

DIAGEO CAGNY PRESENTATION TRANSCRIPT
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Tim: Please join me in thanking Diageo for its generous sponsorship for tonight's dinner, which is always a highlight of the conference. Diageo is a global leader in the premium beverage alcohol industry, which -- an area where future growth is expected to continue at an attractive rate, underpinned by structural drivers like demographics and rising incomes in the developing worlds.

Against that backdrop, Diageo is well-positioned to capture growth based on its unique mix of attributes. The company has amazing breadth and balanced positions across categories, regions, and price points, which is accompanied by unmatched scale in a long list of spirits categories, including scotch, tequila, and gin. At the same time, Diageo management team fosters a culture of speed and agility in everything it does, from operating a global supply chain to marketing and innovating, in order to keep its iconic brands relevant with the consumer.

To bring that to life for us today, we are joined by Debra Crew for the first time in her capacity as CEO of Diageo, while welcoming back CFO Lavanya Chandrashekar. Thank you both so much for being here. Debra, I will turn it over to you.

DEBRA

Thank you, Tim, and welcome, everyone. I last presented at CAGNY here in 2016. So it's great to be here again and spend time with you all today. But first, here are our regulatory statements.

And here's our plan for today. First, I will kick things off with a quick introduction to Diageo. Then I will highlight the foundational facts about our attractive industry and Diageo's strong position and long runway for growth within it. And next, I will move on to the four key strategies which leverage our competitive advantages and enable us to capture this growth and deliver our ambition. Lavanya will then discuss how our growth algorithm supports sustainable long-term growth, and I will wrap up with our outlook for the near and medium term.

For those unfamiliar with our company, Diageo is one of the global leaders in beverage alcohol, with over 200 brands, including Johnnie Walker and Guinness. We sell our products in nearly 180 countries and have over 30,000 employees and 132 production sites. Since 2017, we've achieved a top-line CAGR of 7.4%. Over the last 10 years, we've delivered a strong total shareholder return of 8%, and we've maintained a track record of dividend increases since fiscal 2000.

Diageo is the third-largest player in total beverage alcohol, or TBA, by value globally. We are number one in international spirits in retail sales value, or RSV, globally, that's 1.4 times larger than our nearest international spirits competitor. And in the premium-plus price tiers, we're even larger. We are bigger than four of our top 10 competitors combined. We lead the largest international spirits categories. We have brands in more categories than any other competitor, including our unique participation in Chinese white spirits. And through our 34% ownership of

Moët Hennessy, the wine and spirits division of LVMH, giving us exposure to exciting champagnes and cognac. In fact, we have \$13 billion brands across our largest categories.

In the U.S., which is our largest market, accounting for about 35% of our total net sales value, or NSV, we are two times larger than the second-biggest spirits company. And as of the end of January, we have six out of the top 10 core spirits innovations in Nielsen. We're committed to driving growth and quality share gains to drive sustainable shareholder returns.

And our scale provides us with advantaged opportunities in manufacturing, encompassing both aged and unaged liquids, notably in scotch and tequila. And it facilitates economies of scale and our deep understanding of consumers through access to cutting-edge consumer insights, data, and tools. Scale also enables our ability to execute with brilliance, rolling innovation out at a pace and unleashing the power of our portfolio across our footprint. I'm now going to show you a video that brings this to life across our portfolio.

VIDEO PLAYS

We are driven by a clear purpose: "Celebrating Life Every Day, Everywhere." It's embedded across our business and goes hand in hand with our ambition. We are committed to being one of the world's best-performing, most trusted, and respected consumer products companies. And importantly, we are committed to having a positive impact on society.

