Diageo 2021 Capital Markets Day Q&A Transcript

Date: Tuesday, 16th November 2021

Moderator: We are now coming to our first question and answer session. To ask a question please use the question function at the right of your screen. Please submit questions that you would like to ask the speakers you have just heard from. Our first question is, TBA grew 3.4% 2010-2020. Is this a reasonable proxy for TBA growth between 2020 and 2030?

Ivan Menezes: Hello everyone. I will take that question. Yes, the short answer would be yes, 3-4% growth and I think what is attractive about the TBA fundamentals is three things: demographics, including emerging market demographics; penetration which is growing in many markets; and premiumisation, value growing faster than volume. That would be a good proxy for the next decade.

Moderator: Our next question is, Ivan, great presentation and welcome the new medium-term guidance this morning. Do you see any risk that pressure on disposable income and higher inflation could make that challenging?

Ivan Menezes: What I would just spend a few minutes on is just talk about the affordable luxury nature of our category. I will use the US as an example because I think it really brings it to life. Premiumisation trends, as you have seen in the presentations, are really strong but when you look at it from a household standpoint the typical US household is spending $17 a month on spirits. Half the households buy spirits so for those who buy spirits they are spending about $35 a months. That is a dollar a day. Now, when you look at the specialness of our brands and the ability to trade up, and just look at the top-end of the US market, say above $40, the ultra-premium end of that market, 50% of the top-end of that market is from people who earn less than $100,000 a year. 60% of it is multicultural and that is going to grow. Young people, 21-34 disproportionately buy ultra-premium products. In fact, twice the amount that they would buy of value and popular products.

When you put this all together we are very fortunate to be in a category which has resilience because of its affordability and it is a small part of the household budget. It is an affordable indulgence and what you serve or what you order at a bar says a lot about you. What we are seeing right across the world is people are trading up, whether it is from illicit alcohol into entry level branded alcohol in Africa or moving from black label to blue label in China, every step of the ladder we are seeing trade-up. I do see a resilience to premiumisation continuing in spite of economic volatility.

On inflation we have multiple levers that we will deploy. Clearly mix is in our favour. Our products many of them are aged. We have productivity at place. We have revenue growth management capabilities that are strong. We expect to be able to handle inflation because we have got multiple levers to work with it. That is what gives us the confidence in this guidance that we laid out today.

Moderator: How sustainable is the incredible growth that you have been seeing in the US? When will it slow down and how confident are you that you can keep gaining share of tequila?

Debra Crew: Hello. As far as growth in the US I think the one thing to remember is that first of all from a total spirits standpoint, from an industry standpoint, household penetration is still relatively low. We have been continuously sourcing volume from both beer and wine. There is a lot of opportunity just for the spirits industry to continue its strong growth. Then if you look at Diageo we are still only 6-7% of total beverage alcohol. There is a lot of runway still to go and clearly the move during COVID to at-home and that occasion certainly there was a stock up. However, even as bars have reopened and hospitality is largely open now, we are still seeing great resilience in the at-home occasion. As Ivan just spoke about, when you look at the fundamentals of our portfolio the multicultural appeal, the demographics, everything is working in our favour for really long-term sustainable growth.

When it comes to tequila specifically I also really feel great for the same reasons. As I discussed on the video, once again it is a really versatile liquid so tequila itself still has a lot of runway within the US. Then our brands specifically, the Don Julio and the authenticity, 1942 is a brand in its own right on the luxury end and then plus we have got Casamigos which is a more modern interpretation. Really we feel like both of our brands complement each other and really set us up to continue to gain share within that fast-growing category.

Moderator: How significant is Asia in contributing to your future growth, especially India and China?

Ivan Menezes: I will turn it over to Sam on China. On India I would say very good about the underlying demographics. Penetration of spirits is still low and is growing. Premiumisation is very strong. We are seeing it in the performance even through the pandemic. It has accelerated. Scotch whisky is doing very well. As we know, a very young population, social morays are changing. All bode very well for strong healthy growth and premiumisation in the spirits category in India. We feel very good about it. Indians love whisky and long may that continue.

Sam Fischer: Hi everybody. I think we also feel very good about the growth prospects for Asia and specifically China. We have talked a little bit about being 10% of Diageo over time. We have already come from 2% to 5% so our progress has been terrific. I guess we have got two really interesting pillars that are going to drive that growth. Ivan has talked about premiumisation and we are privileged to have a position in baijiu through our Shui Jing Fang participation, which is going to really capitalise on that premiumisation trend, which is not new. Baijiu has been premiumising for a decade and that is really what is going to continue to drive the growth in what is the largest spirits category in the world. We are privileged to have an exciting position there and we have seen incredibly strong growth.

Then in scotch you have got the opposite. We are a strong player in scotch in China but the category is still very underdeveloped at less than 3% penetration. We are working hard to drive the category development through whisky summits and boutiques. We are seeing lots of green shoots in scotch, as I mentioned, through what is happening with auctions. Also 600 scotch whisky bars have now opened up across China. Our job is to continue to develop that category and to continue to develop our brands within the category. Huge runway in scotch, significantly positioned in baijiu which we think underpins that ambition to get to 10% of Diageo's sales over time.

Moderator: With regards to your tools, how advanced do you think you are relative to the peer group?

