

CAPITAL MARKETS EVENT PRESENTATION – OUR STRONG GROWTH ALGORITHM - Q&A SESSION 4

LAVANYA

Now, let's open the floor to Q&A.

ROBERT OTTENSTEIN, EVERCORE ISI

Great, thank you very much, these have been terrific presentations. I just want to circle back to some of the discussion we had in the beginning and tie it together here a little bit. And that is we've been getting a lot of questions from investors on this is given the fact that cost of capital is elevated everywhere in the world, pretty much, the macro issues are pressing and increasing globally and it's kind of hard, I mean, we don't know your distributor route to market in every single country in the world, obviously, but it's kind of hard to believe... or put it the other way, how do we have confidence that you don't have significant inventory in the supply chain hidden out of view in other important markets around the world?

DEBRA

Look, if it's helpful at all, maybe we just circle around to the president so that they can talk a little bit about this?

LAVANYA

Actually, that may be the best way to do it. I'll just kick off, I mean, North America. It's a three-tier structure. We have full visibility on what we sell to our distributors, we have full visibility on the depletions that they have, the big distributors, the depletions by account. And we have this on a monthly basis in terms of the depletion data, real time data on distributor inventory levels and we have been very explicit in sharing that with you all, as well.

So, it's a fundamentally different market structure in North America. And then in Europe...

DEBRA

I was going to say I would also add, in North America, of course, tools like EDGE and some of this, remember, this covers 300,000 outlets, we've got a dedicated division within the distributor that are out there in outlets, as well. So, hard to hide inventory in North America, even below the distributor level. And then I don't know, John, do you just want to talk about APAC?

JOHN

So, if we just break down APAC, let's take the mature markets, Australia, Korea, Japan, they've all got very established retailers. We've got very good EPOS data, point of sale data so we're feeling very good about that. If you go into our biggest market, Greater China, Baijiu business, we work with exclusive distributors so they only carry our stocks. We've got excellent visibility on that. And by the way, you don't grow 21% in the last quarter unless you're in a good stock position. And then you move into Southeast Asia, which does have some similarities to Latin America but I'm very comfortable how we finished the fiscal and we've got good visibility, which we also check through third party, as well, through those markets. And then in India, just very briefly, 50% of our distribution is with the government-owned distributors, again, excellent visibility.

So, on balance, I mean, it varies by region but I'm feeling good about where we are right now.

LAVANYA

And India is fundamentally different for this business than any other CPG business. The total number of outlets in India is less than the total number of outlets in Greater London. So, the visibility is fundamentally different.

DAYALAN

If we look at the African business, 65% of our portfolio is beer. And if you think about the beer businesses, average 30-day shelf life so the beer business has a low shelf life but also, the majority of the portfolio is in what we call RGBs, returnable glass bottles. So, you've got to ship out, you've got wait until it's consumed, bottles come back, then you reproduce and ship out again. So, that part of the portfolio is very, very well managed so you know exactly where the stock is.

Our biggest spirit market is South Africa and if you look at the South African business, it is a big, formalised trade channel where you've got big retailers. And it's day 1, day 3 shipping so we know exactly what stock is in the trade. So, from an Africa perspective, I feel comfortable we know exactly and we've got our hands on all the inventory.

LAVANYA

So again, the majority of the Europe business is big, modern retailers, you know, the Tesco, Carrefour kind of thing. We do have some wholesalers in Europe and, actually, we look at their orders on an everyday basis and that's been the practice in Europe for a very, very long time. So, it is a very well-controlled channel. So, I think we've pretty much gone round the world.

LAURENCE WHYATT, BARCLAYS

Laurence of Barclays. You talked about taking brands global, particularly tequila but, I guess, Guinness is one of the brands that actually has a relatively few countries that it's sold in, you know, UK, Ireland. Africa is another place, as well. But, obviously, beer has massive markets elsewhere, you've got Brazil, Mexico, much of Southeast Asia where some of your competitors have big positions. Is there potential to take Guinness to more places?

DEBRA

Guinness is actually sold... I want to say in 130 countries that Guinness is available? I'm looking at John, the Beer Board. The deal is that we actually operate in a lot of countries through other parties so we're not holding... it's actually one of the beautiful pieces of our Guinness business is the fact we really run it in a very asset-light and efficient model. So, we're not having to... we've got quite a different model than sort of the beer companies which you're building big breweries and you're having to invest in a lot of big infrastructure to make that work. And, in fact, you would have just seen some divestiture of assets that we did in Africa as an example.