After 24 years of experience in the consumer goods industry across five leading organizations in the food and beverage industry, I continue to be excited and impressed by both the strengths and opportunities for Diageo. From when I originally joined Diageo's board nearly five years ago in 2019, through my time leading our North American and global supply businesses, to my leadership role today, I continually look through the lens of consumer recruitment and occasions and see opportunity. In the last eight months as Diageo's CEO and having spent time speaking with our teams, and distributors, and customer partners around the world, I firmly believe our footprint across geography, category, and price tier, combined with the deep heritage and quality of our brands, gives us a powerful advantage to recruit consumers and deliver long-term sustainable growth.

So let me start with why I believe Diageo has a long runway for growth. Despite our spirit's category leadership position, we only have a 4.7% value share of TBA, according to IWSR, in 2022. We measure ourselves in the total TBA market because consumers make brand choices across spirits, beer, and wine depending on the occasion. And that ranges from a backyard barbecue at home to a special celebration and everything else in between.

Our brands can recruit across these TBA occasions. And in the U.S., where our share of TBA is 7.4%, our 2 largest brands only have around 16% household penetration. But this is what excites me about the business, there's significant runway to do more. In 2020, we set out our ambition to outperform the market and deliver a 50% increase in Diageo's TBA share from 4% to 6% by 2030. This is the equivalent of around 30 billion new individual drinks globally over that period. With our TBA share gains to date, we've already made significant progress, and we still have over

half a decade to go. My confidence in our ability to deliver this and outperform comes firstly from the attractiveness of the industry that we operate in.

So, TBA is large, substantially bigger than non-alcoholic beverage categories combined with a market size of about a trillion dollars globally. TBA's grown for over a decade, and it's still growing with strong value and resilient volume growth. Favorable market demographics and strong premiumization trends are driving that growth and are expected to continue into the future. Strong consumer demographics underpin the growth in the TBA market. We expect 600 million new legal purchase age or what we call LPA-plus consumers, to enter the market by 2030. In one of the largest whiskey markets in the world, India alone is expected to account for a quarter of LPA-plus growth. The expanding middle class around the world should further contribute to industry growth.

Drilling down to the three core categories of TBA. Over the last decade, international spirits have performed remarkably well, growing ahead of beer, wine, and overall TBA. And the strength of international spirits is expected to continue, with our five-year value growth forecast to be two times faster than beer and wine continuing to win share of TBA. International spirits is a very resilient category, as proven during one of the biggest economic downturns of the last 20 years, the global financial crisis in 2008 and 2009. During this time, the category grew despite GDP contraction. And in the U.S., for example, in the off-trade, spirits were three-and-a-half times less impacted than TBA despite the increased unemployment across all income groups during this time period.

Spirits is also a dynamic category because it capitalizes on macro-consumer trends. Premiumization, which is consumers choosing to drink better, not more, is a significant trend. In the last 10 years, premium and above spirits grew from 25% of category value to almost 35%. Super premium plus spirits have grown in value more than two times faster than other price tiers in the category. This price tier gained almost 700 basis points of share of International Spirit's RSV since 2012.

Convenience is already a significant part of many CPG categories, including TBA. Ready-to-drink has been the fastest-growing segment of TBA now for several years. And increasingly, consumers are trading up from beer and malt-based convenience into the high-priced spirit-based products, which are also recruiting new LPA-plus drinkers. As consumers prioritize wellness, they look for moderation, and this has fueled the growth of spirits in many areas, including the growth of non-alcoholic spirits. And while still small, sales of non-alcohol spirit products have grown 13 times since 2017.

But premiumization in spirits it's not just about buying the most expensive or luxury products. Since 2017, the average price for a 70-cl spirits bottle in the U.S. has only increased by \$3, from around \$16 to \$19. And this is because premiumization can mean buying a slightly more expensive bottle of your favorite brand for a gift, choosing an ultra-premium vodka cocktail over a premium cocktail in a bar, or simply choosing to buy a different category which has a higher price per bottle. So, for example, the average price of whiskey and tequila is more than two times that of vodka or rum in the U.S. Premiumization is also evidenced in the evolution of the

ready-to-drink format from malt-based drinks, initially through the growth of seltzers, then spirits-based canned drinks, to the more recent multi-serve premium pre-made cocktails.

