Diageo F24 Prelim Results Q&A Conference Call

Tuesday, 30th July 2024

Introduction

Operator: Good morning and welcome to Diageo's F24 Preliminary Results Q&A Conference Call. Your call today will be hosted by Debra Crew, Diageo's CEO, and Lavanya Chandrashekar, Diageo's CFO. This conference is being recorded. To ask a question today, please press star followed by one on your telephone keypad. To withdraw your question, it's star followed by two. We're now ready to start the call. Debra, please go ahead.

CEO's Performance Summary

Debra Crew —

CEO, Diageo

Good morning and thank you for joining our preliminary results call for fiscal 2024. I hope you've had a chance to read our press release and watch our presentation on diageo.com. Fiscal 24 was a challenging year for both our industry and Diageo as we navigated a volatile operating environment across the globe. Group organic net sales declined 0.6%, and the main driver was materially weaker performance in LAC, our Latin America and Caribbean region. For perspective, if you exclude LAC, organic net sales grew plus 1.8%, driven by resilient growth in Africa, Asia-Pacific, and Europe regions. This offset the decline in North America, which was attributable to a cautious consumer environment, retailer inventory adjustments, and the impact of lapping inventory replenishment in the prior year.

We made good progress against our strategic priorities, and we ended fiscal 24 gaining or holding share in over 75% of our net sales value and measured markets, including in the US. We also took deliberate actions to improve on near term execution and these include meeting our commitment to improve our inventory position in LAC, stepping up our route to market across several key markets, including our most significant transformation in at least a decade in our US Spirits organisation, and delivering a record productivity savings of nearly $700 million. We've also generated $2.6 billion in free cash-flow while continuing to invest for long-term growth.

Looking ahead to fiscal 25, the consumer environment continues to be challenging, and we expect the challenges we saw towards the end of fiscal 24 to persist. Our focus continues to be on strengthening our business' resilience and investing smartly and strategic initiatives to enable us to return to growth when the consumer environment improves. I continue to believe in the long-term fundamentals of TBA, Diageo's advantaged position within it, and our ability to grow ahead of TBA and gain quality market share. We'll open it up for questions.

Q&A

Operator: Thank you. As a reminder, if you'd like to ask a question, please press star followed by one on your telephone keypad. Our first question for today comes from Simon Hales of Citi. Your line is now open. Please go ahead.

Simon Hales (Citi): Thank you. Morning, Debra. Morning Lavanya. A couple of questions from me. Hi Debra. I just want to understand, Debra or make sure I understand fully your comments around where inventory levels are in trade as we head into fiscal 2025. I think if I interpreted the remarks and the prepared presentation correctly, what you are saying is that although we could see a further ongoing deterioration in demand and that would naturally lead to some ongoing destocking throughout the supply chain. In the absence of further deterioration in demand, do you think that stock levels are appropriate now in most markets, perhaps with the exception of Mexico. Is that the right way to think about it? Have I got that correct or are you still expecting in the US to see further wholesaler or retailer destocking in the first half? That's my first question.

Debra Crew: Okay.

Simon Hales (Citi): And then secondly, again, in the prepared remarks, I think it was one of Lavanya's slides, she pulled out the different performance through the year of the different price tiers within your portfolio. Clearly, value has outperformed the premium segments of the portfolio this year. I wonder if you could talk about how we've exited the year in terms of the performance of those different price points. Is there any sign at all that premium is starting to see some improvement relative to value, I suppose particularly once we take out the LAC destocking effect?

Debra Crew: Yeah, so I'll go ahead and take the first one on inventory levels and step through the world. And then I'll pass to Lavanya to follow-up on the price tier question. So, first of all, we ended up in really good inventory levels, I would say, really across the world. Let me start with LAC, since that has been the one that we committed at the interims that we would get back to more appropriate levels and that's where we have done significant destocking, working with the wholesalers and customers in the region.

In LAC, we have delivered on the commitment that we set out at the interims. We did call out Mexico specifically in the presentation, and the reason that we did it isn't so much that we think we have a bunch of inventory left, it's just the volatile environment that we are still seeing in that market. We're still seeing significant competitive activity, there's some down trading in tequila and scotch, which of course is important to us, and we're not gaining share. And so, because of this we do believe we're at certainly more appropriate levels for the environment. But it is still a deteriorating situation, so versus having some big bounce back, we're just calling out that it really is about the consumer situation there. But certainly, we would expect our performance overall to more aligned to that consumer demand going forward.

