statements**

This document contains forward-looking statements that involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors beyond Diageo's control. For more details, please refer to the cautionary statement concerning forward-looking statements at the end of this document and to pages 48 to 49 of Diageo's Annual Report on Form 20-F for the fiscal year ended June 30, 2018, filed with the US Securities and Exchange Commission (SEC) on August 6, 2018 (the "[2018 Form 20-F](#)"). The 2018 Form 20-F is available from the website maintained by the SEC at [www.sec.gov](http://www.sec.gov) and on the Investors section of the website maintained by Diageo at [www.diageo.com](http://www.diageo.com).

All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the factors described and by the principal risks set out at the end of this document and in the 'Risk factors' section on pages 39 to 47 of the 2018 Form 20-F. Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

The reader should, however, consult any additional disclosures that Diageo may make in any documents which it publishes and/or files with the SEC. All readers, wherever located, should take note of these disclosures. Filings with the SEC are also available to the public from commercial document retrieval services, and from the website maintained by the SEC at [www.sec.gov](http://www.sec.gov).

### **Non-GAAP Financial Measures**

This document includes the following financial measures which are not presented in our financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and are considered "non-GAAP financial measures" under SEC rules: Volume, Organic growth financials, Free Cash Flow, Earnings per share pre-exceptionals and Return on capital employed (ROIC).

These non-GAAP financial measures supplement our IFRS-IASB disclosures and should not be considered as alternatives to any IFRS-IASB financial measures. The reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable IFRS-IASB financial measures are included in the section entitled "Definitions and reconciliation of non-GAAP measures to GAAP measures" in the 2018 Form 20-F.

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DIAGEO

# DELIVERING CONSISTENT PERFORMANCE

IVAN MENEZES

MAY 2019

No script

# To be one of the **best performing, most trusted and respected** consumer products companies in the world

Good morning everyone and welcome to our capital markets day

Our ambition is for Diageo to become one of the best performing, most trusted and respected consumer product companies in the world

I am proud of the progress we have made against this ambition, since we met two years ago:

We keep stepping up execution across every area of the business.

We are bringing together outstanding creative flair & leading-edge analytics

We have created a culture that is focused on driving everyday efficiency in everything we do

We are investing in brand building, innovation, our route to consumer, data analytics and technology

I believe three things truly set Diageo apart:

First, our investment in hiring and developing the most talented people, creating a culture where we execute with discipline and urgency while doing business the right way;

Second, our focus not just on delivering this year's results but a truly sustainable business for the very long-term – we are making investment decisions now that will ensure many more of our brands enjoy 200-year anniversaries, as JW will do in 2020.

Finally, we are committed to having a positive impact on society by promoting moderation and tackling alcohol misuse, leading on carbon emissions and water use and supporting the communities where we live, work, source and sell.

Our strategy is delivering. But you will hear today, from me and members of our Executive team, that we are not complacent. I see many more opportunities for us to do better and move faster.

## DIAGEO'S STRATEGY IS CLEAR

DIAGEO

To be one of the best performing, most trusted and respected consumer products companies in the world

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Delivering through our six priorities with clear goals defined by our performance ambition

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Four measures of our progress

- credibility & trust
- motivated people
- efficient growth
- value creation

Our strategy is clear, and we have remained disciplined in sticking to it, and to our six priorities.

This clarity has helped us drive strong and consistent performance across our Markets

We have six priorities that you will hear about today, let me remind you of what they are:

Keep the premium core vibrant

Continue to win in reserve

Drive innovation at scale

Increase participation in mainstream spirits

Build an advantaged route to consumer

Embed productivity in our culture and drive out costs to invest in growth

To track progress against our performance ambition, we measure 4 areas:

credibility and trust

motivated people

efficient growth and



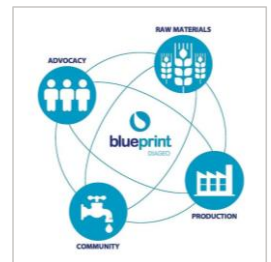
value creation.

Let me now bring to life some of the significant progress we have made in the first two of these.



## MOST TRUSTED AND RESPECTED IS INTEGRAL TO DIAGEO IN EVERYTHING WE DO

DIAGEO



Source: Diageo Your Voice Survey data, 2019

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Our reputation, the trust and respect we earn, is not just an outcome of our commercial performance. It is a direct source of competitive advantage and strengthens our business.

We are determined to have a positive impact on society wherever we operate and are embedding this in our culture.

We are passionate about the role our brands play in celebrations the world over. Through our “Drink Positive” campaign we are challenging all our employees to find new ways, through their daily work, to ensure alcohol plays a positive role in society.

Thanks to all our employees, we are making rapid progress towards our 2025 targets to

Educate 5 million young people against underage drinking;

Generate 50 million pledges never to drink and drive; and

Reach 200 million people with messages of moderation through our Marketing.

Many of you will be familiar with the Carbon Disclosure Project, the leading global disclosure system for investors to manage environmental impact.

In February, Diageo was one of only 19 companies out of 7,000 globally to be rated “Double A” for our climate and water efficiency and the only alcohol company to deliver this status year on year.



I was very proud that Diageo was named 'Britain's Most Admired Company 2018', in Management Today's long running awards, voted for by peers from across all industry sectors.

In addition to winning the overall Most Admired Company award Diageo also ranked #1 in the Beverage/Drinks Sector, #1 for Quality of Management and #1 for Corporate Governance.



WE ARE BEING RECOGNISED BOTH EXTERNALLY AND INTERNALLY

DIAGEO

Thomson Reuters  
Diversity and  
Inclusion Index



Ranked #4 in Top 100 Globally  
listed companies



Your Voice

Employee engagement	I am <b>proud to work</b> for Diageo	89%
	I am <b>extremely satisfied</b> with Diageo as a place to work	77%
Business priorities and performance	Where I work people have a <b>clear understanding of Diageo’s priorities</b>	85%
	In our team, we <b>set clear performance standards</b> for product/service quality	90%
Reputation – trusted and respected	Diageo is effective in <b>promoting a balanced role for alcohol in society</b>	93%
	Where I work, people <b>from diverse backgrounds and opinions</b> can be themselves and succeed	83%

Source: Diageo Your Voice Survey data, 2019

We also strive to invest in and develop our people, while building a truly inclusive and diverse culture where everyone feels they can fulfil their potential.

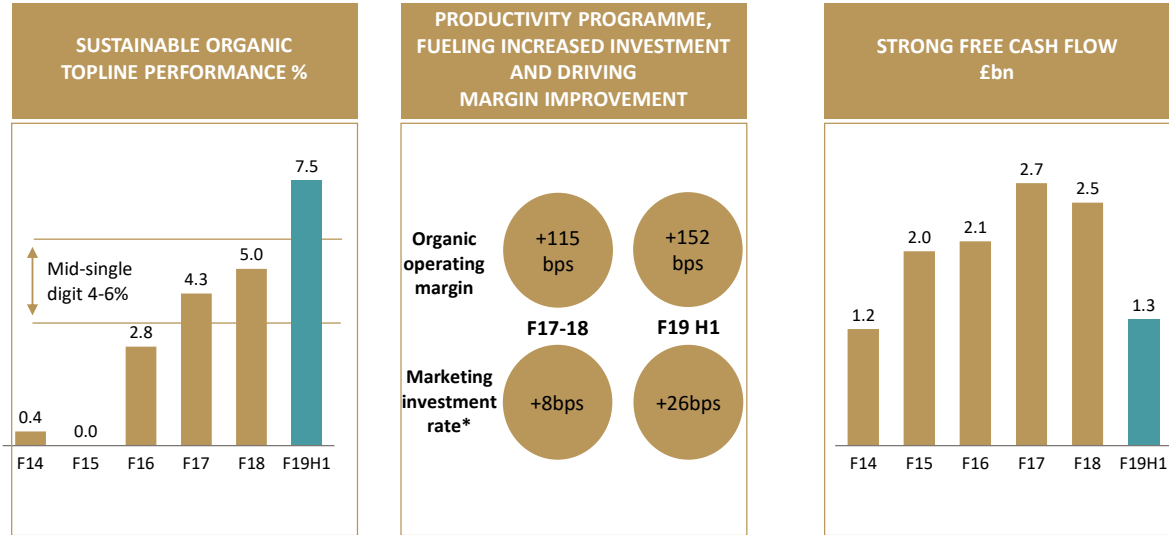
In the last month, we received very strong results in our latest global employee engagement survey:  
89% of our employees are proud to work for Diageo and  
77% are extremely satisfied with Diageo as a place to work

Our work to promote inclusion and diversity continues to drive engagement and I am proud that we have been recognised for this externally  
By the Bloomberg Gender Equality Index;  
by Thomson Reuters as the 4th most inclusive and diverse company in the world;  
and by Equileap as the best company for gender equality in the UK.