So, looking at Diageo within the most vibrant parts of TBA, we have an advantaged portfolio that has the broadest range of regions, categories, and price tiers. The strength of this portfolio, combined with our world-class brand building and execution of our strategy for growth, enables Diageo to capitalize on the opportunities provided by the attractive TBA industry and beat the competition. So, I'm going to walk you through Diageo's position to win.

Diageo has a broad and diversified geographic footprint versus our peers. This presence across regions and markets provides the ability to participate in growth opportunities globally. This supports resilience through short-term volatility and enables the delivery of long-term sustainable growth. The strength of our portfolio is not only across geographies but also across price tiers.

Our advantage portfolio enables us to provide a breadth of choices within consumer trends across motivations, occasions, and categories, and to offer this to consumers across the world. This supports the delivery of long-term, consistent growth regardless of the short-term macroeconomic volatility. Scotch and tequila skew premium, but 47% of our reported sales outside of these categories are in the standard and value price tiers. As the visual shows within scotch, our brands and variants span a wide range of price points. This is also the case within other categories. For example, in tequila, with Don Julio and Casamigos, in luxury and ultra-premium, while 21Seeds, Astral, and DeLeón participate in super premium.

Our active portfolio management, along with innovation and brand investment, has also enabled the continued premiumization of our business. Premium and above products gained 16 percentage points of share of net sales value since fiscal '17, and they now account for 63% of our NSV. Globally, our advantaged portfolio positions us to capture growth opportunities not only by market and price point but also by category.

Our current strategic focus is firmly grounded in the categories of international spirits with high growth potential. Tequila has experienced high growth in the U.S. but still has significant headroom to increase penetration, and we're now taking tequila global. Importantly, Diageo's largest category, scotch, continues to grow ahead of TBA. And I'll talk more on the strength of our scotch and tequila portfolio later.

So, as I've just taken you through Diageo's advantaged footprint across geographies, categories, and price tiers, supported by our continued investment and superior execution has driven our 6-year top-line CAGR of 7.4% to fiscal '23. And looking forward, I have confidence in our medium-term top-line organic NSV growth guidance of +5% to 7% because these fundamentals remain in place, and we will continue to invest and raise the bar on execution. Lavanya will take you through and discuss the building blocks in more detail later. I'm now going to talk further about our strategy to drive long-term sustainable growth.

At our capital markets event in November, I laid out four key strategies I want us to focus on to drive long-term sustainable growth. First, continue to drive growth in our largest categories with

our amazing brands. Second, unleash the power of the portfolio to expand our footprint across the world. Third, innovate to recruit into new occasions. And finally, going from strong to stronger by raising the bar on execution.

So, starting with driving growth in our largest categories, our top three largest categories are scotch, beer, and tequila. Together, they represent just over 50% of our total reported NSV in fiscal '23 and almost one-third of our reported sales volume in equivalent units. These categories include iconic brands such as Johnnie Walker, Guinness, and Don Julio.

Scotch is Diageo's largest category, representing more than 25% of our total net sales in fiscal '23. And we hold the largest global scotch share at just under 40%, and it's highly profitable with a gross margin that is meaningfully above Diageo's average. Our scotch business has grown at an 8% value CAGR over the period fiscal '19 to fiscal '23, with volume growing at a 4% CAGR.

And as we shared in our recent results, we're gaining value share in 7 out of our 10 of our largest measured scotch markets, including in North America, led by Johnnie Walker, our leading brand, and the world's number one scotch brand in both value and volume, 3-and-a-half times bigger than the second in value. It has a truly global footprint nearly a quarter of consumers who drink scotch worldwide choose to drink Johnnie Walker. Our scotch portfolio contains many other world-class brands, such as Buchanan's, and in single malts: The Singleton, Lagavulin, Mortlach, and Talisker.