So that's Latin America. Stepping around the rest of the globe, we’re really seeing very normal forward days cover as we step around the world. We have called out a couple of other inventory things. In APAC, our SJF business, they were quite low going into the last fiscal, just not really knowing when we were going to emerge out of COVID. Then they restocked at the beginning in the first half of our fiscal 23, the back half of the calendar year of 23. And so, we are going to have to lap that this year. We're going to have to lap that restocking in China, in APAC.

And then also, look, the US situation, we are fine on distributor inventory. We have been fine, we ended with the same level of days. We actually have taken out some inventory just getting it appropriate for the environment. But overall, we have complete transparency in the US so we haven't had any problems at the wholesaler-level at all. And really from a retailer destocking, this is the third round that we see of retailer destocking. Frankly, I think that's more about interest rates remaining high and you just don't see retailers wanting to be cut long. Also if you do the calculation on this, it is not really worth it for them, in many cases, to hold a lot of extra inventory and they're just not wanting to anticipate the consumer at all.

Like I said, this is our third round. I remember first talking to you guys about this back at our scotch investor day more than a year ago. So, like I said at this point, this really isn't about even the coming out of the pandemic, this is more about just in a high interest rate environment, how they're choosing to manage their stock.

So, look, I think overall we feel like we are in good position. We do have to navigate, to your point, we are having to navigate a volatile world, but we are managing this quite closely. And as you can imagine, we've gone around and tested the robustness of what we can see. We've strengthened our consumer insights, just making sure that we stay as close as possible to the situation so we don't have any repeat of where we've been. Lavanya, I'll pass it to you for the performance of Premium question.

Lavanya Chandrashekar: Thank you, Debra. Hello Simon. So let me just start off by framing that while we do see some pockets of down trading across the world, premiumisation continues to be a tailwind for the category and for our business. What's driving the growth of the value here in fiscal 24 has really been the growth of the very strong performance of beer in Africa and other whiskey in India, which other whiskey in India grew almost double digits. So that's what's driving the growth of value tier.

If you look at the premium tier and above, that was significantly impacted by Latin America. Latin America is a much more premium business for us and very heavily scotch business as you know. And as we took down the inventory levels in trade in Latin America down to a more appropriate level at the end of the year, that impacted the numbers of the premium tier. The premiums here would have grown at 3.7%, if you exclude the impact of Latin America. More broadly speaking, it's scotch and tequila which play in our premium and super premium and above price tiers. And if you really look at it in scotch, as Debra shared in her presentation, we are gaining share in nine out of ten largest markets.

So this is a business that's in good health and as we look at some of the one-time things that happened in fiscal 24 and actually back even in fiscal 23, like the sale of final inventories in Russia as well as the replenishment of inventory levels in North America, we will come out of these in a positive phase. If you look at our largest region in the US, more than 100% of the growth of the category's still coming from the super-premium and above price segments. So premiumisation does continue to be a tailwind for us and these numbers. That's why we took some time to explain these numbers out in the presentation.

Debra Crew: Yeah, one other thing I'll just add to what Lavanya said, tequila also did impact this. So, I think we shared a couple of these in the press release but just to highlight for you, remember we were lapping the restocking of tequila because this was one that, because of the high demand, we recovered late from the glass shortages. So, tequila's impacting this as well. If you take a look at Don Julio, the underlying depletions, I think are plus 21% compared to the shipments show up as plus 12%. By the way, those underlying depletions do align with the Nielsen NABCA consumption as well, of plus 20%.

And then Casamigos is showing that minus 22%. Actually if you look at depletions, while still down, it's only down minus nine [%]. If you look at the Nielsen NABCA on the last 12 months, it's minus seven [%]. So, you can see through there, that definitely impacted that shipment analysis and that would've shown up in the super premium tier. Thank you, Simon.

Simon Hales: Very helpful. Thank you.

Operator: Thank you. Our next question comes from Edward Mundy of Jefferies. Your line is now open. Please go ahead.

