Diageo Interim Results 2023 Q&A Call Transcript

Thursday, 26th January 2023

Ivan Menezes

Chief Executive Officer, Diageo

Hi everyone and thank you for joining our Interim Results call. I hope you have had a chance to read our press release and watch the presentation webcast on diageo.com.

I am pleased with our results for the first half of fiscal 2023. We delivered organic topline and operating profit growth above our medium-term guidance. Net sales up 9%, with growth across all regions. Volume grew 2%. Even as we implemented strategic price increases, operating profit up 10%, organic margin expanded 9 basis points. We generated £800 million of free cash flow, fuelling continued investment in long-term growth. We expect to deliver stronger free cash flow in the second half as we lap more normalised working capital movements.

We continued to gain or hold share in the majority of our markets, 75%. Our super-premium-plus brands grew organic net sales by 12%. I am particularly pleased with the strong growth in scotch, up 19%, tequila up 28% and Guinness up 17%. On a constant basis, Diageo is 36% bigger than before pre-COVID and with a four-year CAGR of organic net sales of 8%.

In North America, organic net sales grew 3%, lapping strong double-digit growth in the first half of fiscal 2022. US spirits' net sales grew 2%, on top of strong double-digit growth for four consecutive halves, and we had depletions ahead of shipments. Our US spirits business is 44% larger than fiscal 2019, with net sales growing at a four-year CAGR of 9.4%. We took price and held share of TBA. As expected, growth in the US spirits category is normalising, trending towards a historical mid-single-digit range. Consumer demand remains resilient and the market continues to premiumise. 33% of American drinkers surveyed said they had spent $50 or more on a bottle of alcohol in 2022, and that was up from just 24% in 2021.

In Europe, organic net sales grew 10% and we maintained volume despite the challenging economic environment. Asia-Pac grew 17%, despite Greater China, which only grew 2%. Latin America grew sales by 20% and delivered the highest margin across all our regions in the half. This business is 64% larger versus fiscal 2019, with net sales growing at a four-year CAGR of 15%. I am very proud of our performance in Latin America. In Africa, net sales grew by 6%, with growth across all markets. We are delivering consistent returns for shareholders, increasing our interim dividend by 5%, and today I am pleased to announce an additional return of capital to shareholders up to £500 million in fiscal 2023.

As I look ahead to the second half of fiscal 2023, I am pleased with our start in January and the resilience of our business. I am confident in our strategy and ability to deliver our medium-term guidance.

With that, I will turn it to the operator. Let us take our first question.

Q&A

Sanjeet Aujla (Credit Suisse): Morning Ivan and Lavanya. Couple from me, please. Firstly, could you just give us a sense of where you see US spirits sell-out trends at the moment and how that contrasts with inventory levels and the numbers you have given us on the shipments and depletions so far in the first half? Secondly, would just love some early thoughts on how Chinese New Year has gone. Thanks.

Ivan Menezes: Sure. Hi Sanjeet. The US consumer is robust. If you look at the industry, we see it growing at about 4%-5%. I have said this for a long time – a couple of years or more – that post-COVID we expect to the industry to come back to that mid-single-digit growth range, and what I am really pleased about is the consumer, through the last six months, has come to that range, so we are feeling very good about it. Within that, premiumisation remains strong; you see in our numbers our super-premium-plus business grew 10% in the US. So feeling really good about the health of the US consumer. The spirits industry has 20 years of volume growth, taking share of TBA, outperforming beer and wine. Premiumisation is strong and I quoted those numbers of the robustness of about $50 a bottle. Overall, strong, robust and pretty much where we expected it to be.

If I turn to Chinese New Year, clearly there is three pieces to Chinese New Year: the sell-in before, what happens in the couple of weeks and what happens after. The sell-in before, we were cautious, obviously, with the lockdowns and the COVID conditions in China. Actual Chinese New Year itself is subdued in terms of socialising and consumption, and certainly, the large events are more subdued. We remain optimistic about China recovering fast, both for us scotch business and for baijiu, and as we go into Q3 and Q4 we are very much playing into assuming a strong recovery. Obviously, we have to watch it week by week, but I am feeling positive about the China consumer environment going forward.

Sanjeet Aujla: Got it. Just a quick follow-up there on the US. If you think the industry is growing 4%-5% in sell-out terms, do you think Diageo is outperforming that? Just a quick word on where you think inventory levels are and how comfortable you are with that in the US.