We're also increasing participation in developing markets such as India, where we've recruited 10 million new consumers into scotch, almost double that of our nearest competitor. Innovation plays an important role in recruiting new scotch consumers and driving new occasions. So, for example, The Singleton Golden Tresor is recruiting new consumers in greater China, Johnnie Walker Blonde is recruiting from Brazil's casual beer occasions, and Johnnie Walker Blue Label Elusive Umami. We are introducing consumers to a new luxury flavor profile globally.

Diageo's participation in beer is centered around our instantly recognizable flagship and iconic brand, Guinness. Guinness truly is a global brand with a local heartbeat. Created in 1759, it is loved by communities all over the world. In fiscal '23, Guinness delivered its strongest performance ever, with growth in every region and some record-breaking share growth continuing into half one fiscal '24, once again achieving double-digit organic NSV growth up 14%. The majority of the growth was in Europe, followed by Africa and the U.S.

Guinness pushes the boundaries on innovation. It's broadened our consumer base by appealing to younger, more female, and more ethnically diverse consumers. Guinness Nitrosurge enables consumers to pour a perfect pint of Guinness at home directly from a can. In Ireland, it's appealing to a younger consumer. Forty percent of Nitrosurge consumers are legal-purchased aged under 34. Guinness 0.0 was crowned the king of non-alcoholic beers by "Esquire" magazine last year. And on a value-share basis, Guinness is the number one beer brand in Ireland and Nigeria. And at the end of calendar year 2023, became the number one value sales beer brand in Great Britain across the on and off trade combined.

So, I asked Anna MacDonald, who leads our marketing team in Great Britain, to share with you what her team did to achieve the number one status and show you why we have confidence in the ongoing strength of Guinness. So, please play the video.

VIDEO PLAYS

In GB, we plan to open Old Brewer's Yard in Covent Garden in London in spring 2025, which will help us reach an even broader audience for Guinness than before. Our Guinness brand homes are best in class for consumer engagement. Our storehouse in Dublin was named the world's leading tourist attraction at the 2023 World Travel Awards. And here in the U.S., the Open Gate Brewery in Chicago opened in September last year and welcomed over 100,000 visitors through December.

Our next strategy is unleashing the power of our portfolio and expanding our footprint. And our tequila portfolio is a great example of that. Tequila is an established category in its home market of Mexico and, of course, here in the U.S. But it is now increasingly breaking out into the rest of the world as consumers appreciate its versatility, participation across many occasions, and aspirational qualities. I believe that the breadth of our footprint gives us a competitive advantage. As the category grows, Diageo continues to maintain its leadership, representing around a quarter of global tequila sales with a broad portfolio footprint that covers attractive price points and occasions.

Don Julio is the number-one-selling tequila brand globally as of 2022. And Casamigos has been the fastest-growing tequila brand among the largest 30 brands globally, growing at around 70% in the past five years. And while still early, we're encouraged by the global rollout of our tequilas with Casamigos and the Paloma cocktail in Southern Europe in the Aperitivo occasion, or Don Julio 1942, as a stylish icon of celebration in Asia. But our participation in tequila is more than Don Julio and Casamigos, and we're confident that there's so much more to go after. Even though we are the number one player here in the U.S., household penetration remains lower than other categories, so it's just under two-thirds that of whiskey. And through DeLeón, which we now fully own, along with Astral and 21Seeds, our tequila portfolio extends into the super-premium price tier, enabling us to participate in that booming segment of the category in the U.S.

The role of innovation at Diageo is to recruit new consumer groups in new occasions. We focus on innovation growth behind the major consumer macro trends I discussed earlier. You see on the slide some of the success stories that have recruited consumers against these key trends by identifying a clear opportunity rooted in insight and executing it brilliantly. We also leverage our global footprint to roll out innovation at pace. So, Smirnoff Spicy Tamarind, shown here, will be in 11 countries by the end of fiscal '24, with further expansion planned for fiscal '25.