Edward Mundy (Jefferies): Morning, Debra. Morning Lavanya. Two questions from me as well, please. The first is really on your best estimate on the time of recovery for the industry within the US. And I know on slide nine you've given some quite useful charts just showing the more recent trends. I guess first part is what do you think the industry is growing at [inaudible] versus RTDs? Are you able to put any timeframe on when you think the industry might get back to that sort of mid-single digit run rate? And then what do you think is the bridge to get back towards that mid-single digit run rate? Is it volumes, is it mix, is it price, is it RTDs rolling, is it the de-stocking come to an end? I mean how do you think about the bridge back towards that sort of 4 to 5-ish runway rate? That's on the US.

And the second question is on Guinness, if I can. It's a brand that's very well distributed and you haven't really grown through distribution gains because most pubs in both UK and Ireland [have it], so you've essentially brought new consumers into it or you've got existing consumers to drink more. Could you maybe just deconstruct what's made Guinness so successful, such a good story? Do you think it's going to be sticky and are there any learnings from Guinness that can be applied to some of your other brands?

Debra Crew: Yeah, I'll start with — let me start with the US and then I'll come back to Guinness. So, look, so going through the industry, I mean, we do believe that in fiscal 24 the US industry grew in low-single digits. If you take a look at that and break that out, it was probably more 1% to 2% if you include things like the spirits-based RTDs; it was probably more flat to 1%, if you think about core spirits. And look, it wasn't even through the year. So, we were seeing improvements and then it dipped down, and then we saw a slight improvement again and then it dipped down. But it most likely is in the low single digits as you look at it.

And if you look at NABCA, because that captures everything, it's not the most vibrant states, but because it captures everything, that gives you a good point in context. Volumes were down on core spirits if you exclude all the RTDs, but two-thirds of that volume decline is in vodka and rum. So, I look at that and you look at the heat that you still have on the tequila category, which is growing at things like plus 7%, still even tucked into that low-single digit number, and I think the mix for us still makes us feel good. Because remember our North American whiskey business is bigger than our vodka and rum business. So, as we look at the industry, it's sitting there in low single digits, but it is being dragged down by volume.
Price mix actually in the industry is holding up okay, so it really is about volumes. In price mix you would want to break out between the ready to drink and core spirits, the bottle. Core spirits price mix was probably two to three. We were above that for the year, so we look at that and feel pretty good. When you have RTDs in there it does bring down the price mix, so I do think it's important to break that out. But I think on core spirits, price mix is starting to work its way back. And it's because, as Lavanya mentioned earlier, actually over 100% of the growth is in the super premium plus price tier in the industry.

We also saw household penetration, of core spirits of plus 2%. So, what you're seeing when you see these lower volumes is really the units per basket are down and that is from vodka and rum, these are the more standard spirits. And so those are those households that are under pressure that are buying a little less. We're not really seeing the down trading: when people do go into buy, they are buying still the brands that they want. And then we are still seeing spirits gain from beer and wine in the US. So overall, TBA household penetration is flattish, spirits, plus 1%, beer is kind of flat, and then wine we're seeing as minus 1%.

So that's a little bit about the industry, as far as the timeframe to recovery, when you break through all the noise and get around all these shipments and laps, what is it going to take to get back? Well, we clearly need to finish the rollout of all of that COVID supercycle. Fortunately, I think we're largely at the end of that. Certainly, from our big laps, we don't have that in our numbers as we roll forward. So that's a positive. But [for] the consumer recovery, I do think things like rate cuts will certainly help, if we get a rate cut in the US. The uncertainty with things like the political environment, when you look into consumer, sentiment, that's weighing on consumers a bit. Because we're even seeing consumers with a little extra money being a little more cautious in their spending.

So it really is hard to predict. I know I said six months ago that it would be six to 18 months. The only update I'll give you is that it wasn't six months and it was not linear as we've said. There was a great July 4th, if you saw the Nielsen for July 4th, we started to see we had pretty decent spirits growth there on July, but sentiment is still quite cautious. So, I'm just hesitant to put out any timeframe on it. What we're trying to do is really set ourselves up with getting back to share growth. We've got great share momentum in the US on core spirits. Not just in TBA, but on core spirits. And so that's really what we're focused on getting back there.