And in our determination to have the best possible workforce, we have set out ground breaking parental leave policies for both men and women, which we know drives high levels of engagement. Today we are beginning a global rollout of an ambitious new family leave policy.  
We will offer female employees in all markets a minimum of 26 weeks paid maternity leave.  
In addition, we are setting a global minimum standard of four weeks paternity leave on full rate of pay in all markets, with a significant number of Diageo’s businesses moving to 26 weeks fully paid paternity leave.

All of this helps us to attract and retain the best staff which will ultimately improve our performance.

WE ARE DELIVERING CONSISTENT  
EFFICIENT GROWTH AND VALUE CREATION



All numbers are organic, \* Organic movement

Let me now talk to you about efficient growth and value creation

Our strategy is to be a reliable compounder of growth, creating a virtuous circle of consistent top line performance, margin expansion and increased investment in our brands

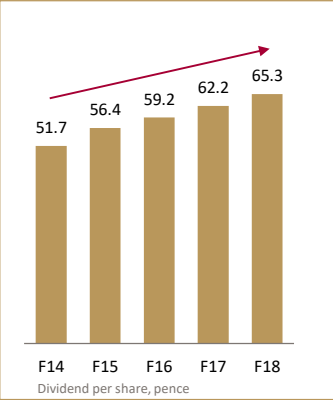
- Consistent execution of our strategy is delivering the results we intended.
- Sustainable organic net sales growth is meeting our mid-single digit growth target
- Increased investment behind our brands is strengthening brand equities and fuelling long-term growth
- We are expanding our operating margins
- And generating strong free cash flow

WE ARE DELIVERING CONSISTENT EFFICIENT GROWTH AND VALUE CREATION

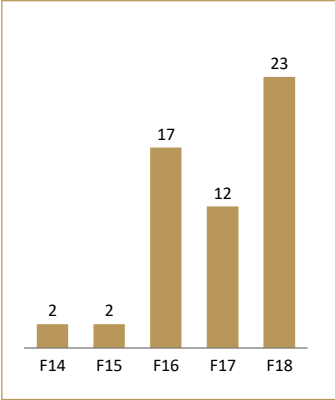
PORTFOLIO MANAGEMENT AND M&A



SHAREHOLDER RETURNS: DIVIDENDS



TOTAL SHAREHOLDER RETURN %



Source: Factset

In addition, we also maintain a disciplined approach to capital allocation to maximise value for shareholders.

We are disciplined and actively manage our portfolio.

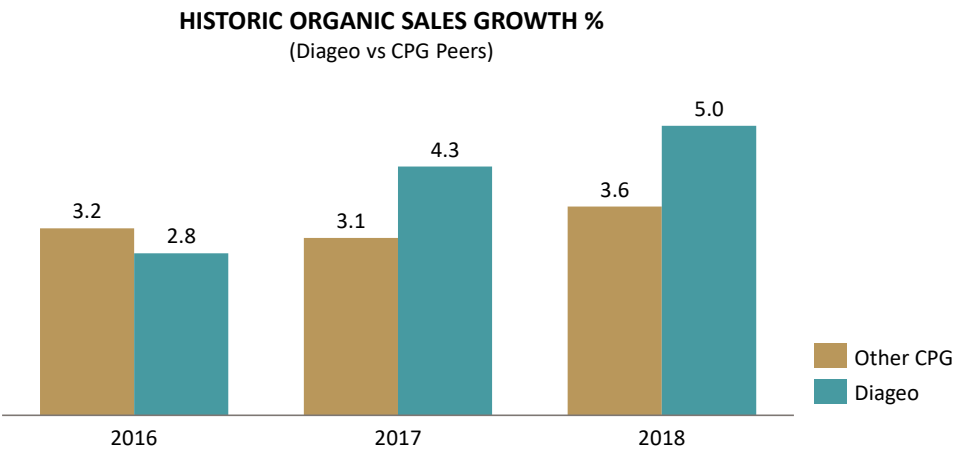
Since F14 we have;  
acquired several companies and brands including USL, Don Julio, Casamigos, Belsazar via our Distil Ventures, as well as increasing our investment in Shui Jing Fang  
We have also divested non-core assets such as our wine business, non-core beer assets Bushmills and Gleneagles, as well as our recent sale of 19 brands in the US

We have delivered consistent dividend growth and finally, our TSR remains towards the top of our peer group.



**WE ARE CONSISTENTLY OUTPERFORMING  
CONSUMER PEER GROUP**

**DIAGEO**



Source: Company filings, Factset as of 4 January 2019. Diageo historicals based on organic CPG peer group (AB InBev, Brown-Forman, Carlsberg, Campari, Coca-Cola, Colgate, Danone, Heineken, Kraft Heinz, L'Oréal, Mondelez, Nestlé, PepsiCo, Pernod, P&G, Reckitt, Remy, Unilever)

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The consumer sector broadly remains challenged, with some macroeconomic headwinds and increased potential for volatility.

The TBA industry is an attractive one in which to participate, with a natural runway for growth, when compared to some other consumer goods categories. It is well supported by robust consumer trends, which haven't changed since the last time we presented them.

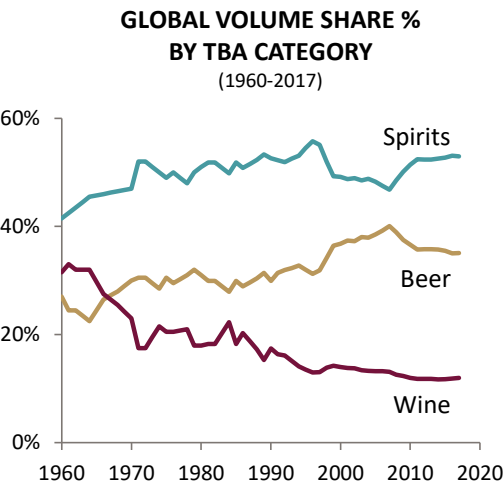
Our deep consumer insights, strong customer relationships and better use of data and technology, combined with the strength and breadth of our portfolio is enabling us to outperform our CPG peers



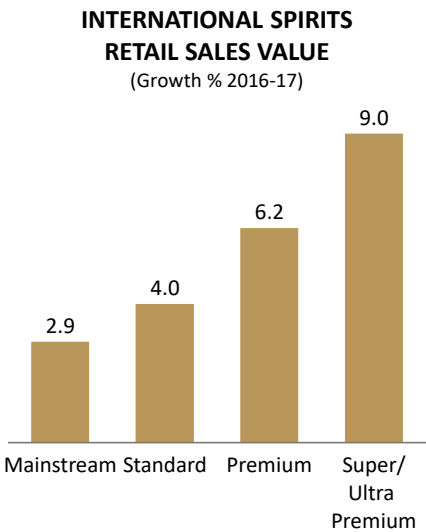


**WE COMPETE IN AN ATTRACTIVE INDUSTRY THAT IS EXPERIENCING TOP LINE GROWTH**

DIAGEO



Source: IWSR, 2017 data



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The long-term growth trends for spirits are favourable.

Consumers are continuing to switch into spirits from beer in markets like the US, UK and Australia, from wine in Europe as well as from illicit across Africa.

In addition to continued TBA share gains, the international spirits market is continuing to trade up, as consumers seek out more premium brands and experiences.



## UNDERPINNED BY ROBUST CONSUMER FUNDAMENTALS

DIAGEO



### Population

**550m** new LPA+  
consumers by 2030



### Income growth

**750m** new  
consumers able to  
afford international  
style by 2030



### Penetration

Spirits per capita  
consumption in US  
is **significantly  
higher** than in  
emerging markets

Source: Euromonitor 2019, internal analysis

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The growth in total beverage alcohol market is underpinned by strong consumer fundamentals in developed and emerging markets.

Consumers are drinking better across the world.

In developed markets spirits are well positioned and on trend, and are premiumising

In emerging markets, we expect 550 million new legal drinking age consumers to enter the market by 2030

In addition to due to growing incomes we expect an additional 750 million consumers to afford international style spirits by 2030.

And finally spirits penetration in many emerging markets is still low when compared to developed markets providing the potential for additional growth.



**WE HAVE THE LEADING POSITION  
IN MARKETS DRIVING FUTURE GROWTH**

DIAGEO



Source: IWSR, 2017 data. Internal analysis  
\* Chinese White Spirits

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Our footprint is well positioned, as you can see from the blue boxes on this slide indicating where we have the number one position.