And our approach is working. We're a leader in global innovation and over-index in our share of TBA innovation. Diageo was recently named the number one innovation business in the beverage industry in "Fortune" magazine. And according to Nielsen, Diageo launched 6 of the largest 10 new core spirits products by RSV in the 6 months to the end of January 2024. For context here, there were over 400 new spirits launches across approximately 150 brand owners

in the U.S. in that same time period. So, these include Baileys Chocolate Liqueur and Don Julio Rosado, Casamigos Cristalino, and Ketel One Espresso Martini ready-to-serve, each with a distinct recruitment role.

The fourth component of our strategy for growth is raising the bar on execution. Continuing to improve our execution at the point of purchase, in-store execution, across our advantage portfolio is key to ensuring our brand shows up with scale and relevance to our consumers. We continue to focus on building our sales excellence capabilities, in particular, the use of digital tools and Edge 365, which has increased both our outlet coverage but also the revenue growth from those customers who utilize Edge. While there's still room to raise the bar further, recent awards have recognized the strength of our partnerships and the relationship-building with customers.

An important enabler for us is our engaged workforce. We have over 30,000 talented individuals working with a clear purpose and with speed and agility to deliver our performance. I believe we have a highly competitive employer brand that helps us to attract, grow, and retain the best talent in a fiercely competitive marketplace. We know from our annual survey that our employees take ownership and have immense pride for Diageo's brands and performance. In 2023, the net promoter score for employees recommending Diageo's products was +80. And so, for context, an index score of +10 to +30 is considered great. And anything +30 is considered excellent.

So just as our consumers are diverse, we have a strong and diverse bench of leadership talent. At the end of fiscal '23, 44% of our leadership cohort are female, and 43% are ethnically diverse. And in our board, 70% of our directors are women, and 40% are ethnically diverse.

At Diageo, we have an advantaged culture that fuels our performance. Our values are at the heart of our total company culture, and we've recently evolved these to reflect how we're looking into the future in Diageo. The change to be better is one I feel most passionate about. It inspires the organization to raise the bar and not become complacent in our leadership. It encourages the prioritization of progress over perfection and captures the relentless spirit of learning for the development of self and the business. Our behaviors shape and guide our culture, and our leadership teams are actively dialing up on four areas that enable us to be fast, agile, transformational, and responsive to the changing consumer dynamics.

You know, in today's operating environment, we're setting ourselves up to respond quickly to emerging trends, seize opportunities faster than our competitors, innovate promptly, and pivot our plans rapidly when required. I'm proud of our teams and the Diageo culture.

So, let's hear directly from some of our leaders around the world about what Diageo brings to them.

VIDEO PLAYS

And I'm pleased to be joined today by members of our executive team. They're a winning combination of homegrown talent who have held varied roles across Diageo markets, including

more than half who've been with Diageo for over a decade. And some new joiners three in the last five years who bring valuable market experiences and a wealth of functional expertise. I'm proud that my executive team, like our portfolio, has a broad and diverse footprint of gender, of country of origin, and of global consumer experience. So, you'll have the opportunity to engage with them at dinner.

I want to finish by mentioning ESG, a fundamental tenet of both our values, but also building our business. At a recent interim results presentation, I shared that we're continuing to simplify our spirit of progress ESG plan so that we can focus on the real priorities for our business. For example, we will accelerate our positive drinking and water ambitions, the two most material areas for us. On the pillar of accelerating to a lower-carbon world, we've pivoted to a more focused approach. We're prioritizing and focusing on targeting the triple wins, where not only we can reduce carbon but also where we can improve cost and cash.

I'll now hand over to Lavanya, who will take you through our growth algorithm in more detail before I return to discuss our forward-looking outlook.