Ivan Menezes: Yeah. I will turn it to Lavanya.

Lavanya Chandrashekar: Yes. I will answer to your question on inventory in a bit, but in terms of our performance in the US itself we are holding share of TBA in the US, so we are feeling good about that. Obviously, we were growing share and we would like to go back to that, and Ivan has a very strong point of view on that, I know.

Coming back to inventory levels, fiscal 2022, we ended fiscal 2022 with healthy inventory levels. We talked about this in July when we announced our results and inventory levels were back to close to where it was pre-COVID. A little bit higher on imports, just because the supply chain was longer, but broadly back to pre-COVID levels on inventory levels. Where we ended the half, we ended with inventory levels at distributors slightly below where we ended last fiscal year. Not because we wanted to destock or we needed to destock, but just because December was a really good month and so a lot of depletions happened toward the end of December especially, which has led to inventory levels being a little lower.

We feel good about where inventory levels are and we are lapping the replenishment of inventory last year, because if you go back to the start of fiscal 2021 – fiscal 2022, sorry, we were coming off of a very, very, very high growth rate in fiscal 2021; fiscal 2021 we grew 24% on US spirits. So when we started fiscal 2022 it was very low levels of inventory across the entire supply chain, which we replenished through the year. Some brands came in faster;

some brands came in a little later in terms of when supply was available. So that is what we are lapping here on ships versus depletes.

Ivan Menezes: I will just add, we have held TBA share. I think if you look below that, what I am really pleased with is we are gaining substantial share in the on-trade. The on-trade in the US, and NABCA has the most reliable data here, so if you look at NABCA on-trade it is about 20% bigger than pre-COVID and we have gained outside share. To me, that is a huge measure of the health of our brands and the portfolio. Even in these last six months, we gained over 100 basis points of on-trade shares in NABCA.

Sanjeet Aujla: Great. Thank you Ivan and Lavanya.

Olivier Nicolai (Goldman Sachs): Hi, good morning Ivan and Lavanya. Just a couple of questions, please. First on the US, just following up there. As comps normalise, should we assume a strong sales performance in H2 in North America in terms of organic sales growth? Then if we think about the margins, obviously margins were down in H1 in North America. When could we expect a stabilisation in margins in the US or, at least, a gross margin inflection to start with? Then, just on FX, a quick question for you, Lavanya. You flagged that you were expecting a £300 million positive impact on FX for this year. How much transactional FX impact do you expect this year, and is it fair to assume further transactional FX impact in fiscal 2024? Thank you very much.

Ivan Menezes: Yeah. Maybe I will take the first part on US top-line and Lavanya on margins and FX. Yes, we do anticipate, as I talked about earlier, the US industry should be in solid mid-single-digit growth in the second half. We expect to perform in line, ideally better, but that is our going-in view.

Focusing on the consumer, I think we feel positive about our ability of consumer offtake to be in the mid-single-digit range. Now, we have an intense sell-out culture, so as we look at managing the depletions and shipments you will recall from last year's results, because we were in the restocking phase, we had shipments ahead of depletions three points when we closed out the year. So we will lap through all that stuff, but to me that is just supply chain. The most important thing is ensuring we are well-positioned to win with the consumer, and we have got phenomenal marketing plans, great innovation. We have got Super Bowl coming up and Crown Royal is going to be on the Super Bowl for the first time, really excited about that. The team has significant ammunition behind our brands going into H2, so I am feeling good about our ability to win with the consumer.

Lavanya Chandrashekar: Olivier, to your question on margins in North America. Look, I will just start off by reminding us that North America has very, very strong margins, 41% operating margin. It was the highest margin region for this business, just got toppled by Latin America who surpassed them by 30 basis points. One of our strategies has been to invest in North America for growth, because every point of growth in North America comes with really, really strong margins. What you are seeing in the margin story is a bit of that, and we have invested strongly in A&P, also in digital and capabilities to enable continued strong growth of the business in North America.

The gross margin, some of it is inflation and the impact of that is what we are seeing there, but, again, we have many levers to offset inflation: premiumisation, volume growth, pricing and the work that we do on revenue growth management. All of that helps us to offset inflation. I am not concerned about where the margins are in North America; I think it is a very health P&L and business in the US.