So, we take a look at these to say if there's somebody else who can do it better than us, we've got models for that. So actually, we do have Guinness out there. I will say we are

seeing opportunities though, yet, for Guinness. John, you've got one in APAC that you're looking at. So, we are looking at Guinness, as well. And I think the exciting thing, as I'm looking at like zero, zero, I think we're only in, maybe, is it five countries right now, I think? And quite honestly, that just so delivers versus kind of core Guinness. So, we're looking at that but we do actually operate in many more countries than what it would first appear but it's just going through, in many cases, some of our beer competitors, actually.

LAURENCE

So, you've got this sort of medium term guidance with limited margin expansion over the medium term, going into next year, we're sort of assuming that some of the issues you've had in LAC you're going to start to lap and so, potentially, the operational leverage that you'll lose you should get back next year. And some of your competitors in tequila have talked about the benefits of the agave price, presumably you would be getting some of those, as well, some of your competitors have quantified that, as well, as well as all of the COGS deflation that's coming into the market right now and again, well documented by some of your peers. With that sort of environment, it seems like a huge amount of A&P to put back into the business to be able to get a flat margin. Why are you just not being very conservative here?

LAVANYA

I think it's a mixed bag. Definitely, we do recognise and we do expect that agave prices will continue to come down over time. Having said that, more of our portfolio is in aged liquid so it's just going to take us a little longer for that to show up in the P&L.

In terms of inflation just a couple of things that I do want to call out. Look, the world's a complex place, we're definitely seeing some moderation in inflation. But then, there are some key commodities which are more relevant for us than they perhaps are for others where we are continuing to see inflation persist. And so, I kind of look at like UK gas and this is publicly available data, right, looking at forward data for 24 and 25. 25 is like £1.32 per term versus today's price of £1.15. So, the forwards still indicate continued inflation. Aluminum is another place. You know, today aluminum sits around about 2,500 or so per ton, next year forecast to go to 2,650. This is where the forwards are. US gas, again it continues to be inflationary, \$3.23 per MBTU, now going up to \$3.7 next year. US resins is the other place where we are continuing to see inflation.

So, there are definitely pockets where we are continuing to see inflation persist. It's coming down in some places but continuing to persist in other places. So, I just take a more balanced view of what's happening to inflation in total here across the next, at least as far as we can see, right, the next two years of forwards it is still going to be inflationary in quite a few pockets.

DEBRA

I do think, though, if I could just reiterate again, it's not a change in ambition. We want to grow and we also want to expand margins. So, clearly, if inflation is better than what we're predicting, you know, that's what we're looking to do. So, it's not a change of, you know, we're going to spin this no matter what. It is certainly not that. And also, we aren't going to take some kind of big holiday from it either, that's not what we're saying. That's why I think the intent is important here. But it really is, as we're looking at it, we do want to make sure

that what we're doing is protecting the long-term growth and not making short-term decisions to make cuts as this inflation volatility flows through because when you think about how we've gotten there through these high single-digit pricing actions, this is not the environment you're going to be able to get that through in the short run. Hopefully, that helps clarify.

SIMON HALES, CITI

Hi, it's Simon Hales from Citi again. Can I just come back to the capital allocation policy that you talked about sticking to the 2.5 to 3 times sort of leverage range. I think after last Friday's sort of warning, I think we're probably looking to finish the year, probably, at the upper end of that range with the \$1 billion buyback continuing to be executed. How comfortable are you to be at that upper end of that range going forward? How do we think about future buybacks into 2025 and beyond? Are you happy to stay up there? Would you prefer to see the ratio head back towards the lower end of that guidance range before you think about further cash returns?

LAVANYA

We have a very strong balance sheet, and we have an excellent credit rating. We're able to access debt at very reasonable rates compared to the market environment that we're in. Our intent is to stay within the range, we ended last year at the lower end of the range. And a lot of this also depends on what other opportunities are. Our capital allocation is actually incredibly clear, we invest in the business, we're given pretty good guidance of what we intend to invest in the business on both capex and maturing stock.

On M&A, that's the place where it really differs year to year. If there is a great opportunity available, as I said in my presentation, we will be bold about making these M&A decisions. Equally, to the question that came up earlier, we are active portfolio managers and we will look at disposals, as well, and there's the continuous list of those that we're also always looking at. We will pay dividends, you know, we've been a progressive dividend payer and we intend to continue there.

And then, share buybacks, I think we'll make that decision each year based on what's happening with the capital allocation of choices, requirements that we have.

FINTAN RYAN, GOODBODY

Thank you, Fintan Ryan here from Goodbody. Maybe just to follow on from Laurence's question earlier, given that you're saying that you're still seeing inflation into next year, we've seen significant pricing being taken by yourselves and the overall TBA industry over the last two to three years. But you're saying pricing mid-term is going to just be 1% to 2%? If inflation is still running ahead of that, why are you pricing below the inflationary basket? And if anything, could this mean that you're quite this conservative should the overall inflationary backdrop stay quite persistent?