LAVANYA

Thank you, Debra, and good afternoon, everyone. Our growth algorithm enables us to deliver sustainable long-term growth and consistent top-tier shareholder returns. There are four paths to this simple algorithm. First, we drive top-line growth through our fantastic portfolio of brands and their advantage footprint. Second, we drive revenue growth management through price and mix improvement. Third, our culture of everyday efficiency helps us deliver best-in-class productivity. And finally, we take the benefits of revenue growth, management, and productivity, and we reinvest them back into our brands through carefully targeted investments. And this enables us to accelerate the growth of our top line and our share performance. Since this is at the heart of the thesis of investing in Diageo, let's walk through each of these one step further with a deeper dive into productivity and A&P investment.

Let's start with the top line. As you will see on this chart going back seven calendar years to 2016, Diageo's top-line performance has been in the top quartile of CPG peer group companies. This track record gives us confidence in our ability to drive future growth. A key driver of our top-tier performance is that we have continued to upweight investment in brand building. Going back to fiscal '17, we have increased marketing investment by over \$1 billion, and this has driven our TBA share up from 4% in 2020 to 4.7% in 2022. The investment also supports the growth of the spirits category, which has consistently taken share from beer and wine.

Let's double-click into our A&P investment choices and their returns over the past years. The increased investments were targeted at the strategies that Debra shared earlier. 83% of the incremental investment was to drive the growth of our largest categories and unleash the power of our portfolio. These investments drove 93% of our NSV growth over this period.

The first strategy of investing in our largest categories gives us scale and resilience. The investment in Johnnie Walker around the world enabled the brand to grow 300 basis points of share in the last three years. Guinness has grown at a 5.4% NSV CAGR over the past five years

and has grown a further 14% in this last half. Our tequila portfolio in the U.S. has nearly tripled market share and driven organic NSV growth more than five times faster than the Diageo average.

Second, we invest in unleashing the power of our portfolio across more markets. These are longer-term investments. Here, we have invested more than 30% of our A&P growth, resulting in just over a quarter of the NSV growth. For example, our global gin portfolio grew at one-and-a-half times that of the Diageo average. We also invest in key opportunity markets such as India and China, both with domestic spirits such as Royal Challenge and Shui Jing Fang, and international spirits. Scotch in India has grown at a 20% CAGR over this time period.

With our active portfolio management, we are now supporting more brands to drive the long-term growth of this business. In the last half, most of our up-weighted investment has been to support the launch of tequila across Europe and Asia Pacific and to grow our business in China and India. Going forward, we will continue to be disciplined in our A&P investment, and target opportunities which will drive business growth while improving the ROI of our investments.

Over the years, Diageo has built strong capability in revenue growth management. We are strategic and surgical in how we take pricing actions. And we do this in a very data-based manner. We leverage our investments in digital technology and data analytics to make the best pricing decisions by market at a brand level. The chart on the left shows that we have driven price mix growth at the top end of our peer group. And on the right, you will see that we have achieved this while maintaining volume CAGR in the 2% to 2.5% range. As Debra shared earlier, our medium-term guidance is to grow top line between 5% and 7%. This is enabled by our participation in the faster-growing categories of international spirits, our advantage footprint, consistent investment in A&P, and our superior execution. We expect volume growth of 2%, a price of between one and two points, and a mix of between two and three points.

But what gives us the confidence that we can achieve this? Let's start with our confidence in the two points of volume growth. Strong consumer demographics support TBA growth. Alcohol penetration continues at historic levels, and spirits continues to gain share from beer and wine.

Next is price. In the recent two years, we have grown prices at mid to high-single digits as inflation peaked. Going forward, we expect price increases to normalize to one to two points of growth in line with historical pre-COVID levels.