Cristina Diezhandino: I will talk about that. We started to work with Catalyst, in a way that really fits with our portfolio and with our industry, back in 2017. That has given us an enormous amount of experience and also data points. In addition to that we have worked to continue improving the methodology. We have added new tools, new layers that give us not only more data but also an expanded timeframe in which we analyse our investments to optimise it. Now we have had the ability, as I mentioned earlier in the video, to gather even more data points because we are touching consumers at more points of engagement with the brands than ever before. That in turn multiplies the degree of our insights. We believe that we have fundamentally strong tools that give us an advantage insights into how our categories operate, what occasions are performing for consumers, how our brands can play in those occasions and also what content we put out there and how we give ourselves the opportunity to improve it over time. I am really encouraged about not only the tools that we have in place today but also the systems, the methodologies and the capabilities that we have embedded across all our teams globally to continue improving them towards the future.

Debra Crew: Cristina, I will jump in too. I do think probably the biggest proof point is the market share gains that we have been able to make. I really feel like the tools are part of that. Certainly in COVID I think a lot of the US share gains really were because we were able to pivot, adjust and really micro-target it as various cities and states would open and close. Various things were going on. Without these tools it would have been quite difficult. It was very clear that we were doing that quicker than some of our peer companies.

Alvaro Cardenas: Hi everybody. It is quite similar in Latin America. The fact that given the 12 months we have been able to expand our TBA value share by almost 100 basis points. When I look what has been at the core of that it is our real understanding of what the consumer occasions are and how they have shifted. What are the new consumer motivations? The fact that we now have tools like EDGE to allow us to get scale with precision in a way that is sustainable and in a way that we are really disrupting consumer occasions that in the past were predominantly owned by beer, wine and locally brewed spirits.

Moderator: For tequila is there enough liquid to satisfy category and company aspirations? Don Julio Primavera, why is this the right time to introduce flavours into the brand franchise?

Ivan Menezes: The first thing I would say is if you spot a bottle of 1942, buy it.

Debra Crew: Yes, I will just add to that. We think we have enough liquid and then demand just continues to grow. There are certainly some of the things that I talked about on the video. These are limited edition offerings. Certainly you should pick it up if you can find it. You ask about Primavera specifically. It is actually not really a flavour. It is a reposado and it is aged in orange casks. However, it really is an aged tequila and finished really well. It is great for that mid-tempo informal daytime when you really want to treat yourself. It really is great to actually see how well something like Primavera has sold out incredibly fast. I think it just shows us how much we can expand the brand and how much more opportunity there is.

Moderator: The pandemic has disrupted consumer behaviour. Do you think this represents an inflection for spirits' share of throat trends and why?

Cristina Diezhandino: The pandemic certainly has disrupted consumer behaviour and we observe very quickly. Clearly with the closure of the on-trade people pivoted towards the at-home consumption. What that in turn allowed for people, given the fact that they had more time and many fewer opportunities to enjoy themselves in socialising occasions was actually, as I would describe it, the discovery or the rediscovery of spirits and the beauty of mixing drinks to pamper yourself and those with whom you can socialise given the circumstances. We have seen a tremendous growth of the at-home occasion and certainly spirits within that occasion. We believe that that will continue because although, as I mentioned earlier, for sure the on-trade will reopen as soon as it is safe, we have seen people really excited to reconnect with their friends or their families outside. That idea of when I am at home I can drink better. I can give myself a better experience. I can even experiment with flavour. Frankly, our portfolio gives us and everyone the opportunity to really enjoy a fantastic portfolio of great brands suitable for great occasions. Yes indeed the at-home occasion expanded. I believe that is there to continue and I think we have enormous room to play in that space.

Alvaro Cardenas: If I can bring a very light example, in Latin America the on-trade is already coming back to life. What we are seeing is that those consumer behaviours in at-home and specifically occasions, they are sticking, which is encouraging to see in a market that we are already seeing the on-trade coming back.

Moderator: Your share gains accelerated during the pandemic given innovation and focused marketing. In the post-pandemic environment are you confident that you can sustain these share gains?

Debra Crew: I will go. I will take it. We are very confident and I think it is because this innovation it really is sustained innovation. You saw today things like Baileys Deliciously Light. It is the great taste of Baileys with a little less calories. That is something that is a sustained wellbeing trend and that type of innovation keeps paying off into the future. I would also say the tools and some of this focused marketing that we are doing. In the US where we have had these tools a number of years, we just keep adding on more and more capability to it. We continue to find opportunities where maybe we are underdeveloped in this market or we see a zip code that has a lot of former Colombians that are there so Old Parr is an opportunity. We continue to find these targeted opportunities and that is going to continue well beyond the pandemic.

Ivan Menezes: I would just add that in the Diageo culture and performance management our focus on quality outperformance is very strong. The things that we review, before we look at the financials we look at the quality of market share performance around the world. I would say that muscle through the pandemic and through COVID has strengthened. This is a team that enjoys winning and I would say is going to do its damnedest to keep on winning. We are providing the support and the investments partly and with the analytics to do it. However, we have got tough competition and there is no question we have got to be at the top of our game and look at every aspect of our marketing, commercial and supply chain machines to make sure we are getting every bottle, every case and earning it in every part of the world. I am pleased with the momentum. As you saw, we have 85% of our business that is holding or gaining share. We intend very much to continue to maintain that outperformance going forward. That is what gave us the confidence in putting our ambition out there, the 2030 ambition to take our share from 4% to 6% of TBA.

Moderator: A big focus on reserve premiumisation. How do you balance premium packaging which is often heavy versus the higher carbon footprint from heavy bottles? Can you turn this to your advantage in your brand storytelling?

