

## **CAPITAL MARKETS EVENT PRESENTATION – STRATEGY INTO ACTION - Q&A SESSION 2**

### **SALLY GRIMES**

Now, before we dive into our final strategy, to raise the bar on execution, let's go into a Q&A session with all the speakers here in New York.

### **DEBRA**

Okay, so remember, so this is number two of the Q&A, and once again, we will have one specifically, so Sally will be back up again with Claudia, and we'll have a very specific North America. But, if we want to go ahead and open it up for questions.

### **VIVIEN AZER, TD COWEN**

Hi, thank you. Vivien Azer, TD Cowen. We heard a lot during the last segment around all the opportunities to premiumise the portfolio and engage a luxury consumer, which certainly sounds promising. But, we've also heard the importance of establishing a more mainstream price point, given economic and consumer volatility. So, I was wondering if you could just help us understand the balance of those aspirations, in particular as they relate to your 6% 2030 market share target? Thank you.

### **DEBRA**

Yeah. Thanks, Vivien, and I think what I would say about it is we do think that the breadth of the portfolio is very important, because when we talk about the premiumisation journey, that does look different, sort of, across different markets. And so, I think it's probably just helpful to just, sort of, turn it over, and to hear a couple different perspectives from some different markets. I don't know, if we start with you John and then Dayalan?

### **JOHN**

Yeah, so look, by and large, we're seeing lots of premiumisation globally. There are some pockets where we're seeing some downtrading, right? China's one of those. But, here's where we, to Debra's point, the power of the portfolio is really important, right? So, I think everyone understands the difficulties of the macro economic challenges in China right now. The consumer is very cautious. Despite that, I'm feeling quite good about the performance we are going to post in H1, and that's because we have quite a resilient baijiu business. You saw that we grew 21% in the last quarter, and we're actually guiding to double-digit growth this quarter.

So, even within a dynamic where there is downtrading, I think if you've got brands at the sweet spot, which I think number eight in SJF is, and then into international spirits portfolio, again, sticking with China, because it's a difficult market, right, at the moment, we are seeing consumers trading down. But, we're seeing them maybe, say in Singleton, instead of buying a 15-year-old, they might be buying a 13 or 12.

And within Johnnie Walker, we're seeing Johnnie Walker Black Label doing particularly well. So, I do think this is where the breadth of the portfolio is important. And so, whilst there's a luxury opportunity in Asia, we're not losing sight of the fact that there is a role for premium core to play as a backbone to that.

**DEBRA**

Dayalan.

**DAYALAN NAYAGER**

Well, I mean, what I'd add is, if I look at Africa, 81% of TBA is beer, and a large part of that is mainstream beer. So, if you look at premium beer, which is Guinness, it's growing faster than mainstream beer, but spirits is growing faster than beer. And mainstream spirits is growing faster than premium... or, beer category end to end. So, although it is what we'll call a mainstream spirit brand, it's still premiumising within TBA in Africa. So, I think it's premiumising trends, but within our portfolio, it'll still be a mainstream spirit brand. So, I think there's room for it across the portfolio.

**ALVARO**

And, if I may...?

**DEBRA**

Go ahead. Yeah, absolutely.

**ALVARO**

I think, in order to protect what is happening with the consumer in this downtrading, we don't have to go to mainstream directly. And I think one of the examples that we have, for example, in Latin America, is Johnnie Walker Blonde, which is an innovation that we launched in Latin America, which is a price point between Johnnie Walker Black and Johnnie Walker Red. And the intent of that is to protect that downtrading in a way that is accretive to the trademark. So, I think we don't have to go back to the preconception around, "To protect us, we need to go to mainstream," because of the power of the portfolio, the portfolio and the trademark that we have.

**DEBRA**

Yeah, that's a great example, Alvaro, because I think this was one, we actually, we had too much stuff, so we had to cut down the presentation. But, actually, Blonde was going to be I think one of the great sort of innovations behind in ensuring that we don't take our precious 12-year-old Johnnie Walker Black liquid and feel like we've got to price that down, because that's the last thing that we want to do.

So, you know, what I would say, Vivien, is just, we look at the breadth of our portfolio. Clearly, there is a long-term trend toward premiumisation, and we're seeing that play out in different markets. We think it's important, though, to ensure that we've got enough balance on that price ladder so that we can follow the consumers wherever they go, and we don't have to do things like discount our aged liquid to try to keep them in the franchise.

**JAMES EDWARDES JONES, RBC**

James Edwardes Jones from RBC. The Smirnoff Spicy Tamarind, if I understood it right, that started off as very much a local innovation and then exploded? Could you say a little bit about the mechanics of how that happened, what the process was, the development process that made you realise it would work in lots of other geographies? And also, whether there are any other brands or developments that show a similar sort of promise?

## **DEBRA**

Yeah, I think I'll headline it, and then Cristina, maybe I'll turn it over to you. I think what's great about that, and I think this is one opportunity where we're good, but we could even be better, and that is, certainly, we've got one innovation team that absolutely we share insights, but this is one that, if I think about what we could do better, is that we could actually get this out even faster.

Because, this story really, I think, could've unfolded even quicker. So, we are teeing it up as one of the places that we absolutely see as a success, but I think there is an opportunity for us to do it quicker. And then, if you just want to talk about innovation and some of the things we're doing?

## **CRISTINA DIEZHANDINO**

Sure, so we have, I believe, as I mentioned earlier, we have an incredible stronghold with innovation as one of our core, I suppose, assets. We have a phenomenal team, you'll be able to speak to some of them later, that are truly, really grounded around the world. So, we can actually do both things: One is to dive into local insights. Spin-off, Spicy Tamarind came out of those local insights in Mexico. And at that time, how that works is you will have an innovation that is geared towards one market in particular.

We thought at that time, "This is suitable for this market, Mexico." But, very quickly, as Alvaro explained earlier, we saw there's more to it than just tamarind, though, which is a particular flavour, native of a particular region. It actually taps into the spicy food, and spicy food, guess what, is being popular, more popular, in more places around the world. So, we have a team that is set up to speak to each other and share those learnings.