On FX, that was your second question. In terms of transactional FX impact, not really expecting much in terms of transactional FX impact. Our major currency pairs are hedged and, as you saw in the first half, we really did not have any impact from a transactional perspective on FX.

Olivier Nicolai: Thank you very much Lavanya and Ivan.

Ivan Menezes: Thank you.

Pinar Ergun (Morgan Stanley): Good morning. Thanks for taking my questions. I have one on marketing. Diageo has invested very significantly into marketing in recent years and you are indicating that the investment will rise faster than sales in H2. How do we reconcile that with your expectation of moderating sales growth across all regions, and specifically in the US, are your market shares evolving in line with your expectations, given the investment that has gone into this region? Then two clarifications, I guess. One is on the free cash flow. Can you please take us through the different moving parts here; how the creditor balance shifted so much and so on? Then on capital allocation, has your thinking evolved at all now that the cost of borrowing has gone up substantially? Does that change how you approach buybacks, M&A and so on? Thank you so much.

Ivan Menezes (Chief Executive, Diageo): Thanks, Pinar. I will take the first two on marketing and share. Marketing, as you know, we built a lot of sophistication in the data and analytics and tools we now have to assess marketing effectiveness. As we look to the second half, we see very good opportunities to step up the investment behind our brands. That is why we indicated in the second half, we intend to increase our reinvestment rate. This is built up by market, by brand and very much with the degree of confidence on returns. Now, our marketing is not just to make the second half-sales number. It is about the next three years. Everything in our business upweights in marketing are not for short-term return alone. You do get some short-term impact but the bulk of the impact really comes down the road. In line with our goal to be a very reliable top-tier compounder this flywheel of Diageo of upweight investment, drive efficiency and get quality top line growth. It is really in that context because we really want to ensure we are setting ourselves up well for the quality of growth through the medium-term. However, it is going against very specific brand opportunities where we have a high degree of confidence in the return that we will get from this investment. I have to say the quality of our marketing continues to step up significantly and I feel really good about that.

On market share firstly at a global level where 75% of the world is in green. That is a high benchmark and I am pleased with that. In the US context, we are holding share at TBA. We are coming off a period where we have grown significant share and we have also taken price ahead of the industry, if you look at the last three years. Flat share in the first half but fully expect and want to do better, as Lavanya alluded to earlier. We want to get back into the share growth mode in the US and I expect in the medium-term we will do that. That also takes me to the point, when you look at our portfolio in the US, we have got a phenomenal tequila portfolio which has still a long way to run. We are the leader in whisky and whisky is a hot category. Innovation we have got a lot of exciting things in the pipeline that are going to be coming into the second half and into FY24. Our execution and investment levels in the US, I do feel good about the ability of our US business to outperform the industry going forward.

Lavanya Chandrashekar (Chief Financial Officer): You had two other questions, one on free cash flow and capital allocation. I will take the free cash flow question first. What you are seeing on free cash flow and working capital specifically is the lapping of what happened last year. Again, I go back to reminding us of what happened in fiscal 2022. We were coming off very low inventory levels in the entire supply chain. We had a phenomenal growth year in fiscal 2022. We grew 20% with ten points of that coming from volume. We were buying a lot of stuff, bottles, grains, marketing spend. Our total spend increased dramatically and with that, our creditors increased tremendously in fiscal 2022. Our creditors have increased in fiscal 2023 in half-one as well but just not to the same extent that it increased in fiscal 2022. What we are lapping is that that huge increase in creditors that happened in fiscal 2022 and that is about £500 million of lower creditors increase this year than the increase of last year.

In addition to that we have invested a little bit more on inventories, mainly to ensure our ability to support continued growth of the business, as APAC has grown tremendously and Latin America has grown tremendously. There has been about £150 million of increase in inventory. The third piece is investing in maturing stock. This is something that I had spoken about as we have announced results last year. It is a part of our capital allocation strategy to continue to invest in maturing stock to support the growth of our business. Around half of our business today is in aged inventories. With the growth of tequila and the 19% growth of scotch that we have seen in this half, a good example of that. We are investing behind that. That explains the three pieces to the moving parts of free cash flow. As we have indicated in the press release, I do expect that working capital will increase in the second half simply because what we are comping in the second half of last year is a little easier. This business remains a very strong cash generating machine so no change to that.