We have the leading position across the markets that are expected to drive over 80% of forecast retail sales growth in the medium term.

In each of these markets we have great brands, marketing and innovation capabilities as well as a strong route to consumer which will enable us to continue to grow and strengthen our business.

Most importantly we have an advantaged route to market where it matters, in the US, the world’s largest profit pool, as well as an enviable leadership position in Europe, India, Latin America and Africa.



AS WELL AS THE LEADING POSITION  
ACROSS KEY SPIRITS CATEGORIES

DIAGEO



Source: IWSR 2017 data. Internal analysis  
\* Chinese White Spirits

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We are also well positioned, with a with a leading position across the categories that are expected to deliver almost half of forecast growth.

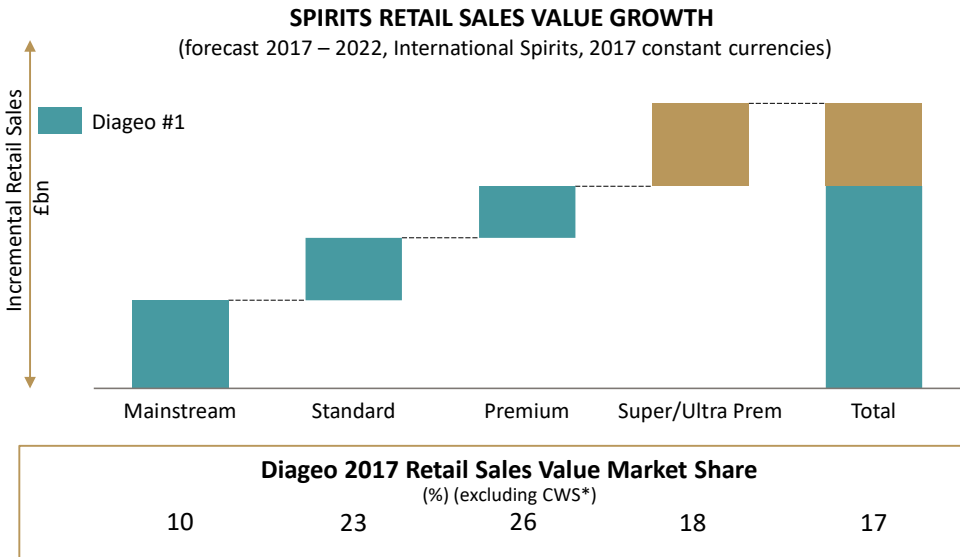
We are particularly well positioned in the resurgent gin category as well as scotch, the largest international spirits retail value pool.

In addition, while we don't participate in Cognac directly, our minority position in Moët Hennessy gives us exposure to the leading position.



AS WELL AS THE LEADING POSITION  
ACROSS KEY PRICE POINTS

DIAGEO



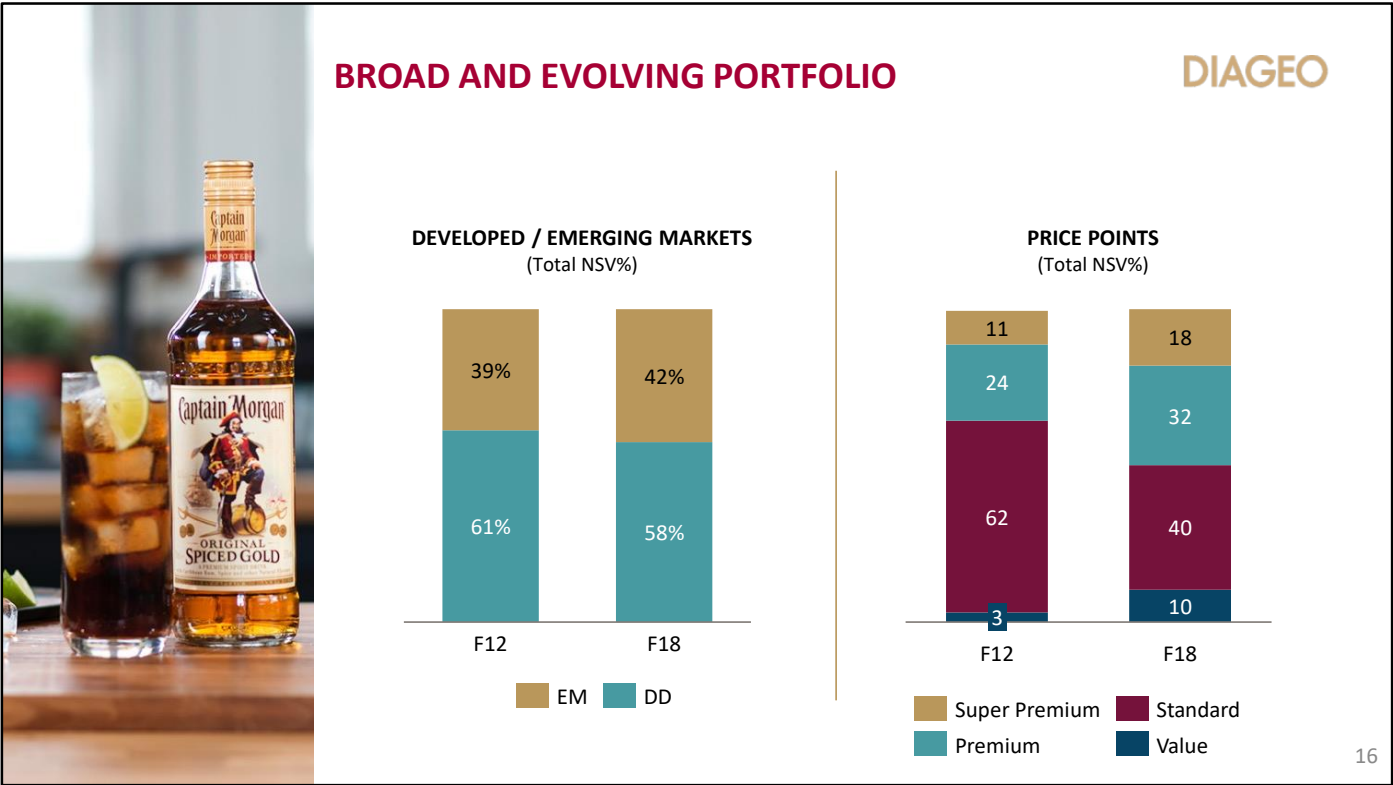
Source: IWSR 2017 data. Internal analysis  
\* Chinese White Spirits

And finally, we are also well positioned across price tiers

From our strong position in mainstream spirits, which enables us to recruit emerging middle-class consumers into international spirits.

To our premium Reserve portfolio continues to deliver very strong results

The strength of our portfolio across price points enables us to offer consumers a range of products to suit their purchasing preferences.





## INCREASED LEVELS OF DISRUPTION IS THE 'NEW NORMAL'

DIAGEO



Consumer trends



Macro Environment



Competitive Landscape



Channels & Customers



Regulations



Technology

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We are seeing increased levels of disruption across a number of areas  
Consumers are changing how, when and where they socialize and are increasingly focused on wellness

The macro environment remains volatile with the threat of escalating trade wars

The competitive landscape is intense with the emergence of new brands as well as potential substitutions such as cannabis

We are seeing a rise in e-commerce and changing shopper expectations that is impacting channels and customers

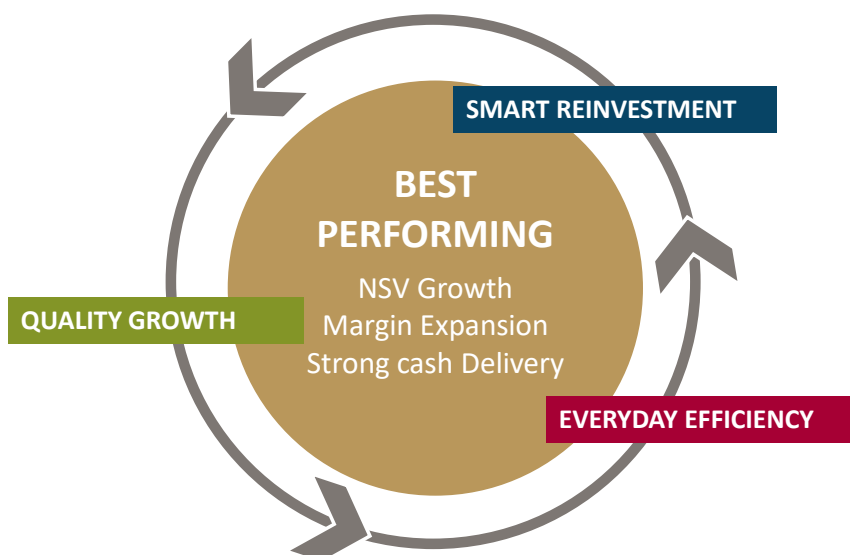
The potential for regulatory changes remains

And there is a rapid rise in digitisation and automation

Our ambition requires consistent delivery, we therefore are keenly focused on disruptive forces and ensuring Diageo is well positioned to deal with them.