Cristina Diezhandino: Yes indeed. A big focus on reserve and in premiumisation. What we see in luxury in fact is there is a high degree, as we mentioned earlier, of interest in understanding how liquids and products are made and where they come from. Yes of course we will be looking at the packaging. We will be engaging with consumers to have a conversation around what kind of packaging delivers on the promise that they are looking for in a way that is really exactly to the goals and ambitions that we set up for ourselves for 2030. I think indeed there is a great opportunity. You may have seen some of the work that we have done on Johnnie Walker. If you ever go to Princes Street the whole idea of how things are sustainable, even sustainable cocktails, fewer packaging in the delivery of highballs are present there. You can experience delicious liquids in that context. Certainly the portrayal of our new paper-based bottles that we have done with a consortium of other companies under Pulpex. That will be made commercially available for 2023. Certainly I think this is a fascinating area where a lot more work is going to be happening and I am sure that luxury consumers will be very, very interested.

Moderator: Can you please touch on your strategy for RTD in the US which appears to be gaining share?

Debra Crew: Sure. The way we look at ready-to-drink we are not going to play everywhere but where we play we want to win. The way we are looking at it is RTDs are premiumising. It is really an opportunity for us and I think our Crown cocktails are probably the best example for it. The seltzer trend has been huge and it is certainly a huge category but you are starting to see consumers look for more in their canned cocktails. They are migrating up the price tiers. We see premiumisation as an opportunity. We see differentiation not just bringing another flavour of seltzer but instead really bringing quality brands and America's favourite cocktails into RTD. Then we also look for opportunities where it can really expand our brand. Once again I will use Crown, I will use Tanqueray, Ketel One is an example. This really brings some newer, younger LDA+ into these brands. It is exciting to see how it is growing our brand penetration on some of our largest brands.

Moderator: Hi Ivan, great presentation. Would like to understand what you believe is the sustainable level of growth for scotch global that underpins the medium-term net sales guidance of 5-7%. Thank you.

Ivan Menezes: I would say we see the whisky trends long-term as very healthy. I think you saw it in my presentation, the faster growing categories of agave, gin and scotch. Scotch will be mid+ single digit growth and we certainly intend to perform and gain share against international whisky over the next few years. I am very excited about the future for our total whisky portfolio and specifically for scotch. Within it premiumisation is accelerating. We are seeing it really, really strong and Diageo has phenomenal assets. The brands, the distilleries, the experiences and the quality of marketing we are putting behind our big brands and our malts portfolio. Most importantly I would say the consumer markets, and you take places like China and India, still have a very attractive runway ahead in terms of growth. Latin America we are a tiny player in TBA and what you see with our brands like the deluxe scotch brands, Johnnie Walker Black Label and Buchanan's we are recruiting young adults from beer occasions directly into scotch whisky, it is not coming into deluxe scotch whisky. Not coming in at entry level price points. I would say the team and I feel very optimistic and confident about the future of scotch. As you know, it is our most important category and we certainly intend to keep it that way.

Moderator: This concludes this Q&A session. If your question has not been answered please contact the Diageo investor relations team. Thank you and please stay tuned for the next session.

Moderator: This leads us to our second Q&A session. To ask a question please use the question function at the right of your screen. Please submit questions that you would like to ask the speakers who you have just heard from. Our first question is, how much of Diageo's agave procurement is vertically integrated versus third party and how is that expected to evolve in coming years?

Ewan Andrew: Hi everyone. We have been long planning for agave management strategies since pre-acquisition and then since the growth has come through. We have a dual source in both farming our own which has been increasing and also building the partnerships with our best growers which have strengthened over the years and have put us into a strong position for the future. We will continue to evolve that in the coming years in line with the agave market. We know that it is going to move into a period of increased excess agave and we will manage accordingly the split between our own agave and with our partner farmers.

Moderator: The next question is, does your global supply chain excellence provide you with a market share opportunity given inventory shortages in the trade?

Ewan Andrew: What I would say on that question is that undoubtedly coming into the pandemic what we have been setting up from this programme to be end-to-end across our value chain really integrated across the business through to the markets. It put us in a position where we came in with momentum on supply chain visibility and inventory visibility. If you couple that with some of the advantages in particularly the global export supply chain and a lot of our volume comes out of the UK and Scotland, our scale we are the largest containerised exporter in the UK. Out of Scotland we do all of our exporting from the two ports there and actually that gives us both the scale advantage with the relationships with our suppliers and the global freight companies, but also gives us access at times that not everyone else does. We can access in at weekends, night shifts and that puts us in a position where we can keep throughout the week really utilising that type of capacity. That does give us a commercial advantage. The last thing I would say is that versus a year ago our service levels, as you saw in my presentation, are up 2%. When we have benchmarked that externally that is at leading levels. That will put us in a strong position to continue to support growth.

Moderator: Our next question is, as you think about the long-term category prospects of scotch have you started to lay down extra inventory ahead of the potential change in tariffs in India? You see scotch growing 7% over the mid-term. Does this include any assumption around lower import duties in India?

Ivan Menezes: I can take that. Firstly the India FTA agreement still has to play out. While conditions are more favourable we are by no means at the point of saying this is going to happen. One of the beauties of our scotch business is that we lay down whisky planning for decades ahead and in our medium-term growth, to the question I answered earlier, scotch growing at mid-single digit value growth, we have not factored in a dislocation of India really opening up. However, we have the ability to respond because we can allocate our whiskies to the opportunities at the appropriate level. We are watching it. We clearly know the scenarios of what might happen on the tariffs. We do understand the implications and Ewan and the team in Scotland are managing scenarios against potential outcomes. We feel confident we will be able to work our way through whatever happens in India and for our total scotch business.

Moderator: Our next question is, do you have a fixed idea as to whether talent should be homegrown or acquired?