And, as Debra said, perhaps in that instance, because we thought about it as a local innovation, we took a bit longer than we could have. Having said that, though, we have mechanisms in place where we work with the model of lead market. We work with a lead market to prove one concept, one idea, test it in that place, and then roll it out, scale it later. Sometimes, we choose more than one. I think Johnnie Walker Blonde is one example where we chose six market tests concurrently, because we felt the opportunity is there, and we want to be sure that it's prepared to scale. So, we will operate in a way that is fit for purpose for the trademark, for the insight, and for the lead market, and roll out plans that we've got for those brands.

## **LAVANYA**

I think if I could just add one more thing, I mean, one of the things that I have found is really successful in Diageo is the adoption that we have for our technology and data tools. And so, when it comes to consumer insights, these tools are not just a US kind of a thing. These tools have been adopted so broadly across all of the markets in Diageo, and our people are so entrenched in it that we have the ability to get global insights and global analytics around the affinity for spicy foods, as an example, at a global level, to be able to draw these comparisons.

## **DEBRA**

And I think, you know, some of the successes, as I think about some of our more recent things, some of the things that John, that you presented, the Golden Tresor, so that's actually coming out of we've invested in a Shanghai innovation hub. So, this is one of those things, as Cristina's talking about what's around the world? It's not just 'stay in our developed markets', but absolutely looking at these insights and what the possibilities are. And so, that's something that I think is really already yielding, you got to see some of those today, great results.

### **FINTAN RYAN, GOODBODY**

Good morning, Fintan Ryan here from Goodbody. I have two questions, please, around your strategy for the tequila globalisation: So, firstly, how should we think about the recruitment mix of consumers in the different regions? I appreciate North America for the recruitment premiumisation came from brown spirits and vodka, but how does that mix change in terms of your thoughts around Asia and Europe?

And then, secondly, just in terms of the long-term strategy, given it's a category where you've had supply constraints historically, how would you prioritise like a 1942 shipment going to Asia, versus Europe, versus North America? You're thinking about, I guess, category share and allocation of, I guess, scarce resources.

### **JOHN**

Well, first of all, we don't have to worry about deciding whether we send it to one or the other. I think we're in a pretty good position from a supply perspective, so that's the first thing I'd say. We're going really big on tequila across the world, and the great thing is we're doing it in a synchronised fashion: So, whether you turn up in Changi Airport, or Heathrow when you go to London, or Ibiza, or the party islands of Greece, or the ski slopes in Japan, you're going to find 1942 there right now. So, I'm really excited about that.

It's the kind of global Diageo at its best. We're quite early in the journey, Fintan, but I like the fact that we're going in 1942-centric in Asia, right? We're going in high, billing equity from the top. Yes, we'll make the rest of Don Julio available, but 100% of our brand spend is 1942. I'm very encouraged by the traction that we're getting right now in high-energy nightclubs, and the source of business anecdotally feels quite significantly incremental. So, early days yet, but I'm excited by it. This could be a really strong pillar for us, in addition to the Scotch business we have in Asia.

### **CRISTINA**

And I think that it's also an important aspect to consider, that it will develop differently across different geographies, hence the point earlier around how we understand data and the insight that we're getting. So, we chose the example of Southern Europe because it visualises how the category is being built around different occasions. And Debra talked about our focus on occasions earlier. This is a critical enabler to ensure that we tap into the growth opportunity in the right way for each geography.

We have a wide portfolio, it's fantastic, the brands Don Julio and Casamigos are phenomenal. They have been building culture in the US, and that is known elsewhere. I can tell you that the top bartenders of the world are very knowledgeable about these brands. They were really tapping into the scarcity when scarcity was the case. It's no longer the

case, and they're delighted. So, I can tell you that they're preparing these cocktails truly in the top bars around the world, and I'm really excited about the possibilities.

**ALVARO**

And I think, just building on that point about clarity on consumer occasions, because we traditionally think about the maturity of the category, and then the opportunity. And one of the things that we have learned with tequila brands is the brand transcends the category, you know? And I think that's the beauty of Don Julio and Casamigos, that we don't have to think traditionally in this way, because it's so trendy and so hot. And it's more about the power of the two brands that we have, more than thinking about the category per se.

**SALLY**

And I'll add, yeah, even though it started in the US, I think we forget sometimes how young this brand is, and it has so much headroom from a brand awareness standpoint, just in the US. The penetration of tequila in the US is still a third to two thirds that of vodka and whiskey. And Casamigos itself delivered 70% the growth. In fact, over the last four years, it delivered more growth than any other spirit in the US.

**DEBRA**

Not just tequila, absolutely.

**SALLY**

Not just at Diageo. And so, now we've got full supply, we can innovate, so I think you're going to see a lot more growth from the US as well.

**DEBRA**

Very good. Everyone wants to talk about tequila.

**LAURENCE WHYATT**

Hi, Laurence Whyatt at Barclays. I'd like to continue again on tequila, and I actually have another question on China. When you talk about your Scotch portfolio, a lot of the cocktails that are made typically come from Johnnie Walker Red and Johnnie Walker Black, which retail at around the, sort of, \$20 to \$40 a bottle. Yet, your main tequila brands are a bit of a premium to that. Yet, most of the growth driver is coming from the cocktail occasions. Given that consumers are a bit more financially constrained at the moment, why are you confident that consumers are happy to pay up for products to go into cocktails when they, I guess, historically wouldn't in a category like Scotch?

**DEBRA**

You want to take that?

**CRISTINA**

So, as I mentioned earlier, we have really understood the occasions, right? And so, there are both cocktails and sipping. In 1942 in particular, that's the way in which it goes. They tend to be launched, and we are really aiming that way, in the high-end places. So, I mentioned après-ski in the Alps, used to be Southern Europe locations, the summer. Equally, John spoke about luxury in Asia. Those consumers are seeing that as an affordable luxury, that's something that they can absolutely afford. I'm also sure that, as the category develops, we

will see further development, as we have seen in the US. But, frankly, we're in the earlier days of that.