**SELF SUSTAINING MODEL :  
KEEP IT GOING**

DIAGEO



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To be best performing requires strong top line growth, steady margin expansion and reliable cash flows year after year – the key is consistency

To deliver this consistency we have created the discipline and culture to drive quality growth, everyday efficiency and smart reinvestment

Let me unpack what we mean by each of these:

Everyday Efficiency is about

Driving cost productivity across every activity and cost item

Improving the front/back office ratio

Improving working capital everyday

Driving best in class cash conversion

It's about creating a culture where every employee contributes to cost efficiency and knows why

Quality growth is about:

improving brand equity and delivering the right balance of price, mix and volume

It is about innovation that sustains growth over many years

It is about growing the big brands of today and seeding the new brands of tomorrow

It is about ensuring our sell out route to consumer makes our brands show up well at point of purchase, consumption and experiences

Smart Reinvestment is about:

Spending A&P effectively – Catalyst enables this

Supporting innovation for sustained growth

Building best in class capabilities in tech, data, e-commerce for example

Investing capex to support growth with good returns

Investing in maturing stock to support sustained profitable growth  
Acquiring and supporting brands for future long-term growth

Sustaining this Diageo growth model is key to our long-term success

## OUR PERFORMANCE AMBITION WILL BE DELIVERED THROUGH OUR SIX PRIORITIES

DIAGEO

- 1 Keep premium core vibrant
- 2 Continue to win in reserve
- 3 Drive innovation at scale
- 4 Increase participation in mainstream spirits
- 5 Build advantaged routes to consumer
- 6 Embed productivity in our culture to drive out costs to invest in growth

Having recapped on our recent performance, the attractive consumer fundamentals supporting our industry as well as our self-sustaining growth model let me now bring to life how we are executing against our six priorities to achieve our performance ambition.

## OUR PERFORMANCE AMBITION WILL BE DELIVERED THROUGH OUR SIX PRIORITIES

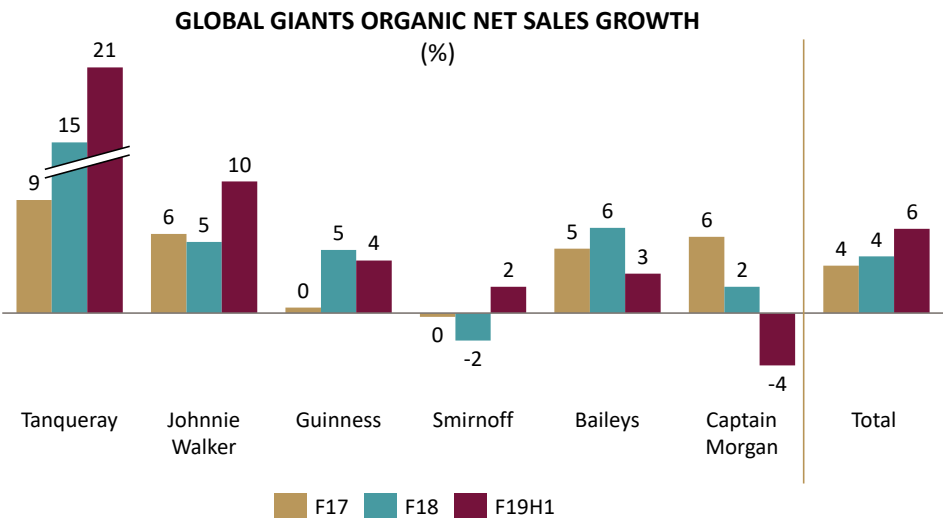
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Let's start with premium core, where, as Cristina and Ed will expand on shortly, we are using our best in class brand building capabilities to strengthen and accelerate our performance.

# PREMIUM CORE IS SHOWING MORE CONSISTENT PERFORMANCE

DIAGEO



Source: All numbers are organic

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We often use Global Giants as an indicator for our premium core. They are showing stronger, increasingly consistent performance.

With the exception of Captain Morgan, all of our Global Giants are in growth.

Captain Morgan is just one example of areas where I am restless and where we have work to do. Deirdre will talk more about Captain Morgan this afternoon.

Our strong performance has been achieved through our consistent and improved brand building, at the heart of which lies leading consumer insights.

Through a combination of creativity, data analytics and tools such as catalyst, we optimise our A&P investments to drive results.

We are increasingly agile in our ability to execute growth drivers in and across markets.

Throughout today, you will hear more detail on a number of our global giants. But I am now going to spend a few minutes talking about the strong growth of the gin market. And our role in driving it.

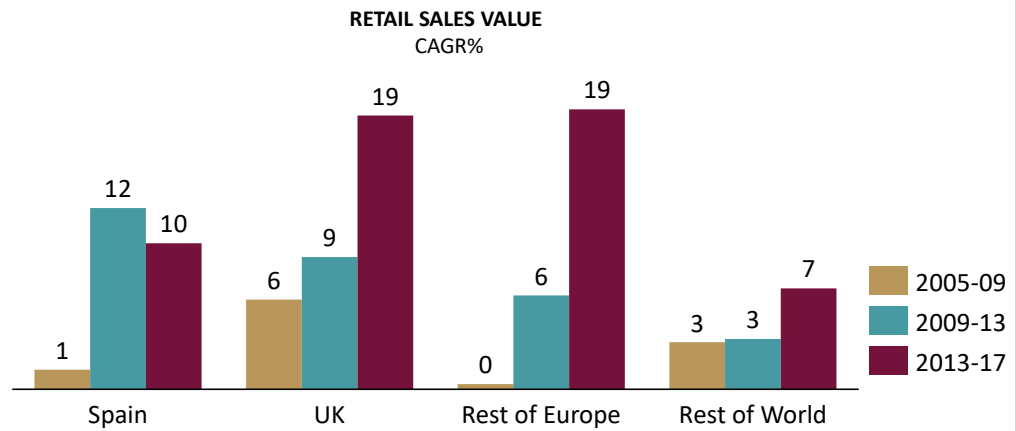






## A RESURGENCE IN THE GIN CATEGORY SPREAD FROM SPAIN

DIAGEO



Source IWSR Retail Value

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In Spain, where the revival began, the category has grown double digit for almost a decade against the backdrop of a declining spirits market.

A new way of serving the classic gin and tonic, in a copa glass with lots of ice, more interesting garnishes as well as more premium and varied tonics, helped to re-energise the category.

Suddenly this classic drink felt new, different and more premium.

This was further helped by shifting consumer behaviours across Europe. The trend for later drinking was slowing and we saw a shift towards the early evening 'aperitivo' moment – an occasion that gin fits perfectly.

The occasion for gin was re-established, a trend that began in Spain is now spreading beyond Europe





## AT THE HEART OF THIS LIES OUR BRAND BUILDING CAPABILITIES

DIAGEO



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As Cristina will bring to life in more detail later, Gordon's was losing share and struggling to fully compete with the influx of premium gins entering the market.

In response to this, we developed a new consumer insight which we used to develop strong creative across the marketing mix

We redesigned the pack, developed striking above the line campaigns, which combined with data backed investment choices

It is once again maintaining its position as the world's #1 international gin.

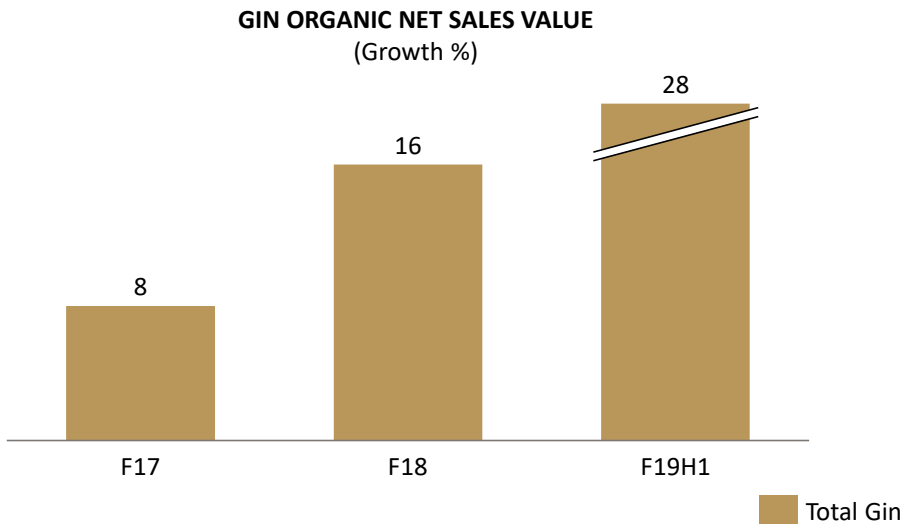
I will talk later about the very strong performance of our innovation Gordon's Premium Pink

With Tanqueray we are focusing on what makes us unique in the category, looking to ensure all Tanqueray assets communicate our unique and appealing taste as well as our craft credentials.