Mairéad Nayager: I do not think we have a fixed idea because we like to be able to acquire the very best talent externally when we want to supplement our homegrown talent. Ideally we would develop and grow people from within and we have got some great stats around how we do that over a number of years, but where we need to get new skills, capabilities we go out to the market. We have set ourselves a challenge of having 70% of our hiring happening through internal promotions and then we will supplement that with 30% or so that are acquired from the external market. I think that is a good balance for us for now but as I said, we are not fixed because we think we need to be agile in how we allocate talent to the right opportunities.

Ivan Menezes: John, in Europe you have got that balance. What have you found?

John Kennedy: What I think is I like the way we have about two-thirds of our promotions are internal and about a third are people who have come from outside. What we have found is the experience base in the market across a number of different countries and in our sector is valuable but then you level that with specialist skills and data and analytics or e-commerce and that creates a powerful result. I think the balance we have got right now is working and bodes well for the future.

Moderator: our next question is for Hina. What do you see as the biggest opportunities for India and the biggest challenges?

Hina Nagarajan: Hello everyone. I think our glass is half full as far as the opportunities in India are concerned. Basically the first opportunity for us is really accelerating premiumisation. A few years ago we were at 50% of our portfolio being the premium end. Today we are at 70% and if we look at all the macros they point to a much bigger scenario for us to accelerate this premiumisation. 30% of households in the next three years are going to be in the upper and high income groups. There is a McKinsey study which says India will have the third highest number of high net worth individuals. Clearly that is a big opportunity for us on our scotch and luxury portfolio. We have a fantastic portfolio of IMFL also to tap into this premiumisation trend and really accelerate our growth. Our mission really is to sustain double-digit growth in our business.

The other big opportunity in there I would say is that we have actually taken leadership on Society 2030 goals. If you look at the inclusion and diversity narrative we have really played a very strong leadership role in changing the narrative for the alcohol industry where today women like myself are happy to work for a company like Diageo and work further to normalise it. Even on ESG I shared some of the achievements we have had and equally on positive drinking. We have a real opportunity as the number one spirits company in India to be able to really impact the communities around us and drive positive change.

On the challenge side I would say our regulatory environment is tough and we are also not a free pricing market so in the face of inflation I think pricing and limited ability to take pricing and to deal with regulatory challenges is a challenging thing. However, the way we look at it, on the regulatory front I would say when some states come up with regulatory challenges there are others which give very positive policy responses like Delhi which has really changed the route-to-market and is transforming the retail environment for consumers, giving us huge opportunity.

On the pricing side while we advocate strongly with the government we are also working on the things we control. All the levers that Ivan described, pushing the mix, looking at revenue growth management, a very strong productivity agenda and really pushing all the levers we have to tackle the inflation we have on hand. We think we can manage it.

Moderator: Our next question is, with regards to your sustainability ambitions throughout the supply chain, what are you doing to make peat used in scotch production more sustainable? is this even possible?

Ewan Andrew: Yes, it is a great question. Peat is a marvellous part of our business. It is part of our heritage and we treat it very responsibly in how we source that. As you will know, 96% of peat that is extracted in Scotland is actually for horticulture, about 3% for fuel and we are part of the less than 1% so it is actually a relatively small amount. However, that does not mean that we are complacent in any way. We have put big restoration projects that are quantums bigger than our actual use of the land. For Lagavulin's 200th anniversary back in 2016 we started a project which was restoring more than 280 hectares on Isla. As part of Johnnie Walker's celebration of 200 years we also up in the Cairngorms National Park together with the Scottish government, NatureScot and the Royal Society of Protection for Birds, the RSPB, put in place another largescale project, almost 200 hectares of restoration. We are doing this because it is the right thing to do and it is part of biodiversity and restoration. It is fantastic as a medium for capturing carbon. However, we also make sure our extractions, which are very low, are very responsibly managed. When it comes to the question about if it is even possible, do not for a second think that it is something where we are tearing into the landscape and extracting. It is very much a curated process. What we do is if you take Isla as a good example, we have got a licence dating back to the 1980s that lets us extract peat from the land in about 65 hectares. We take from around 35 hectares but we only extract from one hectare. It is a relatively small impact and it is an important part of the scotch whisky industry and how we create flavour in our brands.

Moderator: How many markets across Africa are there Cubes in place? Can the model be used in other regions to target mainstream spirits?

John O'Keeffe: Great, thank you. Before I answer the question on Cubes which is our agile way of putting spirits production on the ground, you have got to ask the question, why do we need it in the first place? It is because the growth in spirits across Africa is now phenomenal. If you look at our LDA-34 year olds the penetration over the last ten years has increased 700 basis points. What we are seeing is a real interest in that LDA-34 year old category amongst men and women in spirits, in cocktails, in mixing drinks. That is a very exciting development for us and we are seeing spirits grow incredibly fast year-to-year.

Cube is a very low capex way of us testing really the waters for whether an opportunity exists in a marketplace or not. If you look at what we did in Nigeria four or five years ago, we initially led with a Cube and then once we proved to ourselves that the spirits opportunity was enormous we then put in a higher cost but more efficient fixed line operations. If we then look at other markets like Angola where we do not have any on the ground presence heretofore and now we have recently set up a joint venture with a local partner on the ground and we have again used the Cube as a way to test the water where we are now locally bottling spirits and taking some nice market share in spirits. I think it is a very nice way for us to build on the growing penetration of spirits to sit alongside our brewing operations across the countries. Finally I think it allows us to create a beachhead in new markets which previously were inaccessible to us.