In terms of capital allocation and has our thinking evolved, the short answer is no. We have a very consistent and disciplined approach to capital allocation and we will invest first in the business. Lots of room to grow. We still have our ambition of going to some 4% market share to 6% market share so we will continue to invest in capex, maturing stock in A&P, as Ivan discussed. Then M&A, we will be looking for interesting bolt-on acquisitions as we have done in the first half. We just announced Don Papa. We are very excited about that and we will continue to look for opportunities there. We will also be disciplined on the other side from a divestiture portfolio, as we have been. Dividend, we will continue to be a progressive dividend payer and we have announced a 5% dividend increase in this first half of this year. Then return of capital we have announced an additional £500 million of return of capital for this year. We will come back at year-end results with a further update for next fiscal if the board decides to do so.

Pinar Ergun: Thank you very much.

Nick Oliver (UBS): Good morning. Thank you so much for the questions. One on the US and just to make sure that I am clear, when we think about US underlying trends we are thinking 4%-5% right now with Diageo outperforming, given the tequila portfolio. Is that the best way to think about growth for the US market? Then I will come back with other questions afterwards, if that made sense.

Ivan Menezes: The US market at mid-single digits, yes. That is what we have always said the market will return to and that is what we are seeing. That is what we feel confident about going forward. It is driven very much by demographics, taste preferences. It is a long-term secular trend which is right, that level of growth for the industry.

Nick Oliver: Great, thank you. Then when we think about marketing investment in the US, I guess because there has been unprecedented pricing levels coming through. Is the best way to think about marketing investment still marketing as a percent of NSV or should we think about it more in absolute terms when we do our modelling? Any thoughts there would be helpful.

Ivan Menezes: If you look at the last 3-4 years, we have massively upweighted investment in the US market. We do not target a percent of reinvestment. We actually build our plans bottom-up. You take a brand like Crown Royal, we put in place a very rigorous process of what is the right level of spend behind Crown Royal and what mix of activities we put it behind. We build our marketing budgets bottom-up but what you see in the trend is our orientation is to lean in and spend more because we do believe there is plenty of attractive growth to be had. We are very focused on the sustainability of the growth. As I talked about earlier this is not just about delivering a return in the next six months. That is the approach we take and the US market I have always said if there is any opportunity to spend more we will.

Nick Oliver: Thank you. My final question. I think back in August you were talking about share gains for Diageo in the on-premise and one of the reasons why maybe there is a disparity between the Nielsen and NABCA data and what Diageo was reporting. Is that on-premise and share gains still continuing?

Ivan Menezes: Yes, very much so. I said we had over 100 basis points of share gains in the last six months. We are feeling really good about our on-premise momentum. Claudia and the team made some really big changes in our approach to the on-premise about three years ago and you just see the consistency of performance coming through now. That is a phenomenal indicator of the health of the business so I am really happy to see the share growth in the on-premise.

Nick Oliver: Great. Thanks so much, that has been really clear. Thank you.

Simon Hales (Citi): Morning Ivan and Lavanya. I have three please. Firstly, sorry to labour the point but can I just come back on the US depletion trends first, Ivan? Obviously, you said that you held TBA share in the first half. Am I right to read that as a share loss in spirits and a share gain in beer from a depletion standpoint? If that is true what has really been driving that relative depletion share loss in spirits in the first half? What gives you the confidence that we will see the pickup so you will be growing spirit depletion at least in line with the wider market in the second half of the year? That is the first one.

Secondly, at the group level I think price mix is running 7.5%-7.6% in the first half. You indicated pricing was up high single digit so perhaps the implication of that is that mix overall was a bit negative globally. Is that correct? Is it geographic mix that has driven that, some channel shift? Some colour there would be handy.

Then just finally Lavanya with regards to the share buyback outlook from here, obviously you said that given the macro uncertainty we might be at the lower end of the 2.5x-3.0x leverage range for now. How do we think about how you will think about buybacks when we get to the full-year and beyond? Does it make it more difficult in the current environment to perhaps commit to a multi-year share buyback programme? Perhaps therefore we should more think about rolling six months or 12 months forward commitment to capital return from here.