**DELIVERING INDUSTRY LEADING PERFORMANCE**

DIAGEO



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Gin is a good example of our ability to spot consumer trends and then use our core skills of consumer insight, strong creative, optimised investment as well as great in-market execution to drive outstanding performance.



## OUR PERFORMANCE AMBITION WILL BE DELIVERED THROUGH OUR SIX PRIORITIES

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26

Now let me bring to life the performance of our reserve business which almost doubled in size from F12 to F18

You will have seen many of these brands last night in our showcase.

• .

## “THE BEST-SELLING SPIRITS COLLECTION IN THE WORLD’S BEST BARS”

DIAGEO



### SUPER PREMIUM+ RANKING \*

Source: \* IWSR, and Drinks International Brand Report

27

This attractive category accounts for 15% of global international spirits retail value (IWSR).

It grew at 8% value CAGR 2013-17, almost twice the global average, driving over a third of total spirits value growth over the period.

This strong growth is expected to continue, supported by the estimated 250 million additional consumers who will be able to afford these premium brands by 2030.

We have a very clear vision in Reserve “To make the everyday more special”

World Class, our biggest global influencer program, builds advocacy and strengthens our reputation in the important on trade.

Consistent investment over 10 year’s gives us a ‘right to play’ in the world’s best venues across over 58 countries.

In 2018 over 10,000 bar tenders were engaged in world class in Berlin, with 2.3m livestream views.

And many of you will have met a previous winner Charles Jolie, as well as Lauren Motte, our Global Cocktillian last night.

Every year the world’s best bars and spirits experts select the best-selling and top trending brands across the world for the Drinks International Brands Report.

Once again, we have “the best-selling spirits collection in the world’s best bars”

In addition, they announced that;

Ketel One remains the bartender’s choice of vodka, as well as the best-selling and

top trending vodka.

Tanqueray has been successfully crowned the bartender's choice of gin for the seventh year in a row

Don Julio as the number one best-selling tequila for the fourth year in a row and one of the top trending tequilas in these bars

## STRONGER BRANDS AND CAPABILITIES

DIAGEO

### MASS LUXURY \$25+



### CORE LUXURY \$100-250



### PRESTIGE BRANDS \$250+



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We are continuing to strengthen our reserve portfolio, through stronger brand building capabilities, innovation and selective acquisitions such as Casamigos,

We think about luxury spirits as three separate, but interlinked markets, we have a clear strategy for each:

Consumers in the large mass luxury market are typically motivated by knowledge and status. Brands such as Copper Dog recruit non-traditional whisky drinkers into the brand by tapping into their interest for dynamic, accessible and culturally-led whiskies.

Our core luxury portfolio is more targeted towards high net worth individuals, looking for brands that reflect their lifestyles. Our Johnnie Walker Blue Label City limited editions has been successful in this space.

And finally over the last 18 months, we have established our Prestige luxury business, focused on Ultra High Net Worth Individuals, although a relatively small number of people globally they command significant wealth.

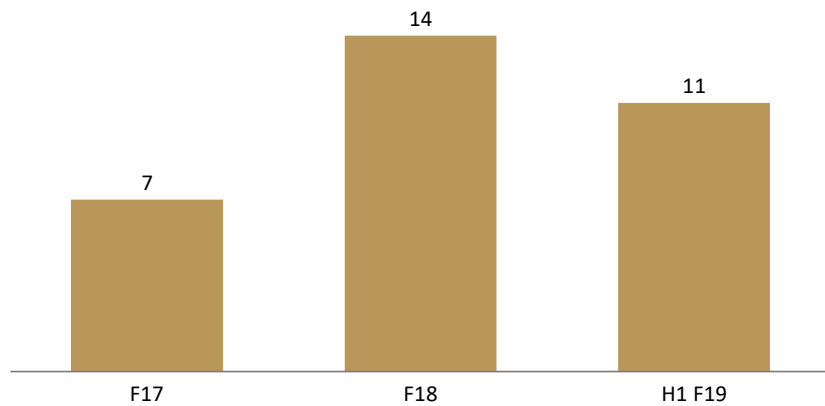
The Prestige spirits market large and growing, largely driven by scotch. With our quality liquids, distilling credentials and portfolio, we are well positioned to capitalize in this growing market. John will bring this to life in more detail later when he talks about Scotch.



## DELIVERING STRONG PERFORMANCE

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### RESERVE\* ORGANIC NET SALES GROWTH (%)



\*includes Chinese White Spirits

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We have a solid blue print and strategy for our reserve business

We have a clear model and way of working that builds our brands in market

We are agile enough to respond to the requirements of the local market,

We have committed consistently to building this business through consistent investment in our brands and capabilities.

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I am now going to bring to life some of the amazing strides that we have made in delivering bigger, better and more sustainable innovation launches



## INNOVATION STRATEGY GROUNDED IN LEADING CONSUMER INSIGHTS

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### RE-RECRUIT



### RECRUIT



### DISRUPT



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Driving sustainable growth, led by consumer trends and insights, lies at the heart of our innovation strategy.

A clear consumer insight serves as the core purpose of each launch, to which we apply a structured process to rapidly develop and evaluate the commercial viability of each initiative

The role of each innovation falls into one of three categories: recruit, re-recruit or disrupt.

Our focus is in recruiting new consumers to our occasions and brands.

We expect more than 50% of innovation projects to be within this recruit category this year, compared to around 30% four years ago.

This is enabled by our understanding of white space, and our strength in developing consumer insights

For example, Hop House 13 Lager meets the criteria of a core lager occasion, but offers consumers a brand from the iconic brewers of Guinness that offers greater flavor and craft credentials. John will talk more this later.

Re-recruit gives existing consumers another reason to choose our products such as Baileys Strawberries & Cream and finally disrupt, is focused on changing consumer

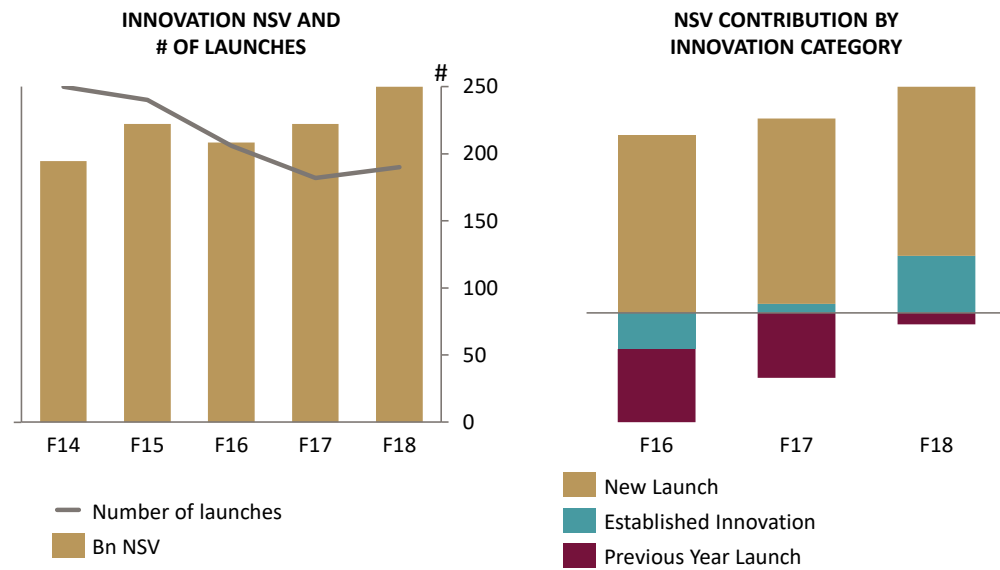
attitudes or behaviors such as Pure Brew non alc beer.

I am very pleased with the results of this strategy. In the US we are the clear leaders in innovation, with seven of the top ten spots in the last 52 weeks, over 3 times our market share. Deirdre will talk more about this later.