Guinness let's talk about Guinness, because Guinness is a great news story. So plus 15%, and it's being driven in our largest markets. And even in our home market of Ireland, to your point, there's not a lot of places you can't buy Guinness in Ireland. That being said, I do think the innovation agenda has helped us tremendously. The Nitro Surge that's the cap. We don't have it in the US but in Ireland and GB, it's a cap you can put on the top of the Guinness can and it gives you just the perfect pour of Guinness. That has done really well for us.

Guinness 0.0 is just — we literally can't make enough of it. We've more than doubled the business in GB as well, that's really helping us. I would say from a consumer standpoint, we've broadened the consumer, we still have the classic rugby lads, but we are also bringing in more women into the franchise and we're just continuing. Also, from a marketing and experience, I think the brand's done some really great social media. We've let consumers take over some of the conversation about where's the best pint poured, which people really get into this. And so that's been really great.

And so what I do think is sustainable is I think we have built — we've stayed very true to the liquid, we've stayed true to the consumer while expanding that base. And look, we just signed — we're official sponsors of the Premier League and we're very excited about that. We've got a great history with six nations but of course Premier League is quite a global audience and so we're excited about where that can take Guinness going forward.

Edward Mundy: Great, thank you.

Debra Crew: Thank you, Ed.

Operator: Thank you. As a reminder, if you'd like to ask a question, you can press star followed by one on your telephone keypad. Please limit yourself to one question at a time. Thank you. Our next question comes from Celine Pannuti from JP Morgan. Your line is now open. Please go ahead.

Celine Pannuti (JP Morgan): Yes, good morning, Debra and Lavanya. Sorry, I have one question and one follow up. So, my first question is just wanted to understand your clarification of your outlook. Are you hinting, because you said that growth will return when consumer confidence will return, so are you hinting to flat organic growth for fiscal year 25? And within that, what are the moving parts? Because I saw that your price mix, even though you mentioned was positive in the US, de-accelerated to 0.7% in the second half. So, is price mix still positive as you bake that into fiscal year 25? And then I think you also mentioned that organic EBIT margin will be aligned with H2, which was 100 basis points. So is that as well the base for fiscal year 25? And within that, could you elaborate a bit which regions are driving this decline?

Then my second question is really on the midterm outreach where you have not yet seen when the demand will be turned, I mean, CapEx investment is quite elevated now for several years. You have more than doubled your CapEx investment and you continue to invest in maturing inventory. I want to understand what kind of volume growth underpins these investments and whether your consumer insights programme that we're rolling out, how has it informed you in terms of behaviour versus structural in terms of the weakening demand in volume? Thank you.

Debra Crew: Okay. First on fiscal 25 and a little bit about our guidance there. Look, what we're saying there is when the consumer environment improves, we will return to growth. So as far as where does that land upon the year, it really does depend upon when we start seeing some of these better trends on the consumer. While we certainly exited the year with more momentum with our share gains, the category in the industry more limped into the end of the fiscal. And so that's what we're pointing out. So whether it's going to be flat or above will depend upon when that consumer environment improves. And so that's why we're flagging that exit rate on the industry in the US.

Look, I think operating margins; we flagged also the negative pressure there. So that pressure's coming from multiple places. It really is about — oh, and you mentioned, first of all, North America. North America price mix, we would expect to be positive. Part of what did impact us in the second half is, remember these tequila numbers. The tequila numbers that we talked through, the difference in the shipments versus the underlying consumer. So that's one that definitely negatively impact us, as we had to lapse that tequila restocking from [the] prior year and so that's going on underneath that.

So now moving on to margins, several things, so the strategic investments that we made in the second half of the year will of course carry over into the first half. We talked about the digital investments that we're making and also some of the route to market investments that we've made as well. So that continues, and by the way, that would've hit some of our North America margins in the second half. Things like salary inflation, particularly in emerging markets, is another place where we would expect that to continue to roll forward.

Also that pressure on the top line, and particularly the pressure on the top line in NAM, does impact our margins. It does impact the leverage that we get with our cost structure. So that's why if the year improves, you do see that coming right along with growth. So, we are very focused on productivity and pricing to really offset inflation, but these are some of the mechanical things and the roll forwards, et cetera that we're seeing from the second half and the first half that we're trying to flag. I don't know if you would add anything to that, Lavanya?

Lavanya Chandrashekar: No, I think you covered it perfectly.