### **LAVANYA**

And I think the other thing is we're definitely seeing the consumer more, kind of, making choices. And one of the choices that they're clearly making is to spend their time as well as their money on that socialising occasion, which I think is slightly different today than it was maybe a decade ago. I think we're definitely seeing more of that desire. When you go out, people want to have a really good time.

### **LAURENCE**

Could I just ask one on China, if that's possible? When we look at the growth rate of the Chinese business since the anti-corruption campaign, it's typically been double digits. But, of course, you mention that the luxury consumer is becoming younger. That younger demographic is set to shrink by almost a quarter over the next decade. We're already seeing youth unemployment quadruple over the past decade. There are well-documented issues in the real estate market. When you think forward, over the next decade in China, do you think it's reasonable to continue at that same sort of double-digit growth rate?

### **JOHN**

So, Laurence, here's how I think about, it right: So, you've just listed all the negative macros, which is true, about China. But, here's what we need to remind ourselves, right: It's the biggest spirits market in the world, it's three and a half times the size of the US, and international spirits as an entire category is only 3% of that pie. So, you've got 97% of spirits, it's huge, it's premiumising, and we haven't even begun to make inroads into it. Penetration of Scotch in China is only 4%, right?

So, yes, it would be better if the economy was booming, but we actually don't need the economy booming to go after that 97%. So, I'm really excited about the ability to drive penetration, drive trial. I mentioned here last night, I'm really encouraged by the fact there are over 30 whiskey distilleries being built in China right now.

That is going to cause a massive acceleration of penetration, and by the way, we're building a beautiful one, as Debra said, opening in December. But, I think driving penetration of brown spirits, and whisky in particular, in China, I think the journey's only just beginning. So, that's why I remain, you know, quite bullish.

### **DEBRA**

You know, I'll add to this, I think this is where being in the baijiu business I think has really helped us understand that China market much more.

### **JOHN**

Absolutely, and that's right, Debra, and I think by being the only Western company in baijiu, and baijiu being so inextricably linked to Chinese culture and food in general, we have tremendous insight. And as I mentioned, I'm quite encouraged by how resilient our baijiu business has proven to be. And by the way, on our baijiu business, just another stat, we've only 4% share of super-premium baijiu, right, in China. We've a long way to go within our baijiu business as well.

### **OLIVIER NICOLAI, GOLDMAN SACHS**

Thank you. Olivier Nicolai from Goldman Sachs. A couple of questions for you, Alvaro: Just talking about premiumisation and pricing strategy in Latin America for Scotch, I think it'll be, do you think you took too much pricing in recent years, whether it was on primary Scotch or wherever, on the more premium end of the portfolio, particularly when you compare that to TBA? So, you mentioned beer or your other competitors in spirits.

And just following up on the destocking comment from this morning on the region again, do you have any idea of the mix within those excess inventories, if it's more on the primary Scotch or if it's more the very high end, and should we be worried about potentially an impact on margins?

### **ALVARO**

Yeah, okay, so let me start with the first one: So, the answer is no. I don't think we took too much pricing, and let me explain to you why: Because, I think we need to think about the Scotch in the context of Diageo and not just in the context of Latin America, yeah? And Latin American business, our Scotch category was the largest one, but was really based on mainstream and standard, you know? And but, the work that we have done during the last three years has been reshaping that category, because we have that liquid gold that we need to protect, not just for the year that we are updating, it's for the next 20 years that we are building in this business.

And we understood that we have other brands with our core portfolio that can play that role, about making sure that we keep recruiting. But, it doesn't say that we are not doing that with Scotch. And actually, we have within the premiumisation journey, and within the prices that we have been taking, we have been recruiting consumers from out of international spirits. And I think that the misconception about recruitment, that we think that it's just about pricing, and recruitment is about the power for the trademark, the right understanding of the consumer occasion, and how you are activating the brands.

To the second question about the mix of the stock, as I mentioned before, on the second layer, it's quite difficult to understand what is sitting there, yeah? My feeling, due to the premiumisation journey that we have been taking, that should reflect the portfolio that we have right now. But, that is just anecdotal information, because as I mentioned before, we don't have that level of visibility of that second layer.

### **LAVANYA**

I'd add what we said in the call on Friday, we will come back to you at results. We'll come back to you at results with more accurate insights on exactly what we're dealing with in Latin America. We just don't want to put something out there now. This was live information, we put it out as we got it. The teams are doing a lot of work to understand exactly what it is, how much it is. We'll come back at results.

### **DEBRA**

Yeah, because you'll be able to know, because you're going to see... I mean, you're seeing what's being ordered. So, we'll be able to get a little more diagnostic, certainly, as we get through this high-consumption time of the year.

## **ROBERT OTTENSTEIN, EVERCORE**

Thank you. Robert Ottenstein, Evercore. I want to dig in a little bit on the ready-to-serve opportunity, and was wondering if you could, kind of, help us think through how you're positioning those products in the US versus the High Noons, the White Claws, the Cutwaters, for instance. So, in terms of pricing, placement, route to market, occasion, just trying to get a sense of how you're looking at the landscape.

## **DEBRA**

Yeah, I'll start, and then, Sally, you can add to it.

I mean, so I would say this High Noon, Cutwater, and some of that really plays at a very different sort of piece of that convenience occasion than what we're talking about here, which is why we're distinguishing it by calling it 'ready-to-serve' versus 'ready-to-drink', because this really is more about... it is that 'open, pour, serve'. So, whereas, really that High Noon occasion... so, it really is thinking about occasions is the way I would describe it. So, that High Noon occasion, quite frankly, a lot of that is coming up from the beer and the 'malternatives', 'things that are in a can' we'll call it.

So, it is single serve, it is in very different places, and, kind of, what you're doing than what this ready-to-serve specifically is attacking. That being said, we do think that there is a premiumisation journey that's going on, right? If you think back, I mean, gosh, three years ago, when I was sitting in North America, it was all about seltzers, right? And that was, frankly, even cheaper than even where that category is today.