Ivan Menezes: Okay, I will deal with the share question and then turn it to Lavanya. Firstly, the share is consumer offtake, it is not depletions. Depletions is wholesaler/distributor sales to retailers. When you look at us holding share of TBA that comes in part from spirits doing better than beer and wine. We are benefitting from the 20-year trend of spirits steadily gaining share of total TBA. We have held share there. Now, to your question on channels, we did gain share in the on-trade, as I talked about earlier. We are marginally down in spirits in the off trade, but you have to remember, we're stronger in NABCA, which is a very stable channel to measure. Nielsen tends to be more promotional. And we've taken, as I mentioned earlier, we've taken – if you look at the last three years, we've taken more price, we've led the industry on price on spirits. So net-net-net, we're about flat and our intention as we go forward is very much to look at getting back to sustainable share growth, so that's how I would characterise the share performance. Lavanya?

Lavanya Chandrashekar: Thanks Ivan. So on price, Simon, what we said was that price contributed to high single digit growth of NSV. I think that's a clarification to your question on price.

On share buyback, look, I just point to the fact that prior to fiscal 2019, Diageo did not have a multiyear share buyback programme for well over a decade. We have been very consistent in returning value to shareholders and our TSR is on a five-year and ten-year basis, it's extremely strong. We will come back at results with further guidance on share buybacks but our approach to capital allocation continues to be very consistent.

Simon Hales: Got it, thank you.

Celine Pannuti (JP Morgan): Good morning Ivan and good morning Lavanya. My first question is on your margin bridge. We've seen gross margin under pressure in the first half. Can you help us how we should look at your costs set up in the second half? And maybe as well in terms of the pricing side, are we expecting further price increases? I was looking at that bridge, I think marketing you said will be up, so how should we think about the SG&A bucket in the second half?

My second question is on – trying to come back on Chinese growth. You said that you expect a very strong Q3, Q4. I think compared to the growth rate of the market for international spirits, what do you think the growth rates could be in China and what are you planning for, not only for fiscal year 2023 H2 but as well for the first half of fiscal year 2024? And can I also ask on another number, you said normalisation of growth in Europe in the second half. What is the normalisation of the market growth you are looking for? Thank you.

Ivan Menezes: Okay, hi Celine. Let me deal with China and Europe and then Lavanya will cover margin. So on China, just to be clear, I'm not saying we're going to have a massive acceleration in Q3, Q4, I'm saying – I said earlier we are ready for the recovery of the Chinese consumer. I don't have a crystal ball on the pace at which that will happen. We're confident it is going to happen. Whether it takes one or two or three quarters, we'll need to see. But we're certainly – our approach to the marketplace in terms of marketing support, distribution is very much counting on a recovery of the Chinese consumer. So the phasing of it I think we'll obviously need to watch in the next few months.

I think longer-term, we remain confident about double-digit growth in China for our business, both in international spirits, which is primarily top-end Scotch, and in Baijiu. And so we feel confident about China being an accretive growth engine for Diageo and as you know, it's at very high margins. We have very good margins in China. We're encouraged that with the reopening of China that we shall see good momentum. The phasing and timing of it we obviously watch very closely and stay very agile to respond to.

On Europe, I'm delighted with our performance in Europe. 10% growth in the first half, strong market share gains in spirits and phenomenal performance on Guinness. I know it was in the presentation but I have to say it again, Guinness is now the number one beer in the British on-trade. I never believed I'd see this day. It's fantastic. The brand is really healthy.

We're gaining share. We're going to watch. The European consumer obviously is something that we've put a lot of scrutiny behind. We're confident we will continue to maintain the share momentum. What the external world does, we will deal with. We've been pleased with the resilience of the sector as we've gone through the first half, with all the negative news flow on consumers in Europe, our category and our sector has held up very well and we hope to see that continued resilience going into the second half.

Lavanya Chandrashekar: Celine, your question on cost and the second-half price increases and operating margin in general. On cost, look, we've seen higher inflation in the first half of this year than we did through last year. A lot of it was driven by energy cost. But then on the other hand, we've had – we also have a lot going for us in terms of the levers that we have that help us deal with inflation. Volume growth, 2% points of our growth this half has come from volume and that gives us operating leverage all the way through the P&L. Premiumisation, revenue growth management. We have taken more pricing and smartly while holding market share at – in 75% of our measured markets, holding or growing market share in 75% of our measured markets. Aged liquid is definitely – gives us some hedge as well, in the sense that any inflation that happens on our aged liquid gets deferred to the P&L. Productivity, I do want to remind us of something, we've delivered £220 million of productivity in this half, and you know that's a great way for us to offset inflation as well.