Moderator: Thank you for the presentation. What is your strategy for mainstream and economy beer in Nigeria and more broadly Africa?

John O'Keeffe: If I speak to Nigeria specifically the reality is we have exited mainstream beer and low value beer. We felt that we did not have the right to win there. We did not need the capacity utilisation benefit of that and finally we felt that the margin was very, very low. If you look at our portfolio that we now have pivoted to in Nigeria, it is quite exciting. I feel that we have a strategy that plays to our strengths where we are focusing on Guinness, malt, RTDs were a big player and then finally into mainstream spirits and IPS. I think all of those play to our strengths. We feel there is some significant profit pools there and we think there is some significant growth there. That was shown out in F21 where despite the challenges of COVID we grew the business close to 60%. I would expect that new focused portfolio strategy to allow us to continue to grow quite aggressively in Nigeria.

More broadly across Africa I think it is on a case by case basis. Where it makes sense we would certainly play in value and lower mainstream beer. Like in Kenya, for example, where given our market share position but also given the tax regime there and the large illicit sector, it makes sense for us to play in that segment of the market and encourage people to trade up from the large illicit sector into more formal regulated drinks. I think we look at that really on a country by country basis across Africa.

Moderator: In terms of your people capabilities what do you need to add to achieve your 2030 ambitions?

Mairéad Nayager: Not surprisingly, I will say that we need to continue to be focused and invest in digital, data and analytics and new skills that are becoming more and more relevant over time. We have started with that investment. We are building the skills internally and acquiring where we need to. We will continue to invest appropriately in those new skills. I think over and beyond that our absolute commitment is to grow talent and acquire talent that are very driven, curious, creative and capable of being agile. We certainly learnt through COVID that that ability to work cross-functionally with pace is the most important set of attributes that we would have at Diageo. Jump in any of you team. We can share many examples of how that has enabled us to get faster at innovation. Whether that be in Europe, in GB, in many of the markets across Europe or in India, you have heard some of the examples that John and Hina shared in the presentation. Agility, speed, drive and that creativity that has always been part of what Diageo is great at.

John Kennedy: I would add to that Mairéad. Capability is one way to look at it but the culture we talked about in the last presentation, COVID really has been an accelerator for us. The way we focused on working in sprints, much more external focus, winning market share, moving faster to understand and capitalise on consumer insight. We continue to do that well. We believe we will continue to win and that is where culture and the attitude of our people really do give a competitive advantage. We have also built the muscle over years on everyday efficiency. An orientation towards the world is changing fast, one today is not going to be the formula for tomorrow. Therefore you have got to have significant reallocation of your resources and zero-base your thinking year-to-year and quarter-to-quarter. We think some of the things we have seen in the last 18 months bode well for the future.

Moderator: You recently introduced six months paternity leave at Diageo in a number of markets. Can you talk about what uptake there has been?

Mairéad Nayager: We are really proud of the rollout of this policy in particular. It is not easy to rollout a global policy in over 70 countries globally, particularly when you see cultural differences across those markets. We have seen great take up in Europe, for example, and in the US. You would expect me to say that but what I am really proud of is seeing the response of employees across the globe to that rollout. I particularly love seeing the faces of the men on the operating line in Brazil when we shared with them the news that this policy would be available. There was just absolute joy and there was an anticipation in advance of that rollout that some markets in Latin America may be a little bit further behind but actually that is not what we have experienced. We have seen many of our senior talent take up the new option on six months paid leave for men where they have had children introduced into their lives and I think that is phenomenal. In terms of a few stats, 23 days was the average or the maximum I suppose that men took on the arrival of a new child into their lives and now that has gone up to 99 days over a 12-month period on average. It is astounding the impact it has had. We believe it creates opportunity for more diverse talent to fill in those roles when individuals go on leave and it is definitely part of how we intend to be inclusive. If Hina can speak I think it would be really interesting to hear from her because it was rolled out in India very recently. I am not sure if we can patch her in.

Hina Nagarajan: Yes, we rolled it out very recently, just a couple of months ago. Mairéad described the ecstatic look on everyone's face and I think India it was a breakthrough. We got massive, massive social media engagement on this subject because it was so breakthrough in India. We are already seeing uptake, men and women alike, on parental leave and every day there is an engagement from men saying that this has really changed their life in terms of being able to spend time with their babies. It is quite leading here and another progressive policy that is making a big impact in terms of motivating other companies to look at it.

Mairéad Nayager: I think the key point on that is the ability to then attract better quality talent to broaden the scope of who will join our business. We think that is giving us a competitive edge from a performance perspective.

Moderator: Our next question is for John Kennedy. Where is the on-trade channel in Europe versus pre-pandemic in recent months and how is Diageo performing in the channel?

John Kennedy: We have paid particular attention to our biggest countries which would be GB, Ireland, Southern Europe, and what we have seen is encouraging. If you take beer, that is running in GB and Ireland at about 85-90% of pre-COVID. Spirits are actually doing better so we see a strong snap back in the channel which is encouraging. Actually, if you step back a little bit further, particularly if you look at the total spirits market across both channels, to give you a bit of colour on that, in the last three months spirits in volume terms are actually growing versus pre-COVID in total. They are outperforming beer and wine. We see some share shift into the spirits sector. Then within spirits we are seeing an acceleration of the trade up phenomena. We are seeing premium plus spirits grow at double-digit rates, much faster than mainstream. Within that we feel good about Diageo's performance. You would have seen in our F21 results we won TBA share in six out of the six Europe markets. We won spirits share in five out of the six. Those trends have continued. In the last three months we are seeing significant share gains for Diageo in five out of our six markets and at a Europe level overall. It feels like there are some tailwinds for spirits and Diageo is well positioned in the sector.