DEBRA

There are a number of things that we have to help us offset that type of inflation. So, remember also, the productivity agenda, as well, which absolutely helps us, particularly on a marginal basis absolutely helps us. And so, the goal, absolutely, is still to be, on an absolute basis, to be able to offset that inflation. It's just a matter of offsetting that inflation and doing the reinvestments that we need to make. So, that's where it sort of comes in, it's to think that

you're going to be able to price above that inflation to be able to drive additional... and we have some great productivity programmes coming through but some of these bigger programmes take time to get the full benefits of those. But there are a number of pieces in there but absolutely, we would still look to through pricing and productivity. We also get leverage on volume growth and that type of thing to make sure that we can do that.

CEDRIC LECASBLE, STIFEL

Cedric Lecasble, from Stifel. I have follow-ups on what's mid-term and what's long-term. And actually, you gave some sense of where capex would go, you gave some sense of productivity programmes kicking in and accelerating. So, you have a view that, maybe, two or three years from now you'll have some positives coming in and helping profitability. So, my first question is on A&P, you raised A&P everywhere over the last years but the A&P investments is quite different from one region to another. So, how should we think about that, how should we model it? Do you think North America is a benchmark for the other regions in five to 10 years? Or do you think there are some specific reasons to believe one region deserves less A&P than North America?

And the second question, sorry for this long intro, is about... so, kind of mid-term guidance, should we understand that as 25/27 and that long-term comes in 27/28 because of all you explained before? Thank you.

DEBRA

On A&P, we don't target a specific rate. And in some cases, if you think about alcohol around the world, like we do have certain markets that are dark markets, as an example, where you can't do as much. So, it's not necessarily like for like. This is what I tell the... all the region presidents are looking now to see, "Is she going to give me money?" But in all seriousness, there are real differences and we do take a very rigorous approach on looking at the return for that.

So, I wouldn't say from a model standpoint, taking a 20% and sort of straight lining it, you know, may not be the right way to look at it. Trying to think what I would suggest for you on a model. I don't know, we would have to follow up. Somebody has to follow up with you on that, I think, on what we would suggest you model in.

LAVANYA

It's also not at a regional level, it is market by market, right? Because the opportunities for the consumer is definitely market by market. A lot of it is going to depend on where the consumer is at in different markets at different points in time. I mean, during Covid, there were certain markets where the consumer wasn't going out, I mean, there was just no interest from the consumer. And so, we pulled back A&P investment in those places. And then where the consumer was much more active, we invested more in those places. So, some of this is also going to depend on where the consumer sentiment is in different markets at different points in time.

DEBRA

I think we did call out a couple of places that we were clearly going to invest in, in Lavanya's piece on Western Europe. So, that was, actually, a region that we did call out, trying to be helpful from a script standpoint.

LAVANYA

Medium-term guidance and the timing within that, look, in some ways it's hard to put a date around it and I do mean to be helpful, right? I'm not trying to be unhelpful here. But as Debra said, if inflation comes down faster, we'll get to the long term sooner here, right? Because the part that's within our control and which was in my presentation is when do we expect the savings from a supply agility programme to come through? And on that we know that we're going to start seeing more effect from fiscal 25 and it really accelerates from fiscal 27 onwards because that's within our control, we're executing this, we know we will get this done.

But on the macro perspective from an inflation perspective, I think that's a bit of the unknown and so I just don't think it makes sense for me to be committing to a date when that will happen.

SARAH SIMON, MORGAN STANLEY

Sarah Simon from Morgan Stanley. Can we just stay on the medium term. You obviously reiterated your guidance for 5-7% topline and margin improvement at the full year and then kind of implicitly at the AGM trading statement. So, I'm just wondering what's changed in the meantime? Is it that you think that to achieve the 5-7% you have to spend more on marketing? Or is it that the supply chain agility programme is yielding savings, which are more back-end weighted? Because, obviously, we get the short-term stuff but the mid-term, I don't think I really understand why you're more cautious about the ability to drive margin because inflation has been an issue for ages, it was there at the full year and it was there at the AGM so it seems to me it can't be that. Thanks.

DEBRA

Unfortunately, the thing in Latin America sort of has muddled our message here so I do get the issue. Clearly, in the near term and the Friday announcement was around what is happening in Latin America and so that is a very distinct issue in and of itself. So, how we're thinking about and what's hurting our margins in this sort of near run is really about that and not about sort of how we're thinking about medium term. So, hopefully, that clarifies some of this.