In terms of what I see coming forward in the second half, inflation, it's persistent. It's not increasing but it's not going away either. We are hedged from a commodity exposure perspective for the second half and beyond.

Price increases, we take price increases across markets at various points in time. Especially when you think about the emerging markets, there are – there will be pricing actions that will continue to happen through the second half of the year.

Overall, from an operating margin perspective, what I say is that we have a medium-term guidance outset to consistently grow operating profit ahead of net sales. That is what we're reaffirming our medium-term guidance.

Celine Pannuti: Thank you.

Edward Mundy (Jefferies): Morning Ivan, morning Lavanya. Two questions for me. The first is just a really big picture question. You set out the medium-term guidance range to grow 5%-7%, and I know that's the medium-term range, but you've clearly delivered growth in excess of that after a couple of really big years. You're CAGR-ing about 8% since pre-pandemic levels. How confident are you that you can grow off this high a base, or do we need to go through a period of digestion, given these significant gains and the very, very strong momentum after the last couple of years?

And then the second question, what evidence are you seeing of weakening consumer spending power so far? Is it in some of the volumes amongst consumers, is it certain countries? Are you seeing downtrading? And how are you really adapting your business and getting ready for a potential weakening environment?

Ivan Menezes: Sure. I'd say, to the first part of your question, we are confident in the 5%-7% top line growth and I think the way to think about it, Ed, is TBA worldwide has very positive trends. You've got premiumisation that's strong. You look at the emerging markets, and penetration is still low. You've got 600 million new consumers coming into the market. You take places like Latin America and India, South-East Asia. In the developed world, we feel really good about the continued gains of spirits from TBA outperforming beer and wine.

We pressure-test this all the time. We're not just sitting here. We do - our strategy teams kind of run through a very vigorous modelling of world economies, consumer behaviour, sensitivities to shifts, and putting that all together, we do feel confident in the 5%-7%.

On the big – we've got market dynamics, I mean we've got tough markets. Nigeria is a tough market. Africa as you can see is a bit slower in growth at 6%. We put the focus there on margin improvement and not chasing the lower end of the portfolio. We've got different dynamics in different places but by and large the trend of premiumisation is strong and intact. Our super premium-plus business, I think it was in my presentation, every region grew double digits in the first half.

We're not seeing a weakening of the premiumisation trend really anywhere: Latin America, Asia, India, certainly in the developed world. We have a portfolio. I think what you see in these numbers is Diageo's footprint is a real advantage. The brands, the categories, the price points and the geographies. At any point in time when certain parts of the world are going through corrections or markets have slowed down, et cetera, we've got the ability to deliver this resilient performance and consistent performance, and that's very nice.

Of course, we've got challenges in certain geographies but we can offset it with outperformance in others, and that's where I believe the culture of our whole approach to this is being very agile, operating as one Diageo. Debra and, in her role, overseeing the markets and supply chain and marketing, we're making very quick decisions as we see shifts in end markets that enable us to sustain this quality growth.

Edward Mundy: Okay, thank you.

Mitch Collett (Deutsche Bank): Thanks. Good morning Ivan and Lavanya. Going back to the US, you said you're holding share of TBA in the US and that spirits is gaining, which I guess implies that you're currently losing share of spirits despite the strength of tequila. If I look at NABCA and Nielsen, the big difference appears to be prepared cocktails, which as a category is growing something like 50%, and I think your ready-to-drink in the US, which I appreciate may not be all prepared cocktails, is about plus 18%. Can you maybe comment on what you're doing to close that gap and whether that's going to be a strong driver of growth for you in the US going forward?

Then just to come back on margins for the group, you've obviously got marketing to sales being a drag in the second half, having been a tailwind in the first half. Lavanya, I think you said input cost pressures are likely to persist. Can you therefore comment on whether you think margins in the second half are likely to be up or down year-on-year? Thank you.

Ivan Menezes: Sure. I'll take the first part of the question, Mitch. Firstly, you are right, the acceleration in RTD spirits has been an important piece of the spirits market growth. Our strategy there is we're not chasing RTD growth. We want to be in the premium end of – premium convenience is the way we look at the opportunity. We're very focused on building a sustainable, quality premium business in this space, and there's a lot of growth right now happening in RTDs which is – we're not interested in.