Moderator: Our last question in this session is, how important is your ESG performance to attracting and retaining talent?

Ivan Menezes: Yes, I can take this. Very important and we are attracting really top notch talent from some of the best leading reputed companies in the world. There are two things that go hand in hand. One is performance and the other is our purpose which includes our ESG commitments around inclusion and diversity, grain-to-glass sustainability and positive drinking. Hopefully you got this from this session from Mairéad, John and Hina. The Diageo magic is both. You have got to be a performing and winning company and we have the privilege of really being a standout company on ESG as well. That is something I would say this leadership team takes really strongly and it is also the kind of people we attract because we are looking for high performers but then very much people who are doing the right things by way of our people, society and the planet. It is a big distinguishing factor of our employer brand and it helps us retain talent and clearly helps us attract.

Thanks very much for your questions in this session. We will move on to the next session.

Moderator: Thank you. This concludes the Q&A Session 2. If your question has not been answered please contact the Diageo investor relations team. Please stay tuned for the next session.

Moderator: Welcome back to our third Q&A session. To ask a question please use the question function at the right of your screen. Please submit questions that you would like to ask the speakers who you have just heard from. Our first question is, what are the assumptions behind your target of 6% TBA value share by 2030? Which geographies do you expect will drive the biggest step-change in your TBA share? Do you think you can increase your share of TBA in the US by 50% from circa 7% to over 10% by 2030?

Ivan Menezes: Hello everyone again. Debra, I will turn the US question to you but let me just start more broadly. The first point I want to clarify, our 2030 TBA share goal is an ambition. We are not giving you nine-year guidance. It is an ambition. Now, why is it important? It is important for our people and for our partners as to how we think about the business. You will have noticed we are talking TBA. That is where we see the opportunity for us to grow and we are a small player. We want our teams, our leaders to approach the business with a strategic sense of possibility and ambition. We will give you guidance and we will call it guidance as we have for the three years we have laid out. That is what is behind the 6% ambition, going from 4% to 6%.

The second thing on geographies, I would say we expect share growth everywhere. In the US and Latin America, Africa. This comes back to Diageo's strength. The portfolio of categories, brands and geographies we have and the actions we have taken over the last few years, really position us. We feel very confident about growing share. Certainly our ambition is to grow share everywhere.

Debra Crew: When you think about the fact of US spirits and the strong growth that we are seeing based on premiumisation and sourcing volume from beer and wine, that should continue. When you think about our advantaged portfolio, the largest whisky company, the fastest growing tequila company, the investment that we are making in A&P in the US, once again following Ivan, I would say the same thing. We do not have this mapped out quite the way this says here but I do think you can expect some reasonable share growth and 30 basis points is about what we are doing right now. I do see continued share growth in the US.

Moderator: When you compare the makeup of your prior Group growth framework of 4-6% versus new framework of 5-7%, which are the key moving parts by region? Just the US or are other regions also expected to grow faster?

Lavanya Chandrashekar: The way I would answer the question what are the key drivers of us believing that we can actually grow a point faster than our previous guidance, I think it is really three things. The first one is spirits is growing faster and taking share away from beer and wine, even faster than it did previously and we see that in North America, we see that in Europe. In a previous question John O'Keeffe talked about what we are seeing happen with consumers getting more interested in spirits in regions such as Africa. I think the phenomena of spirits growing faster is really across the board.

The second thing that gives us the confidence is that we have a more advantaged portfolio than we have had in the past. You saw from my presentation we have a leadership position in four out of the five fastest-growing categories within spirits. In the fastest-growing category within spirits, tequila, we have the fastest-growing brands and we are gaining share of total spirits. That is definitely an advantaged position. Over half of our business now is in premium plus price segments and that is the fastest-growing part of the category as well. 25% of our business is in super-premium plus which is growing even faster than premium. That gives us confidence that we will grow faster.

The third thing that I would say is we built the capabilities to execute better. We have more deep consumer understanding. Our market is better. Our customer execution is better. We have the digital tools and the capabilities to be able to do this with precision. We are better at driving productivity and that is what enables us to be able to fuel the business. Most importantly, we have an organisation that is really motivated and charged up. The passion of our people I think really is showing up in the results that we have achieved here in fiscal 2021 when we gained share in 85% of our measured markets in the off-trade.

Moderator: You have increased marketing spend from 15.5% in 2017 to 17% in 2021. Does your guidance assume a natural cap to this level?

Ivan Menezes: No, it does not. We do not set targets for A&P percentage. I hope what you have got out of today is you can see the rigour and the analytics that go behind our marketing investment decisions. When we see good high return opportunities where spending is right and will deliver us quality sustainable growth, we are going to do it. Our algorithm is very dynamic and so we will determine as we go into fiscal 2023 if the Presidents want to spend more and have confidence in the growth and the returns they will get. We do not operate to a percentage target and I think you have seen over the past few years we have taken up our reinvestment but the quality of top line sustainable growth has come along with it so we feel good about the returns that go with that A&P analytical understanding we now have.

Moderator: Our next question is, can you break down your assumptions on margin progression in more detail? How much is coming from cost saving, what is the impact of marketing and what is the expected contribution of operational leverage? Is there anything else we should be aware of? Is there any reason why you cannot exceed historical EBIT margins of 32%?