So, you're seeing F&Bs within beer certainly have a lot more heat than what you're seeing on seltzers. You're seeing then, of course, spirit-based cocktails even more so than F&B. So, you really do see this consumer premiumisation journey, and that's really where, on the ready-to-serve, for years, you've had, what is it, those Jose Cuervo, kind of, margarita mixes, and those types of ready-to-pour things that have been out there. We've had Captain Morgan, but once again, that's a very different kind of occasion, really, kind of, based on a party occasion, than what we're talking about here.

And then, I don't know, Sally, if you want to add too, because I know you've been out in market to see how people are merchandising.

## **SALLY**

Absolutely. I mean, to your point right now, consumers are trialling these heavily-promoted, undifferentiated seltzers, and we're not going to chase that share. We're going to build our brands, not just borrow from our brands. And so, what we've done is really focused on that segment, actually, of convenience, of ready-to-drink that is growing.

If you look at the numbers, it is the premium the higher-price tier of the segment that's growing. It's growing 49%. And so, what we've done is really elevated this new ready-to-serve market by creating... and by the way, has anyone tasted what you got in your bag last night? Because, you got a couple.

You got the espresso martini, you might've had too much during dinner. But, please try it, so you have a ready-to-serve espresso martini in your gift bag from last night. And it's



spectacular in terms of the liquid. We've done some taste tests here versus home made, and we can't tell the difference.

We've also got Tanqueray entering with a negroni. We've got Ketel One with a cosmo, along with the espresso martini. One month in, I had a chance to do a bit of a jet tour across the country, taking a look at our programmes coming to life, and we had beautiful displays of ready-to-serve that were just very elevated and really stood out in the market.

### **DEBRA**

Yeah. I mean, look, I think, at the end of the day for this, when you think about what happened during Covid, there really was this 'inner mixologist' thing that happened, and people built out their bars, and all of this. Now, as people are, kind of, coming out of that cycle, we developed the taste for cocktails, but whether you're going to have the bitters at home or I'm going to have the garnish, you, kind of, want it all, but you may not have, then, all the pieces and parts that you need to really be able to have the cocktail.

So, I look at this and go, "This is a natural space, an occasion that people are going to go to," because you don't have the time, or maybe you don't feel like you have the expertise to make that old-fashioned the way a really great bartender makes it, that of course, Bulleit's delivering on that.

And now, to have Ketel One, always a brand that's known for cocktails, and bartenders love it, and so to have that in the espresso martini, which is such a popular cocktail, we really feel like this is, sort of, taking it into those convenient cocktail occasions that, really, things like the High Noon and seltzers are just playing in a different area.

### **SALLY**

And just one more thing to reinforce is the incremental consumers that are coming in.

We're getting more multicultural. We're getting females coming in to ready-to-serve, and the most interesting part is that, when they try it, there's the portion then for the first time buy the spirit, they're buying Bulleit whisky, which is critical.

### **DEBRA**

Yeah. I mean, that's a really good point, too, about building our brands on this. As we look at convenience in total, we keep saying, "We're going after the premium space, we're going after places that we can recruit into our brands," and really, that's where we want to play. That's where we feel like it's our sweet spot, that's our competitive advantage and our reason to succeed.

### **CRISTINA**

I think, and Debra, if I may, as Sally said, please try them, because the one distinguishing factor is the liquid is spectacular. We have a real, real, real asset in our R&D teams, and they have developed fantastic liquids. And in there lies the key to their success.

### **ROBERT OTTENSTEIN, EVERCORE**

Sorry, just one thing, who is distributing it and where is it placed? Was it with spirits or somewhere else?

**DEBRA**

No, with spirits, although I think, look, this is going to be different in different places, because you're seeing more and more in this space, but I think most of the liquor stores are actually carving out a ready-to-serve. Sometimes, you'll still see it in with the brand, but I think still, it's-

**SALLY**

It's different.

**DEBRA**

Yeah, so it is different store to store, which is why getting it on the floor is so critical, so that's great to hear.

**SALLY**

Yeah.

**DURGA DORAISAMY**

I think, at this point, we'll move to the next session.

**DEBRA**

Oh, very good. So, we have the next session. We're out of time. We will be back to answer more Q&A. Thanks.

## **CAPITAL MARKETS EVENT PRESENTATION – STRATEGY INTO ACTION - Q&A SESSION 3**

### **SALLY**

So, with that, let's open it up for questions.

### **DEBRA**

You've been so disciplined and held off on your North American questions, so now the North American Q&A will be great.

### **TREVOR STIRLING, BERNSTEIN**

Great. Trevor Sterling from Bernstein. If I look at North America, you've got three bps of extra A&P ratio compared to F19. It's clearly driven an awful lot of growth, but if I look at the very short term, it appears you're losing share. Casamigos has decelerated dramatically. If you look at the public data, it might even be in decline at the moment. Is that gap all down to the deceleration of Casamigos, and what can you do to revive Casamigos? And if you can't revive it, what can you do to fill the gap?

### **SALLY**

Might be helpful for us to just, kind of, break down what's going on with the share, and Claudia and I can maybe do this together. So, if you look at US share, 60% of it is driven by tequila, Canadian whiskey, and vodka. And there are a few key things that are happening, and plans to address it, and that will, kind of, walk through what is really going on. So, first, do you want to start with whiskey?

### **CLAUDIA SCHUBERT**

Yeah. I think if you look at Crown Royal, as Sally mentioned, it has been a big growth driver for us, throughout the last five years. We've recruited new consumers with flavours into the category. We've innovated successfully into new occasions with brands like Crown Apple. That is hugely popular with multicultural consumers in the shot occasion, and what we've seen through the course of the pandemic, that due to some of the supply and glass and material shortages, we had lost some facings on shelf and some visibility in store.

So, with our focus on route to market, our focus on execution, but also a really exciting innovation pipeline that we have for the second half that Sally mentioned, that include new flavour offerings, which we know will attract new multicultural consumers, but also the innovation in ultra-premium price tiers that will continue to halo on to the entire brand. We know we have a really, really strong plan.