And lastly, mix of premiumization, which Debra described in detail. But let's unpack one example. The shift out of vodka and rum to tequila and whiskey. The average price of a bottle of tequila or whiskey is two times that of a bottle of vodka or rum. Two to three points of mixed growth requires 2% to 3% of consumer occasions to shift from vodka or rum to tequila or whiskey. Over the period 2017 to 2022, together, tequila and whiskey grew twice as fast as rum and vodka combined. Looking ahead to 2027, they're forecast to grow even faster. This gives us confidence that the premiumization building block will continue to be resilient.

Let's turn to productivity. Delivering everyday efficiency is a mindset that's built into our culture. In fiscal '23, we stepped up the delivery of productivity, and this helped to offset cost inflation

and enabled us to invest in our business. In the first half of fiscal '24, we unlocked a further \$335 million of productivity cost savings and are on track to exceed our 3-year \$1.5 billion productivity savings target by the end of fiscal '24. Going forward, we will accelerate productivity, and we aim to deliver \$2 billion of savings from fiscal '25 through fiscal '27. This is a significant step up in our commitment, and we are confident in our ability to deliver this. The majority of savings come from cost of goods, followed by marketing efficiency and overhead efficiency.

First, a few stats on overhead productivity. From fiscal '19 to fiscal '23, we grew organic NSV by 35%, while headcount only increased by 6%. As you heard in our last capital markets event, the rate of increase of Diageo's overhead has been the lowest of our CPG peer group and puts our overhead spend as a percentage of sales in the lowest quartile in the group.

Next is supply productivity. We leverage the scale and breadth of our business and our investments in digital technologies to continuously increase productivity. As a part of the supply agility program, we are reviewing our sourcing, manufacturing, and distribution footprint to identify opportunities to reduce materials, manufacturing, logistics, and duty costs. This is delivering savings in North America and India, and all regions are being reviewed.

On procurement. We have renewed freight contracts taking advantage of market trends, and we have increased our tequila glass suppliers from two to five, thereby reducing cost and building resilience. Brewing waste is now 17% lower than our pre-COVID baseline, factory employee productivity is 7% higher, and production line operating reliability is 6% higher. We have also driven logistics efficiencies and improved capacity utilization.

On value engineering, we expect to eliminate around 140 million cartons per year by the end of fiscal '24. Our work on lightweighting glass continues to reduce costs and carbon. But rather than hearing more about this from me, let's go to a video narrated by Ewan Andrew, President of Global Supply Chain and Procurement and Chief Sustainability Officer, who's also here with us today.

VIDEO PLAYS

Over the years, we have invested in a suite of tools and capabilities which enable us to improve our marketing efficiency. Between fiscal '20 and '23, tools such as catalysts and sensors improved A&P ROI ahead of A&P growth on an indexed basis. A further example is the work that we are doing to reduce A&P's spend on the development of non-working activities. This enables us to be more consistent in our messaging and increase the amount we spend on consumer-facing, brand-building, and execution.

For the recent launch of the Smirnoff "WE DO WE" global platform, we shot one set of advertisements centrally and provided over 30 markets, the ability to customize and flex elements to match their local needs. They could easily change the language, the product, the serve, the occasion, this resulted in advertising, on average, being produced twice as quickly. The global spend on Smirnoff advertising production is also on track to be 50% less than in fiscal '23. All of this contributes to Diageo having the best operating margins among our CPG peer group. This is a key advantage that supports our growth strategy.

We run this company for the long term, like true owners. A testament of this is the steady increase in investments that we have made in maturing stock, which currently sits at over \$7.7 billion. This is Diageo's strongest moat, and this has increased by over \$2.7 billion in the last 6 1/2 years, led by the strong growth of whiskey and the explosive growth of tequila. While we will continue to invest across aged-liquid categories, we do expect the rate of growth in our maturing stocks to moderate in the coming years.

To support volume growth, we also invest consistently in CapEx. In the last year and going forward, this includes investments in our supply chain agility program. As we have previously guided, we expect CapEx in fiscal '24 to be in the range of \$1.3 to \$1.5 billion. We expect this level to continue in the coming years before moderating to historic levels as a percentage of net sales from fiscal '27.