Lavanya Chandrashekar: When you look at our margin progression, I think I would start by saying that historically we have been able to grow this business with both volume growth and value growth. On a business of our scale with some of our big global giant brands, when you grow volume you obviously generate operating leverage. The other thing that has helped us with margin expansion has been premiumisation. The category has premiumised and our portfolio has premiumised over the years. That has definitely allowed us to grow margins. The third driver of margin improvement is revenue growth management and I spoke a bit to it in my presentation but it really helps us to be able to take headline pricing, to be able to manage our mix of trade spend across packs, across SKUs, across different markets and to do so in a really intelligent way using data that allows us to do what I call walk and chew gum. That means grow volume and grow price at the same time, thereby growing share. That definitely helps us drive margins as well.

Productivity, you have seen that we have done productivity extremely consistently over the years on an average of £400 million even after the years that we got out of our Productivity Programme because that is really embedded within our culture. Then the last piece that I would talk about is that we are growing share and investing behind our brands. Superior investments behind our brands really helps us to be able to create that virtuous cycle of growth that then drives leverage and margins even further. Is there any reason why we cannot exceed historical EBIT margin levels? I am not going to answer that question directly but I do think there is a significant opportunity for us to be able to grow our operating profit in line with our guidance which is 6-9%.

Moderator: What has driven the raised sales guidance? Is it better volume, mix or price? Is it primarily led by the US?

Ivan Menezes: Yes, I can take that. It is not the US that is driving it. We are seeing improved performance everywhere. We are looking at all our regions and this is the result of I would say the actions, the investment decisions and the execution capability, everything we have talked about today that gives us the confidence that our outperformance, which you have seen in our recent market share performance, can continue. We do believe the executional improvements right across the business are contributing to the outperformance. As it relates to volume, price and mix, we want all three. The beauty of this business is it has got volume growth. The beauty of our consumer is they want to drink better and the beauty of our analytics is we know how to get the right level of price to enable us to get the flywheel algorithm that we want, to drive efficiency, invest in the business and grow margins.

Moderator: The next question is for Debra. Does Debra believe that the mid-term SNSV growth rate of the US spirits category will now exceed the long-term pre-COVID trend of circa 4%?

Debra Crew: Yes, I do think we can do slightly better and as I just mentioned in the prior question, it comes down to the strength that we have in tequila growth, our strength in our whisky portfolio, the strength we have with the consumer and I think the strength of the spirits industry overall. It certainly feels like we could do slightly better than that 4% that we were doing pre-COVID.

Moderator: Now a question for Alvaro. In your experience, how do you see the demand for Scotch evolving in Latin America in the context of weaker local currencies and the need for you to increase prices on these important products?

Alvaro Cardenas: Yes, Scotch right now is quite a vibrant category in Latin America which is outperforming not only in spirits but also outperforming TBA. We have got quite a solid portfolio of brands like Johnnie Walker, Buchanan's and Old Parr. Now, especially after COVID, these are really getting to gaining share of serves of at-home consumer occasions that before were predominantly of beer, wine and locally produced spirits. I think there is a high level of confidence around keeping on doing that. Also, we need to remember that we operate in a region that has been dealing with an inflationary environment. Currently if I look at the valuation and fluctuations for a long time so I think there is a high level of confidence around keep managing both the pressures that we are having plus the opportunity that we have with Scotch.

Moderator: Could you please discuss your outlook for the vodka and rum categories and your opportunities here? By your own admission, these are not priority categories but clearly they remain large portions of your sales mix.

Ivan Menezes: Yes, I am happy to take that. Firstly, I am not sure we ever said these are not priority categories. Here is how we think about the total portfolio of Diageo and take a really long view. Product categories do go through cycles. You have seen it on whisky 20 or 30 years ago, which was being called as the end of whisky. It came back. You saw the resurgence of gin that has happened in the last 8-9 years which has been extraordinary. We take the view that we have got to keep these brands vibrant and relevant. Actually, I feel good about our vodka portfolio and Cîroc, Ketel One and Smirnoff and the future that we see for them. I feel very good about our rum portfolio as well but we do not shape category dynamics. Right now obviously tequila, whisky and gin have more momentum but we are very committed to ensuring that these brands continue to build their equity in these categories and that we ensure we are positioned for when long-dated, long-term trends begin to shift. Smirnoff and Captain Morgan in a lot of the world still have a lot of runway for growth. It is a little more challenging in the US but even there it is now in modest growth and within the categories it is doing better, within vodka and within rum. I view this as at any point in time you are going to have parts of the portfolio growing faster, parts growing slower and you will have markets growing faster and markets growing slower. Diageo's strength is our ability to manage across the diversity of this portfolio and deliver consistent sustainable growth.

Moderator: Our next question is, how integrated are your tools with distributors in the US? The convenience channel is becoming increasingly important for spirits with growth of prepared cocktails. How can you win in this channel where beer distribution has always had the edge?

Debra Crew: We have got two networks. We have got the spirit distributor network and we have got the beer distributor network. We feel great about both. Really when we are looking at the convenience portfolio we are looking across both spirit cocktails in a can that goes through our spirits distributors as well as we have still got Smirnoff Ice which turns 21 this year. We have got a strong FMB portfolio still as well that goes through our beer network. We are quite integrated particularly with some of our distributors and we use a lot of their information as well as our own, as we are using tools like EDGE and so that absolutely helps us be able to take these products to the right places, to the right consumer at the right time.

Moderator: Our next question is, Cristina highlighted Diageo's cutting edge innovation capabilities. Given your best-in-class consumer insight tools and generally strong number one and number two positions in most product categories, why have you chosen to acquire brands in areas like premium gin or premixed cocktails in recent years rather than creating them in-house using these capabilities?