**INCREASED FOCUS ON RECRUITING CONSUMERS IS DRIVING MORE STABLE FINANCIAL PERFORMANCE**

DIAGEO



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Our strong consumer insights are enabling us to launch fewer bigger more successful innovations

However, across the consumer goods sector it can be difficult to maintain momentum behind new innovations.

Often successful launches fail to drive consumer traction and repeat purchases in subsequent years leading to volatile financial performance.

Our focus on 'recruit' innovation grounded in stronger consumer insights, is bringing new consumers into our brands and driving sustainable quality growth.

## ADDITIONAL GROWTH THROUGH DISTILL VENTURES

DIAGEO



DISTILL  
VENTURES

*How to be  
brilliant at telling*  
**YOUR**  
*founder*  
**STORY**



33

We are passionate about nurturing the global drinks giants of the future, about helping founders develop their brands and are constantly searching for the disruptions and discontinuities in the market.

Distill Ventures is our Diageo-backed and funded incubator programme which is focussed on supporting entrepreneurs to launch and scale-up innovative drinks brands.

Distill Ventures arranges investment and funding into companies at a variety of stages and sizes – from pre-launch start-ups to businesses expanding internationally.

This also helps to strengthen our understanding of emerging consumer trends.

## OUR PERFORMANCE AMBITION WILL BE DELIVERED THROUGH OUR SIX PRIORITIES

DIAGEO

- 1 Keep premium core vibrant
- 2 Continue to win in reserve
- 3 Drive innovation at scale
- 4 Increase participation in mainstream spirits
- 5 Build advantaged routes to consumer
- 6 Embed productivity in our culture to drive out costs to invest in growth

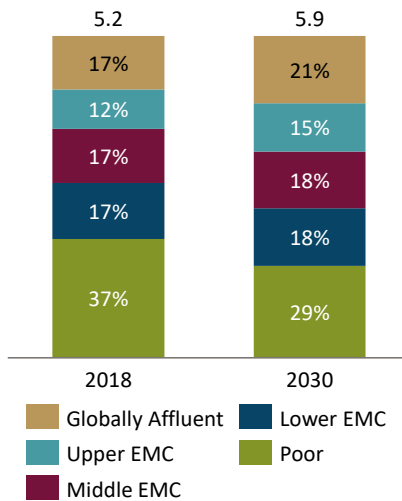
Now let me talk to about our participation in mainstream spirits, a key market for accessing emerging middle-class consumers, a large and growing population.



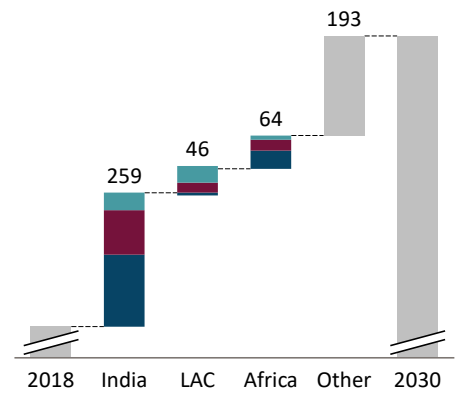
## THE RISE OF THE EMERGING MIDDLE CLASS CONTINUES

DIAGEO

**EM TOTAL POPULATION**  
By income group (2018 and 2030)



**EMERGING MARKET POPULATION GROWTH**  
(M People 2018 and 2030)



Source: Euromonitor 2019

35

The emerging middle class is becoming rapidly more numerous and affluent.

It can be divided into very different sub groups, depending on their relative incomes and consumption patterns.

Due to rising incomes and population growth in emerging markets, we expect an additional 550 million people to be able to afford our brands by 2030

India, LAC and Africa together accounted for 27% of the global emerging middle class in 2018 and are expected to drive 66% of forecast growth between now and 2030.

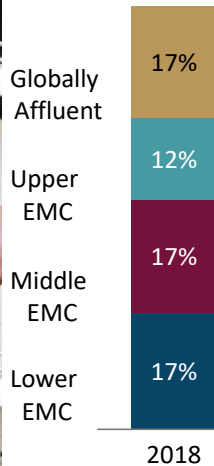
There are significant differences across the regions with India and Africa seeing a large increase in the lower EMC population with LAC seeing a growth in the more affluent cohorts. This impacts our tailored approach to the markets.



## LARGE PORTFOLIO OF BRANDS ACROSS KEY PRICE POINTS

DIAGEO

### EMERGING POPULATION (by income group %)



Source: Euromonitor 2019



Recruiting the emerging middle class to international style spirits, through our mainstream spirits portfolio, and influencing the choice of brands across the price ladder is important for driving additional long-term, sustainable growth.

Mainstream spirits are by their nature fragmented, with a lot of small local competitors.

We have selectively strengthened our participation with acquisitions such as USL and are the largest global player.

With leadership positions in India, Africa and LAC

Emerging markets can by their nature be volatile. Hence having a wide range of offerings across price points can help us to manage this volatility.

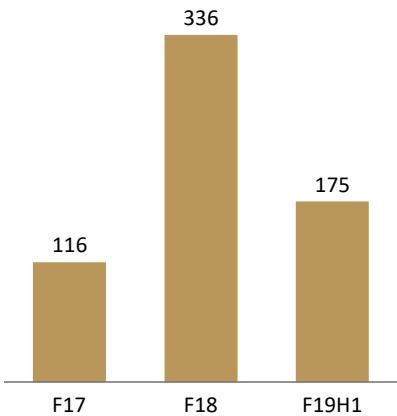




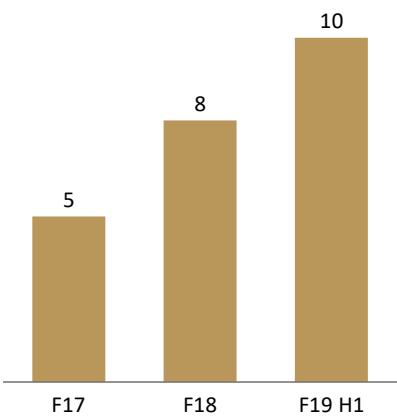
# WE ARE DELIVERING STRONG GROWTH AND STRENGTHENING MARGINS

DIAGEO

MSS INCREMENTAL CAAP MARGIN (BPS)



MSS NET SALES VALUE GROWTH (%)



37

We are choiceful in where and how we compete in mainstream spirts and apply the same expectations on improving margin accretion to this part of our portfolio.

Our CAAP margins have significantly increased over the past three years driven by USL.

We are utilizing this know-how across the business

You will hear more on the transformation of USL from Anand later today and from John on our African spirits business.

## OUR PERFORMANCE AMBITION WILL BE DELIVERED THROUGH OUR SIX PRIORITIES

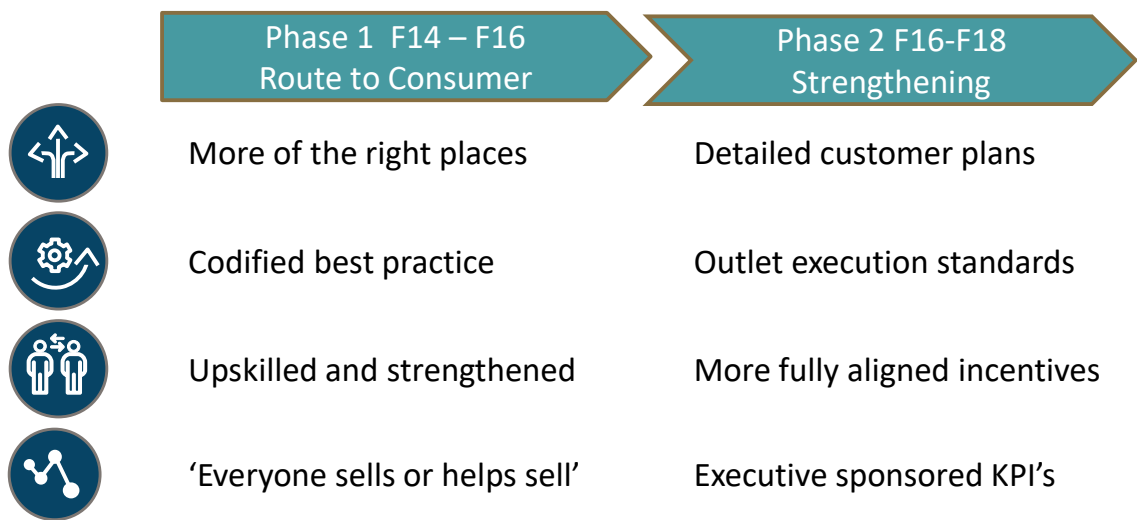
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Let me now talk about the significant changes we are making to further strengthen our route to consumer.