Diageo delivers consistent, strong, cumulative free cash flow. Following a dip through COVID, accumulative free cash flow has increased despite increased reinvestment into the business through CapEx and increasing maturing stock. We have delivered this through organic operating profit growth and disciplined working capital management. The work we do on improving working capital is across all three pillars of day sales, days payable, and days inventory. On DSO and DPO, we have improved our working capital performance significantly compared to fiscal '19 first half levels through actively reducing overdue debt, improving supply of payment terms, and driving source-to-pay process improvement.

While DIOs increased during the COVID years, to protect against supply chain disruptions, they have reduced from their peak levels. In half one, fiscal '24, we reduced our inventory, enabled by new data analytics solutions, and improved stock management processes. Looking ahead, we see an opportunity to reduce DIO levels further, and this will be an area of focus. Our strong cash flow performance helps maintain a strong balance sheet. Our consistent and disciplined approach to capital allocation is unchanged.

Our priority is to invest in sustainable organic growth and to acquire strategic brands that strengthen our exposure to fast-growing categories. We have a progressive dividend policy, and we target a dividend cover range of between 1.8 and 2.2 times. I want to emphasize that we remain committed to our target leverage range. And I'm conscious that we were at the upper end of that range at the end of the half year. We will make the right decisions to support the long-term growth of the business. Should our average ratio fall outside of the range, we will take steps to return to the range as soon as practicable.

Over the years, we have dealt with significant value to shareholders. We've increased dividends every year for over 20 years and have consistently returned excess cash to shareholders. We expect to remain progressive dividend payers in the medium term. We returned 9.3 billion pounds of capital to shareholders through our share buyback program between fiscal '18 through fiscal '23. At the beginning of fiscal '24, we announced a new share buyback program of \$1 billion. And by the end of December 23, we had returned half a billion, with the remaining amount expected to be returned in the second half of the year.

And as Debra mentioned, over the last 10 years, Diageo has generated a total shareholder return CAGR of 8%. Now let me hand it back to Debra for our outlook and closing.

DEBRA

Thank you, Lavanya. After a four-year CAGR of 6.5%, the first half of fiscal '24 was challenged due to materially weaker performance in our Latin America region. We view this as a near-term challenge, and we expect Diageo's performance to gradually improve in the second half of fiscal '24 compared to the first half. And as we move into fiscal '25 and the consumer environment improves, we expect to progress towards the delivery of our medium-term guidance.

Over the medium term, as the fundamentals of TBA have not changed, we expect to deliver organic net sales growth between 5% and 7%. My confidence in this guidance is fundamentally underpinned by our advantaged portfolio and footprint, which will enable us to grow ahead of international spirits, which is growing ahead of TBA sourcing from beer and wine occasions. And with targeted investments and superior execution, we believe we can drive share gains. As inflation moderates and productivity from our supply chain agility program flows through, we expect operating profit to grow ahead of organic net sales growth.

So, to summarize our main messages from today, Diageo is a leader in total beverage alcohol, a fundamentally attractive, growing, and resilient category. We have a broad geographic footprint and advantaged portfolio, which we continue to actively shape and develop. We're focused on accelerating the business and winning share by raising the bar on operational execution while building the foundations for long-term sustainable growth. Our commitment to delivering everyday efficiency and reinvesting smartly underpins our approach. And finally, we're confident in our strategy and our ability to deliver value for shareholders.

We'll now move to the breakout room for Q&A, after which I hope many of you join me and my executive team for dinner on the Great Lawn. And you'll have the opportunity to try some of our exciting new innovations. And that includes Bulleit Single Malt, and Don Julio Alma Miel, and to experience the purpose of, "Celebrating Life Every Day, Everywhere." Thank you.

END OF TRANSCRIPT