We've made progress, Trevor, in the most recent periods. Actually, our declines on Deluxe and Apple have really stabilised. Peach, we're lapping the introduction of some sizes that we introduced last year. Salted Caramel, a limited-time offer here for the holidays, we're really excited about, and it's driving share growth for us. And we're confident that Blackberry in the second half will continue to take us forward.

To link that back to your point on A&P investment, that is one of the absolute investment priorities. Sally mentioned we have a new campaign that went live last week, and also, our hyper-local approach, really making sure, leveraging the data that I shared, we understand

the hotspots, we invest in those hotspots. All that is investment priority for us. So, I think that's the biggest priority from a whiskey standpoint. If I may, I'll just jump into-

**SALLY**

Yeah, I was just going to jump in with one fact, that sometimes it's easy to forget that Crown Royal is actually bigger, just that brand, is bigger than the entire gin category in the US. So, a small change makes a big difference. 2.4 billion in RSVs. So, just wanted to add that fact.

**CLAUDIA**

Yeah, and then, Trevor, I'll come to your Casamigos point, because, as Sally said, right, that's the second most important driver for us, certainly of our share performance over the last few years. First, I would just... a couple of facts, and Sally, you touched on it earlier with Casamigos: Casamigos grew 70% CAGR over the last few years. It grew 127 basis points of core spirits. That is bigger than any other core spirits that we have seen. Yet, the brand, and I know our chief marketing officer is in the background, the unaided awareness of Casamigos compared to leading brands in this category is small.

So, we see an opportunity to raise that awareness. And now, as we come out of the supply disruptions that we've had over the past few years, we actually can make those investments and feel confident that they will connect with more consumers in more occasions.

So, how do we do that? We now have broadened our size offerings, so larger sizes on Casamigos, smaller sizes on Casamigos, which, by the way, in this period of consumer uncertainty, is a really good way to win in the occasions for larger gatherings. Consumers enjoy a larger format, because it creates a great value for them.

But also, when consumers are making choices in terms of how much money to spend, some of the smaller sizes give us access to an incremental opportunity as well. And for the first time since we've acquired Casamigos, we're now able to innovate.

So, a couple of months ago, we've introduced the first innovation with Cristalino, and the response has been very, very good from the trade. It gets us back into also the on-premise with an exciting offering. And the combination of all of those plans, Trevor, one, another investment priority for us, to come back to your point on spend, but also gives us confidence that we're going to win in tequila and we're going to take advantage of the headroom that we have.

**DEBRA**

Correct me if I'm wrong, but I think this is the first holiday season we actually have Casamigos in stock, in all sizes?

**CLAUDIA**

In full distribution and all sizes.

**SALLY**

And direct innovation.

**CLAUDIA**

Correct, that's correct.

**DEBRA**

Yeah, with the innovation. So, exciting. I mean, and you know, I flagged some of these, if you remember, at the end of fiscal '23, we said Crown... we also, so innovation, really critical. Innovation, for us, on spirits, that's a second half. So, I think a lot more to come on that. I don't know if you want to talk about some of the innovation that we can talk about, I guess, the stuff that's already out there?

**SALLY**

Sure, sure, and I'll close out, maybe, the third piece of what makes up 60% of the share, because that really kind of, deconstructs what is going on with share in the US, the third is vodka. And the good news is, on Ketel One, we are actually growing share. The share losses are coming from CÎROC, and what we're finding is that, as consumers are expanding their repertoire, they are moving to tequila, to whisky. And the other thing that's happened this fall is we haven't had, as we have in years past, an innovation, right? A fall innovation.

And so, the team has been quickly working and is launching CÎROC Limonata, which is very, very cool, because it's entering a new day part. It's entering a daytime occasion. So, those are just, kind of, the three key drivers of the share loss and what we're doing about it. So, I hope that helps.

**TREVOR**

Great, thank you very much.

**ROBERT OTTENSTEIN, EVERCORE ISI**

Robert Ottenstein, Evercore ISI. And maybe the answer to my question is 'everything you're doing', right? But the question is you're clearly adding what appears to be a tremendous amount of complexity into the system, right, with all the line extensions and innovation, so how do the distributors deal with that? How do the retailers deal with that? How do you make sure that the main kind of hero brands, the core brands don't lose shelf space, right, the ones that turn the most? And how do you also balance this with the supply chain so that you can keep efficiency with all this complexity that's coming in?

**DEBRA**

Yeah, let me take part of that, and then I'll turn it to you, Claudia. I mean, the one thing to remember on Crown historically, and as we've launched innovation, these aren't flavours the way you think about, sort of, vodka flavours.

This is another one of those places where occasions matter here. So, it really is incremental consumers that are coming in to Crown. Part of the reason the brand is so big and has such a broad consumer base is because these flavours have played in a very different way.

So, Crown Deluxe versus the Crown Apple, where Crown Apple is more the shot occasion, and that Crown Peach has played in... tea is so hot right now, so you think about Crown Peach and what you're able to mix Crown Peach with.

And that's why even things like... I remember a couple of years ago, when we were short on salted caramel for the holidays, really hit us, because it is such a very specific... people look forward to it. I'm not going to say it's like a pumpkin spice latte or something, but it was definitely for the holidays, people look forward to their salted caramel, and it was quite an incremental purchase.

So, these flavours aren't always... it is really about we look hard at the occasions. CÎROC is one that certainly always has been driven off of innovation, and we're always just very careful about how we manage that. You know, and over time, have also slimmed that, so things come out as well as things go in. But, I mean, Claudia you're with distributors all the time.

### **CLAUDIA**

Yeah, I think extending, Debra, your points, into your question around how do we communicate those priorities to distributors and how are we evolving? We have, as I mentioned earlier, we have dedicated selling divisions in over half of our markets and over half of our business.

What does that mean? Dedicated selling divisions are sales representatives that work for our distributor partners, but they only sell Diageo, and in many markets, also Moët Hennessy products. So, that, by nature, prioritises them on the set of brands that we represent and that Moët Hennessy represents.