SIGNIFICANT PROGRESS ON JOURNEY TO STRENGTHEN  
ROUTE TO CONSUMER

DIAGEO



In F14 we began our ongoing journey to strengthen our route to consumer to drive sell-out excellence

Historically we used to refer to our route to market, but our job is not done when our brands reach the market. It is done when our brands are in the hands of consumers.

Firstly we made sure we were in *more*, of the *right* places.

We codified best practice in customer collaboration and customer marketing programmes to build a competitive advantage and drive higher rates of sale

We standardized our tools and capabilities, giving us best practice across consumer goods.

We also began our cultural change, ‘everyone sells or help sells’ increasing accountability right across the organization.

By phase 2 we had increased outlet coverage by 350k outlets, making 2m more sales call’s every year. We began to use a standardized way of working across markets.

We developed customer plans, with specific execution standards for each type of outlet

and measured performance against it

We aligned our internal incentive schemes to those which drive sell out

And finally, each market developed a scorecard for their route to consumer objectives which was reviewed by the executive team.

All of these changes made significant improvement to the effectiveness of our route to consumer.

## LEVERAGING ADVANCES IN TECHNOLOGY FOR THE NEXT PHASE

DIAGEO

### Phase 3 F19 Advances in Technology and Data



All channels and customers



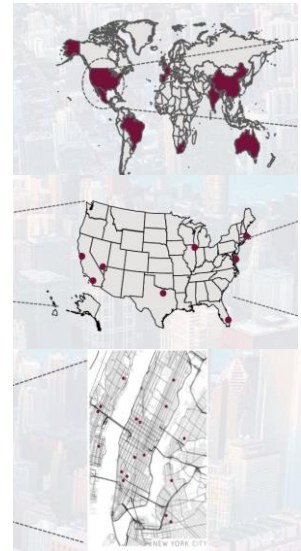
Micro targeted approach



Balance data, insights & relationships



Disruptive technology and advanced analytics



40

The world around us continues to rapidly change, the shopper landscape is transforming, our customer base never stands still, and neither does technology

We are developing a game changing advancement in our RTC, using best practice in sales analytics and technology transforming the way we partner with our retailers and distributors to create value for both their business and ours.

And further strengthening our capabilities

We are building this first in the US and have a clear plan to roll it out to other markets, with work already underway in Australia, India and Europe.

We are delivering an omni channel customer strategy: broadening our customer contact to include physical sales calls, virtual sales calls and verbal sales calls to ensure we provide great service at each touchpoint. This will enable us to double current outlet coverage

We are using data and advanced analytics to make informed decisions on the cities and outlets that matter most, enabling us to focus our resources. In addition, it will ensure we have ideal brand/variant/size at the forefront of every outlet

We are strengthening and transform our sales capabilities, building stronger customer partnerships. Our sales teams need to think differently. Our future sales reps need to balance both data/insights and relationships.

For this to happen we are deploying disruptive technology at scale.

Digitizing the customer journey to ensure that everyone who engages with an outlet, including the owner, has the data and insights needed to deliver the best and most relevant execution in every outlet (e.g. right products, right price, right activation). We are also building advanced analytics capabilities capitalising and evolving on our experience with Every Day Great Execution work done in the US. You will hear more about this from Deirdre later.

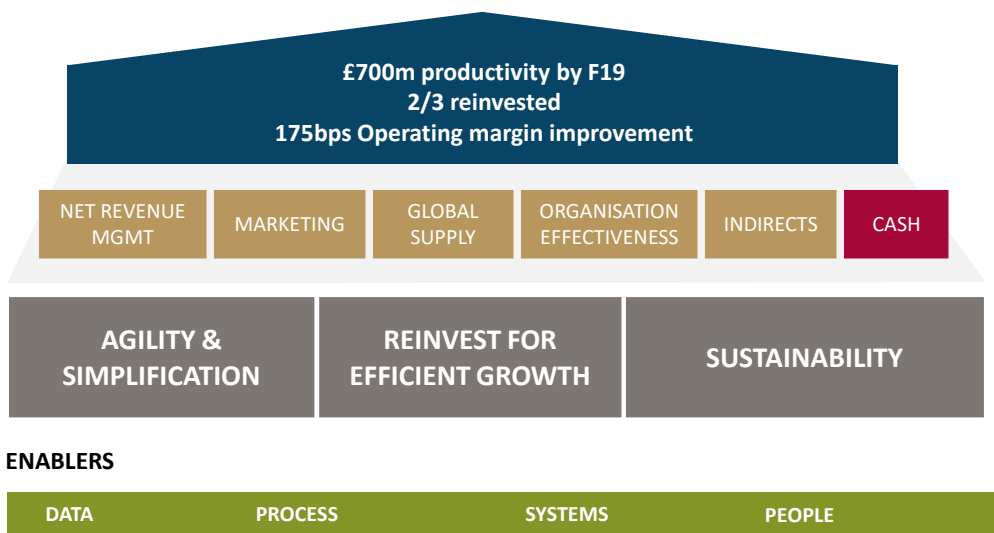
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And finally let's move on to productivity.

**PRODUCTIVITY HAS DELIVERED STRONG RESULTS AND EMBEDDED A CULTURE OF EVERYDAY EFFICIENCY**



We have delivered strong productivity savings from F17 to F19, increasing our initial target of £500m to £700m, which we are on track to deliver.

The bigger achievement has been the cultural shift that we have made of embedding an everyday efficiency mindset across the business.

We are constantly challenging ourselves for more and Kathy will bring that to life later, when she talks to the areas where we expect to drive greater efficiencies.

Our ongoing focus on efficiency enables us to continue to increase investment in our brands, support other growth initiatives and underpin organic operating profit growth.





Over the medium term we expect to drive **consistent** mid-single digit organic net sales growth and **sustainably** grow organic operating profit ahead of net sales, within a range of 5 to 7%

Through the delivery of our performance ambition and the cultural shifts made we are committed to deliver efficient growth and value creation sustainably.

As we look beyond F 19, over the medium term we believe that maintaining consistent organic growth in the mid-single digit range, will put us amongst the best in class performers within CPG

We will continue to invest in the business as well as drive everyday efficiencies

In the medium term we expect to continue to deliver organic operating profit growth ahead of net sales within a range of 5 to 7 %

Kathy will go into more details of this later on.

## CONCLUSIONS

DIAGEO

We operate in an attractive growing industry in which we have the best assets and footprint

We have a clear strategy and execution priorities that will deliver our performance ambition

We have created a self sustaining model driving quality growth, every day efficiency and smart reinvestment

The changes we have made have created a more agile and disciplined organisation

We are on track to deliver our performance ambition

We are restless and recognise there is more to do

This leads me to the rest of the agenda for today

Ed Piklington, NA Chief Marketing & Innovation Officer, and Cristina Diezhandino our Scotch Category Director and Managing Director Reserve will talk about the significant changes that we have made to our marketing function, balancing creative flair and analytics to strengthen our brands.

Following them John Kennedy will bring to life how the scotch category is focused on winning in international whiskey.

We will then move on to India, where Anand will bring share the very significant progress made in the past few years in this attractive and dynamic market.