Look, I think the medium term guidance that we reiterated, as I said, there is not a change in ambition in wanting to get there. I think as we have really started to look in detail at what we needed to do to get to the 5-7% and really, I mean, you know, the goal is to get to the top end of that. As you get to the top end of 5-7%, the margin flows through. So, as we started to look at what that spending was going to be and the consistency of the spend, that was very important in order to really look at 5-7%. And so then, you start to take a look at the macro and some of the pieces on inflation, of which that has persisted and there have been things. I mean, the energy example is probably the best one. October 7 changed things in Europe from some of the energy things that we were reading.

So, there's just a lot of volatility out there on some of the things that we're reading through. So, I would say we now have much more foresight into where we want to spend to be able to drive the 5-7% and then you've got the macro uncertainty. As Lavanya said, we know what we can do on productivity and so this is just where the timing and phasing of lining that up

really made us go back to reassess sort of that operating profit commitment and to make this determination of kind of the medium term to long term. I don't know if I explained that well or whether you want to...

JON PRIGOFF, ARTISAN PARTNERS

You mentioned in the growth formula the 1-2% price is kind of back to what the business used to do. Curious what's happened to the elasticity. I mean, in some consumer-oriented industries, people have a really good bead on the elasticity and how it's changed. And you just went through a period where you're pricing at a very different level. And I wonder, given what we're saying about inflation, how much is the elasticity kind of informing the fact that we want to get the price increases back down, maybe even below inflation?

DEBRA

One thing to remember, during the Covid super cycle and sort of all of that, the volumes have remained really steady, really from a TBA standpoint, to the industry and then when you get to our volumes, it's been pretty steady. It really has been in this price mix as people really are mixing up. But when consumers are under pressure, you know, this is really when it's not just our industry but the basket that matters. And so, what we see are people making kind of smart shopping choices. And this is where to think you're going to be able to push through high single-digit pricing is just really not realistic.

So, that's kind of the pricing environment. Of course, we're always looking at our big brands and where we have leadership and where we have really precious liquid. We're always doing some bit of looking at pricing. We're not just pricing to cover inflation, like we think about pricing more strategically on where we want brands on the price ladder as such. So, it really is a consumer-back look. And so, that's what informs sort of this thinking of we're going to go back more to, you know, this is part of the normalising of, I would say, the industry. And that 1-2% is a pretty good assumption.

LAVANYA

We have excellent data, that's the one thing that we have built over the last several years, going back to like 2017 when we started to invest in revenue growth management tools and capabilities. And so, I talked a little bit about these datasets that we have. And the thing about this is that the more data you collect, the better the whole dataset gets because you get better insights through that.

So, that's one thing I'd say. The second thing I'd say is that in this business, especially on the aged liquids part of the business, it's critically important for us to get the mix between volume, price and mix right because we're disgorging barrels to fill them in. And so, if you go through a period of no volume growth, the model just doesn't work. And so, we take special care in this business to make sure that we have the right balance between volume growth, between price and mix. And it all needs to come together because again, somebody has put in liquid for us to take out 12 or 15 years ago and they didn't know about the pandemic, they didn't know about the super cycle, and they don't know if a recession will be on the cards here either. And so, we have to manage this in a very different way than just categories that do not have this aged phenomenon.

CELINE PANNUTI, JP MORGAN

Celine Pannuti from JP Morgan. It was a follow-up on that question. You said that 2-3% is your mix and I think if the maths probably was starting to look at the last seven years, was probably around 2-3%. Now, you presented that I presume a lot of that mixed benefit came from North America where we've seen how premium and super-premium developed quite well for you in the portfolio over the past years. So, I just want to understand why there would be as much mixed benefit if I think it comes from emerging markets that could be a bit of a headwind or you were mentioning downtrading in Asia, in Latin America, so just trying to understand the visibility that you have on that mix driver.

LAVANYA

Actually, mix has been a contribution across all regions. And North America has not actually been the highest driver of mixed benefit for us. There has been a mixed benefit that we've gotten in North America with primarily the category shift so the shift into tequila has given us some mixed benefit in North America. But equally, I mean, like if I look at Europe last year, price mix in Europe was 11 points and again, a lot of this was coming from premiumisation and consumers trading up within Europe.

DEBRA

Remember, in Europe, actually, our business is actually quite standard. So, if you think about Europe looking like the US, it actually doesn't, it's quite a standard price portfolio. Actually, Europe has had quite a bit of a mix up but it's at sort of a different place than even sort of where the US is.

LAVANYA

And APAC has had significant mixed benefit, as well. India has had huge mixed benefit, you know, Hina talked about it in her section. Scotch has been growing at like 30+% versus the lower segments, which are declining 2%. So, we've actually seen that premiumisation is a global phenomenon. Dayalan talked about it a little while ago, about how people are trading up from mainstream beer to premium beer to mainstream spirits to premium spirits. We're seeing this across the board.

DEBRA

This ends the webcast, thank you for joining us.