Now, part of what I'm excited about in the route to market journey that we're embarking upon, and we've been working with our distributors on this for the past few months, is to really bring our data and their data together to say, "Where do we see the biggest opportunities for the key growth categories locally, down to the zip code level?"

And that's where we will jointly invest, Robert, in service to create even more capacity, to then unlock the opportunity to growth, but also make sure that, you know, as you say, we raise the bar on execution, so that at outlet level, we bring that expertise and help our retail partners merchandise the category, set it to standard, and ultimately grow business for them.

### **LAVANYA**

I'll just add on that, Robert, from the supply side of things, we have built a tremendous amount of capability over the last several years, to really get a whole lot more disciplined about, like, one in, one out in some cases.

How do we rationalise this key portfolio to ensure that, as things are being added in, we are also, at the same time, making sure that things that are not turning quite as fast are being removed? The supply agility programme will also help, because it'll help to bring supply closer to the consumer. So, these are all parts of the same holistic strategy of being able to grow the business in a very efficient and effective manner.

### **DEBRA**

Yeah, really end to end, because the one thing, when you think about Covid and just the amount of disruption that had within our supply chain, and really being able to deliver all the great insights we had to a very local level, we, kind of, have all the pieces and parts now fully

functioning, in good shape, to really be able to string and do this, and that's exactly what Claudia's focused and working on.

### **ROBERT BUESING, CLEARBRIDGE**

Hi, thanks. So, I don't think it's a stretch to say that Diageo's stock has really outperformed when you guys are losing share in the US, so we're all pretty focused on this. Are you guys willing to, kind of, set expectations for when you think you'll get to share stability in the US market? And then, I don't know if there are any comments on that other 40% of the portfolio, things like Captain Morgan, the rum, other categories that maybe you want to make a comment on, that you think that'll go back to share stability as well?

### **LAVANYA**

You know, I'll address the second part of your question first, and then we'll get to the first part of it: I think, look, at the end of the day, it is one consumer base that we're talking about here. As tequila has grown, as an example, tequila has sourced from every other part of TBA. It's not consumers drinking tequila on top of whatever else they were drinking.

So, our focus is to be able to grow share of total beverage alcohol at the regional and the country level, because there'll always be times when something is more popular and growing and something is less popular and growing. Mainstream rum is not hot, right? And so, the beauty of the Diageo portfolio is that we have the full range of products available to us. And so, whatever is hot, where the consumer interest is, we can focus our resources against that part of the portfolio to really grow it.

So, I wouldn't be that focused on, you know, "What's happening to Captain Morgan's share?" I think the important question is, "What's happening to Diageo's share of total beverage alcohol?" And that's where I would keep the focus. In terms of putting a specific timeline on getting back to share growth, you know, these things take a bit of time. I mean, the innovations coming in the second half, we have to do it the right way.

What we don't want to do is to go get non-quality share in the short term. And so, part of our investment strategy and our innovation strategy is very much about that sustainable share growth.

So, when you lose innovation for a period of time and you lose those end caps, and those display opportunities, and facings, it takes time to get it back, and we would rather get it back the right way than put a timeline against it, chase it, spend a lot of money, and then lose it again.

### **DEBRA**

Yeah, but I would say overall, on a TBA basis, we are seeing more, I would say, share stabilisation versus share losses. So, that curve is turning and clearly, the plans that they outline for the second half, we are seeing some green shoots.

### **CLAUDIA**

And I think maybe just to also underscore to your point, it is about sustainable quality share growth. John made the point, right, in the US as well, our local teams have that as a qualifier

for what they're focused on, and the sustainability piece is really important. What I will also say is the reported share only covers certain channels.

So, what's also core to our sell-out culture is that we win in all the channels, whether they're measured or not. The example I used earlier, on-premise, we do get an on-premise NABCA data, but we also get on-premise information through our distributors. And so, the teams that are focused on those channels, they too are very much focused on beating the competition where they operate. Whether it shows up in share or not, we want to win where the consumer is.

### **HEIDI RAUBER, FIDELITY**

Hi, I just wanted to follow up on this question, because you have really strong brands, really great capabilities, are a leader in digital insight, innovation, and all of that. Can you just explain a bit more how you got into this position where you have been losing market share in US spirits?

### **DEBRA**

Yeah, so I mean, we've been gaining market share, actually, for the past several years.

### **HEIDI**

Yeah, I guess I'm talking about the last, whatever, 12 months, six months.

### **DEBRA**

Yeah, so last year, we held share of TBA, and I think right now we're tracking minus 20, I think, on... and so, I mean, look, over shorter periods of time, certainly, we've talked about some of the issues with some of the product shortages that we had on things like Crown. Frankly, our tequila portfolio, we haven't always had steady supply. And so, these things, as you're going through this, you do lose the ability at retail, in many cases, to be able to do much merchandising or that type of thing.

And that is the thing that, as we've come back into full supply, really putting our full muscle in all of that. I mean, it wasn't that long ago, it was, I don't know, 18 months ago that we were still quite short on things because of the glass shortages. We were quite short of supply on several big brands, and so, certainly, that has hurt us.

The other thing that, Claudia, you like to point out as we're looking at this next phase of our route to market is we're now 41% bigger, and we're still roughly the same size and same organisation as we were in-

### **CLAUDIA**

As we were in 2015.

### **DEBRA**

So that's the excitement of what we're building as we look forward. It's not so much fixing things, but it's more about looking to the future and thinking about what we want this business to be, and really designing the organisation with partnership, with our distributor partners, and really thinking about that next decade of growth. So, it's very exciting. But, I



would say, look, we look at these as short-term challenges. These are all brands, and great brand health. They're big brands, and so we're just excited about the next phase.

**DURGA**

At this point, it's time for lunch. So, this concludes this Q&A session. Be back here at 1:30, please.