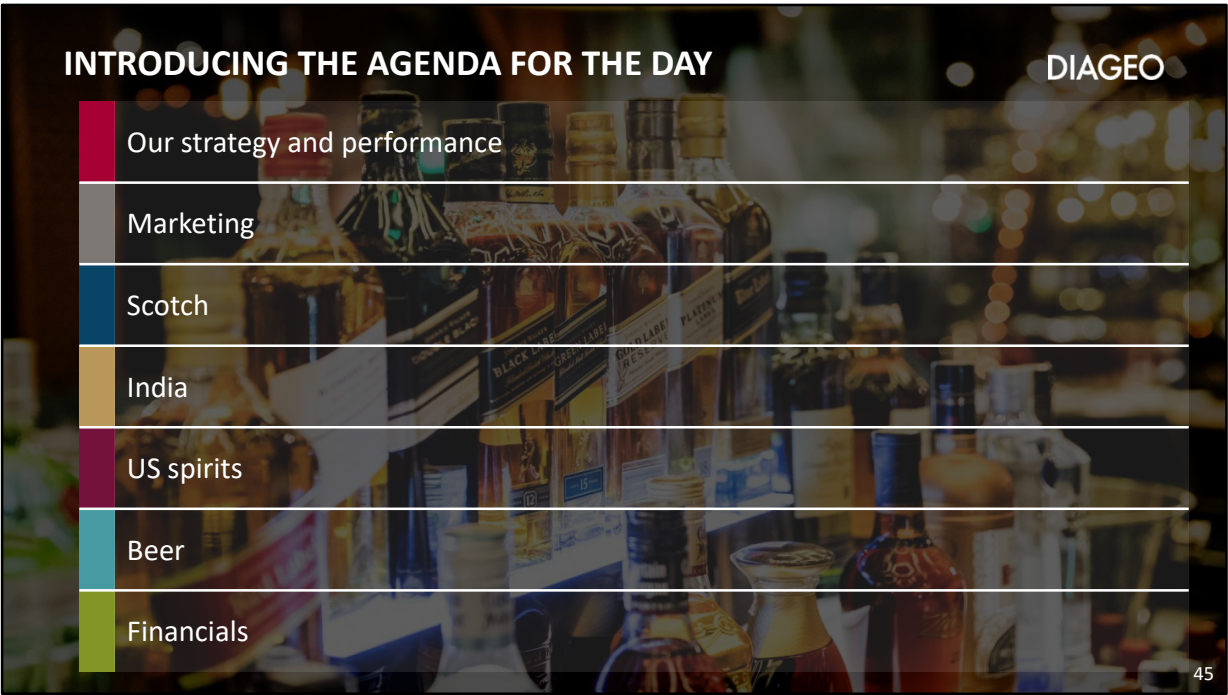
After lunch Deirdre will update you on our improved US performance where using data backed insights is driving stronger performance, as well as the transformation of our route to market.

John O’Keeffe and Mark Sandys will update you on the changing dynamics of the beer market and why we are well set up to win with our unique beer model and strong brand portfolio.

And finally, Kathy will bring everything together and talk about how we will deliver strong and sustainable value creation

We have built time for Q&A into each session, in addition we will once again close the day with a plenary Q&A

We have a lot of exciting things to share with you so without further delay I would like to invite Ed and Cristina on to the stage.



Our strategy and performance
Marketing
Scotch
India
US spirits
Beer
Financials

45

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# DIAGEO

CELEBRATING LIFE,  
EVERY DAY, EVERYWHERE

By Gareth Edwards

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# Cautionary statement concerning forward-looking statements

This presentation and its notes (together, this "Presentation") contain 'forward-looking' statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook, objectives and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to Diageo, anticipated cost savings or synergies, expected investments, the completion of any strategic transactions and restructuring programmes, anticipated tax rates, changes in the international tax environment, expected cash payments, outcomes of litigation, anticipated deficit reductions in relation to pension schemes and general economic conditions. These statements are often, but not always, made through the use of words or phrases such as "believe", "anticipate", "could", "may", "would", "should", "intend", "plan", "potential", "predict", "will", "expect", "estimate", "project", "positioned", "strategy", "outlook", "target" and similar expressions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo's control.

These factors include, but are not limited to:

- economic, political, social or other developments in countries and markets in which Diageo operates, which may contribute to a reduction in demand for Diageo's products, adverse impacts on Diageo's customer, supplier and/or financial counterparties, or the imposition of import, investment or currency restrictions (including the potential impact of any global, regional or local trade wars or any tariffs, duties or other restrictions or barriers imposed on the import or export of goods between territories, including but not limited to, imports into and exports from the United States, Canada, Mexico, the United Kingdom and/or the European Union);
- the negotiating process surrounding, as well as the final terms of, the United Kingdom's exit from the European Union, which could lead to a sustained period of economic and political uncertainty and complexity whilst detailed withdrawal terms and any successor trading arrangements with other countries are negotiated, finalised and implemented, potentially adversely impacting economic conditions in the United Kingdom and Europe more generally as well as Diageo's business operations and financial performance (see more detailed status on Brexit below);
- changes in consumer preferences and tastes, including as a result of changes in demographics, evolving social trends (including any shifts in consumer tastes towards locally produced small-batch products), changes in travel, vacation or leisure activity patterns, weather conditions, and/or a downturn in economic conditions;
- any litigation or other similar proceedings (including with customs, competition, environmental, anti-corruption or other regulatory authorities), including litigation directed at the beverage alcohol industry generally or at Diageo in particular;
- changes in the domestic and international tax environment, including as a result of the OECD Base Erosion and Profit Shifting Initiative and EU anti-tax abuse measures, leading to uncertainty around the application of existing and new tax laws and unexpected tax exposures;
- the effects of climate change, or legal, regulatory or market measures intended to address climate change, on Diageo's business or operations, including on the cost and supply of water;
- changes in the cost of production, including as a result of increases in the cost of commodities, labour and/or energy or as a result of inflation;
- legal and regulatory developments, including changes in regulations relating to production, distribution, importation, marketing, advertising, sales, pricing, labelling, packaging, product liability, antitrust, labour, compliance and control systems, environmental issues and/or data privacy;
- the consequences of any failure by Diageo or its associates to comply with anti-corruption, sanctions, trade restrictions or similar laws and regulations, or any failure of Diageo's related internal policies and procedures to comply with applicable law or regulation;
- the consequences of any failure of internal controls, including those affecting compliance with new accounting and/or disclosure requirements;
- contamination, counterfeiting or other circumstances which could harm the level of customer support for Diageo's brands and adversely impact its sales;
- Diageo's ability to maintain its brand image and corporate reputation or to adapt to a changing media environment;
- increased competitive product and pricing pressures, including as a result of actions by increasingly consolidated competitors or increased competition from regional and local companies, that could negatively impact Diageo's market share, distribution network, costs and/or pricing;
- any disruption to production facilities, business service centres or information systems, including as a result of cyber-attacks;
- Diageo's ability to derive the expected benefits from its business strategies, including in relation to expansion in emerging markets, acquisitions and/or disposals, cost savings and productivity initiatives or inventory forecasting;
- increased costs for, or shortages of, talent, as well as labour strikes or disputes;
- fluctuations in exchange rates and/or interest rates, which may impact the value of transactions and assets denominated in other currencies, increase Diageo's cost of financing or otherwise adversely affect Diageo's financial results;

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- movements in the value of the assets and liabilities related to Diageo's pension plans;
- Diageo's ability to renew supply, distribution, manufacturing or licence agreements (or related rights) and licences on favourable terms, or at all, when they expire; or
- any failure by Diageo to protect its intellectual property rights.

DIAGEO

#### Brexit

There continues to be uncertainty with respect to the process surrounding the United Kingdom's proposed exit from the European Union. We continue to believe that, in the event of either a negotiated exit or no-deal scenario, the direct financial impact to Diageo will not be material. In the EU, we expect that our finished case goods will continue to trade tariff free in either scenario. While there continues to be uncertainty over future trading arrangements between the UK and the rest of the world, we have mitigation plans in place for the short-term disruption that could arise from a 'no deal' scenario; in which the UK leaves the EU without the parties reaching a formal withdrawal agreement approved by the UK Parliament, and including the inability of the UK Government to renew existing EU Free Trade Agreements with third party countries to which we export and where trading could revert to WTO rules. We have further considered the principal impact to our supply chain which we have assessed as limited and have appropriate stock levels in place to mitigate this risk. The full implications of Brexit will not be understood until future tariffs, trade, regulatory, tax, and other free trade agreements to be entered into by the United Kingdom are established. Furthermore, we could experience changes to laws and regulations post Brexit, in areas such as intellectual property rights, employment, environment, supply chain logistics, data protection, and health and safety. A cross-functional working group is in place that meets on a regular basis to identify and assess the consequences of Brexit, with all major functions within our business represented. We continue to monitor this risk area very closely, including a continuing focus on identifying critical decision points to ensure potential disruption is minimised, and take prudent actions to mitigate risk wherever practical.

#### Other information

All oral and written forward-looking statements made on or after the date of this Presentation and attributable to Diageo are expressly qualified in their entirety by the above risk factors and by the 'Risk factors' section contained in the annual report on Form 20-F for the year ended 30 June 2018 filed with the US Securities and Exchange Commission (SEC). Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Diageo may make in any documents which it publishes and/or files with the SEC. All readers, wherever located, should take note of these disclosures. The information contained in this Presentation has been prepared solely for use at the Diageo Capital Markets Day 2019 presentation. The Presentation is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident or located in any jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction. This Presentation is provided for the purpose of giving information about Diageo to investors only and is not intended for general consumers. Diageo, its directors, officers, employees, agents or advisers do not accept or assume responsibility to any other person to whom this material is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The information in this Presentation does not purport to be comprehensive and has not been independently verified. Certain industry and market data contained in this Presentation has come from third party sources. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but there is no guarantee of accuracy or completeness of such data.

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