The second thing I would say is actually if you look at our share performance within bottled spirits, it is strong. We're gaining share. We absolutely believe having a healthy core spirits business is fundamental to our long-term health and outperformance in the US. I'm really pleased with that. That's to your question and I'll turn it to Lavanya.

Lavanya: Yes. Mitch on your question on margins in the second half, we're not giving guidance here for the short-term. I reiterate that our medium-term guidance of growing operating profit ahead of net sales on a consistent basis. As I said, there's many levers that we have in the portfolio that help us to grow margins. Yes, input cost inflation is – we're not seeing it coming off, but as I also said, we are hedged and that does protect us. We have taken pricing in the first half; we will continue to do so in the second half.

Some of the work that the teams have been doing on revenue growth management, which is really helping to move the mix to more premium end to Johnny Walker Black Label and above, is a strong driver of margin improvement for us. We're seeing this happen across all regions. We see Scotch growth even in Africa and Latin America and APAC. Scotch in total has grown 19% and contributed to 50% of the growth of Diageo. Scotch is a highly profitable category.

There are many levers to get – that we're working on all simultaneously, including productivity. I feel confident about our ability to deliver a consistent, healthy shape of the P&L.

Mitch Collett: Understood. Thank you both.

Lawrence White (Barclays): Morning Sir Ivan, Lavanya. Thanks very much for the questions. A couple from me, please. Firstly, on the US business, your tequila performance continues to be very strong but perhaps there was quite significant weakness across Crown Royal, Vodka and the Scotch portfolio. With the expectation of getting back to that mid-single digit level, if tequila – I think it's reasonable to assume that tequila performance still outperforms the wider spirits category, but that then assumes that you're comfortable with slightly lower growth, particularly in those three major categories for you. Is that the case and is there anything you can do about those three categories in particular to accelerate the growth and get them back into positive territory?

Then secondly, on LAC, the slide 15 shows your CAGRs over the past few years and generally speaking, most geographies are around the sort of 7%-8%. LAC was the standout at around 15% and you've highlighted the improved margin performance in that market as well. Over the past few years, that market has had a bit of benefit from government stimulus cheques, is there any other reason why you expect the LAC market to continue at these sort of levels? Is it reasonable to continue to see LAC drive double-digit growth on accelerated margins, or is that something we should expect to slow down over the next few years? Thanks very much.

Ivan Menezes: Sure. Why don't I take the US and Lavanya, you can cover LAC. The US, we're playing a total portfolio game. We are very happy with the quality of our portfolio. When you look at the disposals of the brands we made a few years ago and then obviously the additions of tequila and Aviation Gin and some of the smaller whiskies we're adding now. So tequila still has a long runway, as we've talked many times before. Whisky, we're very excited about. Bulleit, in these numbers you can see Bulleit has performed strongly, growing double-digit. Crown Royal, our depletions growth is positive. What you're seeing in the sales numbers is what Lavanya talked about earlier, just the lapping effects and our sell-out orientation on keeping the shipment to depletion profile right, but we're growing share. Scotch, actually, both Johnny Walker and Buchanan's are growing share of the Scotch category in consumer off-take terms.

Whisky for us remains very attractive. We're investing strongly behind it. Crown Royal, Bulleit, Johnny Walker, Buchanan's. Our malts, where if you remember, we've always underperformed in malts. I'm really happy to see our malts performance now come through strongly. I think in the US we were up 60% in our single malt business. Whisky will be an engine.

On vodka, I think if you – there's one factor which is consumer-led, where Ciroc clearly has more pressure with the urban, multicultural consumer. Ketel One is solid. I mean, if you – we've – and Smirnoff is solid. Ciroc, I believe will come back. We do see the Ciroc business stabilising over time.

Then we've got other brands, like Bailey's and Captain and our new additions to the portfolio, gins with Aviation. When you plot the entire North American portfolio, we play a portfolio game to deliver the total outcome. It's not counting on tequila.