## **CAPITAL MARKETS EVENT PRESENTATION – STRATEGY INTO ACTION - Q&A SESSION 3 CONTINUED**

### **DEBRA**

So actually we're actually adding a little bit more onto the North America Q&A. So, if I can just get Claudia and Sally, Lavanya back. And I think we probably have, what do you think, about 15 minutes that we can do if we want to take a few more questions because we kind of had to cut it off there a bit?

### **VIVIAN AZER, TD COWEN**

Thank you and thank you for the extra time on the US, Debra and team. So, as I kind of think about the commentary around the stabilisation in TBA, certainly, that must contemplate the fact that beer trends in the US are deteriorating. So, that's helpful from a TBA perspective, not necessarily from a core spirits perspective. So, as I think about the commentary from Friday around a gradual sequential improvement in the US and North America, more broadly, into the first half of fiscal 24, I'm just curious how you guys are thinking about November and December because some of the scanner data outside of spirits showed a material degradation in trend in October specifically, given the resumption, we think, of student loan repayments. So, how much of a wind do you really need in November and December to show that improvement? Thank you.

### **DEBRA**

I'll start by just, you know, look, it is a critical time of the year, and we are actually, Vivian, quite encouraged on sentiment for the holidays. So, that is exactly what we are planning for. So, with that, I would say we also, certainly, are looking at trends but I think October you're feeling good about?

### **CLAUDIA**

Yeah.

### **DEBRA**

It's already in the bag.

### **CLAUDIA**

And Vivian, I would say, it's the consumer sentiment also by occasion. So, one of the things we look at very carefully is the sentiment as it relates to the on-premise, for example, we've been winning consistent share in that channel. And the sentiment towards the on-premise is positive. Our monitor would suggest 15% more intent to go out. Now, there's no perfect data but we were on the road, we met with a lot of national account on-premise customers so we can look at bookings for November and December. And so, when you look at private holiday events, it seems to be encouraging what accounts are telling us in terms of their bookings. And then, obviously, it's our job to make sure that we have menu placements, we have programmes and stuff, trainings in place.

So, that's one element. And I think, Debra, to your point, we are now in the season of the most important entertaining holidays. Obviously, Diwali here in New York was the first time a holiday and it's becoming a big consumption holiday, as well. We have Thanksgiving, we have Hannukah, we have Christmas, we have New Year and so we're making sure that we

look brilliant at the point of purchase. Look from a consumer standpoint, I hear what you're saying, you know, student loans and things have been on people's minds. But that also means, I think, they're really looking forward to spending time with friends and family in the coming two months. And so, it's all about showing up brilliantly at that point of purchase. Being available as a gift, that's another lever we're really leaning into. We are an affordable luxury, we make a great gift. We're activating across multiple sizes because that gives us access to multiple purchase price points.

### **DEBRA**

I will add, though, I mean, we would not have reiterated the sequential improvement unless we felt very good about it.

### **CHRIS PITCHER, REDBURN**

A couple of questions on the US, again, from me. Chris Pitcher from Redburn Atlantic, sorry. You mentioned your A&P ratio had gone from 15 to 20 but market share hasn't stabilised so is 20 enough? And then secondly, if we look at the second half performance of last year, actually, Johnnie Walker was quite a big drag and you've not really talked about scotch in the US. You've talked about all the other ones, but it was a bright point for a bit and it's gone negative. How is Johnnie Walker doing?

### **LAVANYA**

Look, a lot of what happened with Johnnie Walker was what it was lapping. So, it was more of an NSV drag than a business problem itself. And what it was lapping was the refilling of shortages in fiscal 22. With all of the port congestion and how hard it was to get supply in, the very long lead times, fiscal 22 was a pretty poor year on a number of our brands. And so, it was the lap of that... sorry, 21 that was a bad year, 22 was the refill, 23 was the lap of the refill. So, that was the issue on Johnnie Walker.

### **CLAUDIA**

Shareholders, from a share perspective, were gaining share, significant share of scotch. Scotch grows a little bit smaller than whisky but our trends, particularly on Johnnie Walker Black, which has been the heartbeat of all of our efforts, is continuing to see really good momentum. And we expect that to continue over the holiday season. So, from a share perspective, I feel great.

### **DEBRA**

And I would say on the 20% reinvestment rate, I mean, we don't really target a specific rate. I mean, the region is margin accretive for us and so we do tend to, if we need to spend there, we are inclined to spend. But we do look at every dollar that we spend, every event. We've got catalysts, which I think we talked a lot to you guys in the past about some of the tools we have to measure ROI in our marketing dollars. And actually, when you tour the occasions area this afternoon, it's got our marketers from around the world, and they will absolutely verify for you that they have to look at every event before they get the next dollar. And so, we regularly look at that. But if we need more money in North America, we try to get it to them.

I would say in the past, you know, this has been a place where we have steadily improved investment as our portfolio has expanded and as we're seeing the opportunities in occasions.

### **JEREMY FIALKO, HSBC**

Jeremy Fialko, HSBC. So, a couple of questions on the two areas you talk about where there was some share loss. So, first of all, if you talk about Crown Royal and some of the shelf space losses, what visibility do you have in terms of getting that shelf space back and some of the resets when those are happening and kind of like what the retailers have committed to you in terms of actually you getting those facings back which you lost? And then secondly, on the Cristalino Casamigos, again, what sort of distributor commitments have you got from those and what were the sort of incrementality to the brand in terms of reversing some of the trends that you're seeing. Some more detail on both of those points would be very helpful, thanks.

### **CLAUDIA**

I'll start with the latter one on Cristalino. Without getting into specific distributor numbers, what it is providing us is giving us access to different serves within the Casamigos family. So, we were actually out and about and one of the features that the team is really working towards is a martini or, also, a negroni serve, which actually, the liquid is fantastic, makes a fantastic cocktail. And we just got some of the commitments from national accounts on-premise over the holidays, I've even shared that with you, Debra, which Chris, is giving us additional features and additional menu placements. So, we're really excited about that. And we've seen the success of Cristalino with Don Julio. To this day, still, for Casamigos it's a fraction of our, you know, you can tell the story of just the success of Don Julio 70.