Debra Crew: And then on the midterm, so for CapEx, do you want to talk about a little bit of our CapEx spending this year and where it was?

Lavanya Chandrashekar: Sure. So Celine, when we think about CapEx and maturing stock, let me just start with maturing stock maybe and then come to CapEx. Maturing stock, the way we think about the investments we make in maturing stock is really looking at long-term projected volume growth rates. And this is based off of both looking at historic volume growth rates but also modelling forward based on what we see happening with the consumer. And so, these are not based on the next three years or the next five years volume growth rate, but much longer-term projections of volume growth rate.

And the way to think about it perhaps from a modelling perspective would be to — the easiest way would be sort of looking at historic volume growth base, which typically would have been a combination of population growth as well as the growth from consumers moving out of beer and wine into spirits. And then the third is volume growth that you get in emerging markets as GDP and earnings levels increase in these emerging markets. So, the combination of the three is what really drives the maturing stock investments.

On CapEx, a significant portion of our CapEx investment this year was projects that we had announced. So, we started the construction of a second distillery, or a second brewery for Guinness in Ireland. And if you look at the growth rates that we've had on Guinness this year, you can understand why we need to put in that investment. And Guinness is an extremely asset light model. Unlike regular beer businesses, most of our global Guinness volume comes out of one factory in Ireland, which we are now trying to build the second one also to keep pace with the growth of Guinness 0.0.

So that's been a part of it. The other project that I will mention is we are building out a new distillery for single malt whiskey in China, in Yunnan. Now that's going to come — we just started to make liquid to put into barrels now, we're not going to see the benefit of that come through for many, many years. But it'll be delicious liquid, I'm sure, when it comes out. But again, the reason I mentioned these is because a lot of our capital investments are of this nature, they are much more long-term in nature, and that's what's driving the CapEx growth. What we have guided to is that we do expect this level of CapEx investment to stay on fiscal 25 and 26 and then come back down as a percentage of NSV, back to historic levels after that.

Debra Crew: Oh, and then I think you had a final question of consumer insights, and just what we were doing around consumer insights. And so, yeah, look, we are strengthening our — and I mentioned this consumer choice framework, this is our proprietary network — our network data. This is our proprietary data that we use to look at occasions and how those are growing around the world. Some of that we featured at our Capital Markets Day, but we are taking it to all of our major markets and that will be in place really by the end of the calendar year. We will literally have it everywhere that we want it to be. And that's enabling us to really identify these pockets of growth and actively move resources.

And in this volatile environment, it has been very important for us to get underneath and to be able to shift as appropriate. And we have done that in several places just to make sure that we are getting the right A&P deployed in the right place, the right liquid allocations put in the right place, and where we've decided to invest in route to market. And of course, this even goes down into our US route to market changes as well.

Celine Pannuti: Thank you.

Operator: Thank you. Our next question comes from Mitch Colett from Deutsche Bank. Your line is now open. Please go ahead.

Mitch Colett (Deutsche Bank): Thanks. First question, given you're retaining your 5% to 7% medium-term guidance, I appreciate next year feels a long way off, but it sounds like fiscal 25 is unlikely to be back in that range. Can you give us your sense of confidence that perhaps fiscal 26 could see you within that range? And really other than the consumer changing, is there anything you can do to get yourself back there? And then as an add-on to that, my second question is, it's obviously been a very challenging year for spirits as a category, and by the sounds of it, it's been getting more challenging as the year has progressed, so what gives you the confidence that those challenges are cyclical and not structural? And I'd love to get your thought process around why you think things will recover. Thank you.

Debra Crew: Yeah, I mean, so let's talk a little bit about the medium-term guidance, and we have flagged that, yes, certainly for fiscal 25, given the current consumer environment, we're really focused on driving execution, strengthening our resilience and market share, and that when the consumer environment improves, we will return to growth. And depending upon where that happens in the year, that will be how we progress back. We do remain confident in the long-term fundamentals and do believe this is not structural but is more cyclical and near term in nature.

If you think about what underpins the fundamentals of our medium-term guidance, the demographic trends, the rising incomes in developing world, spirits gaining share [of] occasions from beer and wine, the longstanding trend of premiumisation. I walked through some of those in the US where you can continue to see that spirits [is] gaining share from beer and wine occasions, the longstanding trend of premiumisation being there. You see what's happening for us in India, some of our Africa markets, on spirits growth.