Lavanya Chandrashekar: Lawrence, I'll take your question on Latin America. Indeed, a standout performance in Latin America. Three-year compounded annual average growth rate of 15%. In fact if you even go back before this, you look at fiscal 2017, fiscal 2018, fiscal 2019, high single digit growth in the Latin American business. What we're seeing happen in Latin America is we've been growing the business the right way, with strong A&P investment, driving – taking price, driving premiumisation. It's really the flywheel in action. I think this is one of our great examples of how that flywheel works in pretty much every geography around the world.

If you – our business in Latin America is predominantly Scotch. We are growing the premium end of Scotch in Latin America strongly. The work that the team has been doing in Latin America in terms of - on digital, on consumer-centric advertising, bringing our brands to be front and centre of a very dynamic, young consumer base, who is really interested in brands that are part of culture, has been really fantastic.

Really the single biggest thing that I would say has driven this great performance, consistent great performance over several years has been our approach to looking at the market through a lens of total beverage alcohol. We are a very small player in LAC from a total beverage alcohol perspective, and what the team has been extremely successful in doing is recruiting out of premium beer into premium spirits. That's what has driven the growth in margins, the growth in share and the consistent growth of our top line.

You mentioned stimulus cheques, look, this is growth that the business has delivered over the last three-plus years and three-plus years before that. It's anchored in fundamental good business delivery versus any short-term tailwinds that may have existed.

Lawrence White: That's all super clear. Thank you so much.

Andrea Pistacchi (Bank of America): Yes, thank you for taking the question. Two, please. Earlier you were talking about the good momentum that you're seeing across the business exiting the half-year period and the trends in January were also looking encouraging. You referred to December having been good, I think, in the US. More broadly in other regions, what sort of momentum are you seeing as you go into the second half? Everybody thinks about the inflexion point, which doesn't seem to have happened yet in Europe. In particular on Europe, where you had another strong half year, how do you see those markets like Ireland, Southern Europe, which continue to be good but you have a large on-trade exposure there?

Then if I may, my second question is just on Ciroc, which you mentioned earlier. Ciroc was down substantially in the half, because you said distributors were destocking the brand. I think it knocked about 2 points off your total US growth. Has this destock been completed? Should we see an improvement already in the second half? Thank you.

Ivan Menezes: Sure. I'll deal with the first one and ask Lavanya to comment on Ciroc. We have seen, as we said in my statement, I mean January has started well, pretty much around the world, including Europe, Andrea. I'm really pleased to see the consistency of consumer momentum for our brands and our category continue in Europe. Obviously, we track it very closely. One of the things we learnt through the COVID years is you've got to be extremely agile and we have our pulse on the consumer to really see if any shifts happen, we will adjust.

What has been really encouraging, I would say, through the last six months of the – as I mentioned earlier, in Europe is we've seen the cocktail culture really thrive and premium brands within that do really well. We expect the momentum to – that underlying consumer taste preferences as well as orientation to socialise and celebrate coming out of COVID is solid across Europe. So I'm feeling good about our ability to deliver a solid second half. Obviously, there's uncertainty out there but we focus on just making sure we emerge stronger and continue to keep the share momentum there, and as I talked about earlier, Guinness is in really healthy shape. Feeling good about the Guinness business in Europe.

Lavanya Chandrashekar: On Ciroc specifically, Andrea, yes we have seen a slowdown in consumption on Ciroc and shipments were lower than depletions on Ciroc, as the slowdown has resulted in distributors and with our sell-out culture wanting to make sure that we have the right levels of inventory - healthy levels of inventory in trade.

In terms – and if I kind of look back at the brand itself, the brand has performed really well over the last three years. What you're seeing over here is a bit of an impact on what's happening with multicultural consumers in urban zip codes but it's also the growth of tequila, the growth of US whiskey. These categories don't – it's not like people are drinking so much more that you're getting that growth of tequila, it's just a shift happening from one part of spirits to another. It's a large part of what's contributing to that. Ciroc is impacted by that to a certain extent.

Our focus would be to be where the consumer is with interest - with whatever the consumer is most interested in. We have a very broad portfolio across price points and we move very quickly to win with the consumer.

Andrea Pistacchi: Very clear, thank you.

Ivan Menezes: Thank you. Is that the last question? Yes. Okay. Well thank you everyone, really appreciate you taking the time and the questions, Lavanya and I will be out on the roadshow next week, so look forward to meeting with many of you. Thanks very much for your interest in the company and a belated but Happy New Year to all.

[END OF TRANSCRIPT]