So, it's the very beginning. It's been in the marketplace for a couple of months, but we're really encouraged by the success that we've seen so far. And as I said earlier, we're now also adding smaller sizes. It is a \$60 recommended selling price, a 375ml is a \$30 price point so we're excited about what that can deliver in terms of incremental occasions.

### **DEBRA**

And then the other question was how you have visibility into what's going on.

### **CLAUDIA**

This is where tools like tracks and EDGE are really important because the sales consultants in our distributors are using those tools to basically take photographs of shelf sets. And we have now repositories of those shelf sets over time, so we know where we have suffered the most in terms of visibility. And that's where the sales consultants go back and have conversations, especially also with the new news around the packaging. Sally, you mentioned the new news about our media campaign and we're going to regain them back. To give you an exact timeline is, to be honest, really hard because it is individual accounts. To your point, it's national accounts as they've reset but that's the journey we're on. And as I said, on Deluxe and Apple in particular, we've really stabilised our trends.

### **DEBRA**

And we can prioritise people, you know, you saw the map of Texas that we put up, you know, we prioritise where it matters the most to go back and do what we need to do. So, it's actually very cool data.

### **OLIVIER NICOLAI, GOLDMAN SACHS**

Olivier Nicolai, Goldman Sachs. Just a couple of questions. First of all, on the US, you mentioned, I think, TBA share was 7.5%, earlier today. RTD is, obviously, growing very fast. What is your ambition in the category and do you think you could get your fair share in that segment? Could this be diluted in the meantime until you get there? That's kind of the long first question, sorry for that.

Secondly, on the midterm guidance, I just wanted to understand under which scenario could you really get to 7% organic sales growth? And then, you showed us this morning, I think, it was the top three contributors by category, you mentioned some disposals that you've done previously, as well. Do you think you still have more brands to dispose of, which could, effectively, boost the growth rate of the company? Thank you.

### **DEBRA**

If you can hold, we'll come back to you first on the medium-term guidance session as we go through that. And then, TBA, if you think about RTDs within TBA so how we measure that and look at that, that is taking it sort of, I'll call it anything that is not beer that's in a can, right? So, if you think about the seltzers, the F&Bs, all of that, if you roll all of that together, actually, that universe has stayed because you really are mostly seeing consumers come up that curve. So, within that TBA world, I actually think, for one, we are already a player, right, because we do have a good size F&B business. We've got a little pocket, I would say, within seltzer and kind of agave, Lone River... I'm saying the wrong word for it... Ranch Water, thank you. And so, we have a small piece there and then we have a small piece of the spirit.

So actually, when you roll that up, we should be able to get our fair share. And I think that is one of the key things as we're looking at our innovation plans and what we're doing. But there's no reason to not be able to get our share of that because that's in a broader TBA universe and we absolutely look at that.

We can talk about some of the F&B stuff. We do have some things that we're launching on the F&B side, do you want to talk about that, Sally?

### **SALLY**

Yeah, and it's interesting to think that it was Diageo that kind of launched this with Smirnoff Ice all those years ago. And it's still doing incredibly well. So, the team is launching a Smirnoff Smashed, which is actually delicious. They're also launching a Captain Morgan Sliced. So, both... I'm looking at Rodney, did I get that right? Okay. So, those are coming out in the second half so that'll absolutely continue to grow our share.

### **DEBRA**

In the F&B space so much wider, of course, distribution and availability within RTDs.

### **LAVANYA**

I can take the question on disposals. We're always looking, Olivier, you've heard us talk about this over the last several years, but we are very active portfolio managers, and we are equally active on the acquisition side but also on the disposal side. Most recently, we've finally completed the disposal of Windsor, the whisky business in Korea. John can't stop beaming about that. But we're always looking at our portfolio to see if there are parts of the portfolio that just do not fit within our construct right now.

### **BRETT COOPER, CONSUMER EDGE**

I'd love to ask a question on RTDs from a different perspective. It would seem to me that they're easier to convert those consumers or occasions into your bottled portfolio than it may have been historically. So, how do you go about doing that? Is that a true assumption?

### **DEBRA**

Look, one of the things, and I think even prior to me, if Ivan were standing up here, we have always thought that this ultimately would be a very good thing for spirits because, to your point, especially in a country like the US, you forget how big, even though it isn't growing but in that mainstream beer place, there are a lot of occasions there. And so, that really, when you think about how when you turn sort of 21 and you're coming into the category, mainstream beer, that used to be where people came in. Now, we're seeing numbers where it's much more people coming in, in these things other than beer and it certainly does help that come into spirits. And so, that's why ultimately, over the long run, we think this is going to be very good. And that's why we think about which brands, and we really do try to pinpoint, I keep coming back to this, but occasions are really important for us on those occasions on which we know we can convert people into our brands.

Sally mentioned it this morning on the ready to serve, you know, our Bulleit Old-Fashioned and Manhattan, how that's actually reflecting back on within a certain amount of time, people are actually coming into the Bulleit franchise that weren't there before and buying the bottle of Bulleit. So, that is a good assumption and we actually do see evidence of that and think that's a very good trend for the long run.

### **CLAUDIA**

And Debra, maybe another example is, actually, our Ketel Espresso Martini. Because you asked about how, you know, how do we bring people in? If you look at how we activate Espresso Martini, we actually activate Espresso Martini yes, through our ready to serve for those moments where you're really busy and you have a big party and you don't want to relegate somebody at the party to make cocktails all night, buy that Espresso Martini made with Ketel One.

We equally co-display, for example, Ketel One vodka and Mr Black in stores. And so, for the consumer who has a party who wants to create that moment and create a great cocktail bar, it's available for you, as well. But it's using the same platform of the most popular cocktails and bringing consumers and telling them about the fantastic quality that is Ketel One. And if you look at the trends of Ketel One in the US, right now, we're gaining not only share of vodka, we're gaining share of spirits overall with Ketel One, which is really encouraging.

So, it's really a surround sound to your point and it is bringing in recruiting consumers into Ketel One vodka, which is the ultimate goal.

**DEBRA**

Thank you.