Ivan Menezes: Yes, I am happy to take that. I would say we want both and we are very disciplined about when we acquire and what we expect. We are very selective in the acquisitions. Clearly using our innovation engine to build new brands and new products as well. In these two cases, Aviation Gin we have identified as a brand that has over several years built very nice traction in the marketplace. We think with the trend of premiumisation in gin ready to take off in the US we believe that it is well positioned to capitalise on those trends. Some of the cocktails, the Loyal 9 Cocktails again a very distinctive proposition. It is early stage, not a lot of capital and it helps speed the process. A spirit brand typically takes a long time to build from scratch, typically, so when we spot things early, a bit like we did with Casamigos and why we went after Don Julio when it was much smaller, we will always use both.

Moderator: The next question is, are you expecting acquisitions to be a material contributor to your ambition to increase TBA share from 4% to 6%? What is the next big growth opportunity that you are investing in today for the decade ahead?

Lavanya Chandrashekar: We do expect to have some regular investment in M&A. It has been a huge driver of value for us over the last several years. You will have seen that 460 basis points of growth for our US spirits business came from the acquisition that we made in Casamigos. Equally importantly, divestitures have played an important role as well in accelerating growth as well as generating funds for our shareholders and creating more focus in the organisation on what we go after. We are very picky about the brands that we buy. They have got to be built the right way. We need to have confidence that we are going to be able to deliver strong shareholder value by making the acquisitions. We are extremely disciplined in how we go through the entire M&A process but I do expect that it will be a key contributor to our ambition to grow.

In terms of what are we investing in today for the decade ahead, a lot of things that we have talked about today. If you look at the $500-million investment that we have announced on expanding capacity in tequila. The single malt distillery that we announced that we have just started construction on in China. The Guinness storehouse in Chicago, these are all things that will help us to be able to grow this business for years to come. As well as our investment in digital capabilities. Cristina, Debra and Alvaro shared a number of the tools that we are using in this space and this will continue to fuel incredible growth for us in the decades to come.

Moderator: Is low and no alcohol a significant part of the new growth algorithm? How should we think about it going forward, focus on organic or M&A?

Ivan Menezes: Yes, I can take that. We do see the space of low and no alcohol as attractive and strategic going forward. We do intend to participate in it and our goal really is to lead the shaping of it, particularly in spirits. We are going to go about it with innovation internally and M&A, as you have seen with a brand like Seedlip which came in through Distill Ventures. Organically, we have had great success with Tanqueray 0.0, Gordon's 0.0 and Guinness 0.0 is off to a very good start. We have not set a quantified goal here because our goal is really to help lead and shape the market. That is how we are looking at it. We think it is a really attractive, on consumer trend opportunity which we want to lead the development of.

Moderator: Our next question, can you provide more colour around the phasing of the £1.2 billion cost savings over the next three years?

Lavanya Chandrashekar: Sure, I can take that. In the guidance that we have put out for the medium-term, that is fiscal 2023 to fiscal 2025, we do believe we will be able to deliver £1.2 billion of cost savings in the three-year time period. We are not providing explicit guidance on exactly what the number will be year-on-year but let me tell you a little bit about why I have such confidence in our ability to be able to deliver the continued productivity. First and foremost this is embedded in our culture and our people. What do I mean by that? What I mean by that is that our people wake up every day, go to work every day believing that this is something that they need to do. Why would somebody want to do that? They want to do that because they know that each dollar saved gets reinvested in growing our business. In a company that loves our brands as much as we do this is why this entire machine works. We do believe that we will get a fair chunk of those savings from COGS. We believe that marketing efficiencies will be another driver of the savings and we do believe we will get some savings out of the overheads area as well. I do have strong confidence in our ability to be able to deliver productivity savings over the three-year time horizon.

Moderator: The last question today is, why raise the lower end of the guidance from 4% to 5%? Historically, the spirits industry has been quite cyclical. Have your views on the cyclical component changed?

Ivan Menezes: Yes, I can take that and maybe I will use it to wrap up what today was about. Firstly, specifically TBA is not that cyclical in terms of the underlying consumer demand and the drivers of premiumisation that are at work. We feel very confident about that. I hope you took away from today that raising the lower part of our guidance from 4% to 5% really reflects our confidence in the business and our ability to deliver sustainable quality growth. It stems from the participation we now have in the portfolio, the product categories, the brands, the price points and the geographic footprint. US, China and Europe are strong. You see tequila, whisky and gin are strong. Reserve brands are growing at a very fast pace and we have the leadership position there. The reshaping of the portfolio that has happened in the last five years positions us for better growth.

Then you look at our investment behind this and we are doing it much more smartly. Our marketing and commercial execution, as I hope you have seen today, is leading edge. We have invested behind it and the quality of both creative data and analytics, and route-to-consumer execution are now at a whole different stage. Efficiency and productivity are built in and that gives us the oxygen to reinvest. As Lavanya talked about, it is very much in our culture. Our commitment to sustainability and ESG, I hope you would agree, we are genuine in our desire to lead here. If you look at our track record over the last decade, we have had impressive gains there.

Then finally I would say to Lavanya's point earlier, our people and our culture is a real competitive advantage. As we put this all together and look forward, this is what gives us the confidence in the medium-term guidance that we have laid out. It is a competitive world out there and we still have a lot of opportunities to improve in our execution in parts of the portfolio that are not working. I know I speak on behalf of the Executive Committee team here in front of you that this is an ambition we are both excited about and determined to deliver. Thank you everyone for your time today. I hope you found the Capital Markets Day informative and useful. We all appreciate hugely your interest, support and investment in the company. Thank you.