And then look, demo trends, I know there's been a lot of noise about Gen Z, so let me talk about that for a second because actually as we look at Gen Z in the US, and while they're reporting higher preference for moderation, we're actually seeing spirits penetration up plus 3%. And in fact they're more likely to purchase spirits than millennials were at the same age. And so we are seeing — and look, whether it's the RTDs that are now [in the] spirit space that are bringing people into spirits earlier, but we really see those demo trends, we don't see that working against us, we really do see that supporting the ongoing long-term trends that we've seen.

And things like premiumisation, look, we did see down trading in Europe and in APAC, but their price mix actually was plus 4%, so you had nice performance there on premiumisation within our portfolio. We can handle that within our broad portfolio. We were still able to get that despite what was happening. So that's some of the things that we can do to pull forward on our own destiny. And this is why I do believe our portfolio is positioned really well in the right categories. When you look at what is still growing, it is tequila, we're seeing pockets of whiskey also continuing to do well. While there's some down trading in there, we've got a nice broad portfolio that can catch people.

So that's why we're really focused on this quality market share, because that helps us outperform even in a more pressured market. But we do believe those long-term fundamentals are there and that this really will be much more about consumers and some of the volume pressure that we're feeling on consumers: they're drinking further down into their bar that maybe they had built up during COVID. So, the further we're getting away from this super cycle and we're really into more of a normal cycle, we are seeing consumers come back and buying. It's just they had their own inventory. Now you go into an economic pressured situation and we are seeing a little less volume than what you would expect. But don't forget the noise also that we have in some of the volume that will roll off as we go forward. What haven't I addressed? Good. Very good, thank you.

Operator: Thank you. Our next question comes from Olivier Nicolai from Goldman Sachs. The line is now open. Please go ahead.

Olivier Nicolai (Goldman Sachs): Hi. Good morning, Debra and Lavanya. Just a question on disposal. You sold a few non-core brands over the years at Diageo, including some beer assets as well in Africa and more recently in Nigeria. Is there much more to do in terms of disposals of non-core spirit assets, which could ultimately boost the top line for Diageo and also help to reduce the leverage? Is there more to do on [the] spirits side? Is it more actually perhaps exiting a bit more beer market in Africa, for instance? And then in the context of that, do you see this as a path to reduce group net debt to EBITDA and potentially reinstate share buyback in the future? Thank you.

Debra Crew: Yeah, I think we've always been active portfolio managers and, look, and particularly on Guinness, we've had an asset light strategy for handling that business as we move around the world. So, we're quite happy with the disposals that we've made this year because it really does follow along trends that we're seeing. We talked about, a year ago, about getting out of some of the more local and mainstream spirits trends in India, and it's because we saw the premiumisation there we're convicted around that. That premiumisation journey would continue, so we felt like it was the right time to get out and exit from some of those brands. Likewise, we see that in some of these disposals that we're doing in Europe as well.

And then on Africa, I mean, we do feel very good about Nigeria because what that's doing is it really is helping us from a bottom line perspective as well and just the volatility that you get in currencies there, but it's also going to help us continue to grow our business. Because

Tolaram has this amazing distribution network that we can get to a lot more places than what we would've been able to do working off of the brewery footprint that we had.

So, disposals are a key piece of this and the non-core pieces of it. I'm, of course, not going to comment on anything that we would necessarily be looking at going forward, but it is to say that we are active in taking a look at that and doing what we need to do based on long-term strategy. And it certainly does also help us on this walk back on EBITDA. And our capital allocation strategy remains unchanged and when we have that excess capital, we will return that to shareholders. Thank you.

Operator: Thank you. Our next question comes from as Sanjeet Aujla from UBS. Your line is now open. Please go ahead.

Sanjeet Aujla (UBS): Morning Debra and Lavanya. A couple from me please. Firstly, just going back to the US, please can you give us your take on the pricing environment, particularly in tequila [and] whiskey? We are noticing an intensification of commercial activity, so just love to get your take on how you're navigating that across your brand portfolio. And more specifically on tequila, we've observed down trading within Blanco tequila over the last several quarters, do you think that's cyclical or structural?

Debra Crew: Yeah, so look on the pricing environment, actually one of the things, as you're looking at that, make sure you do tease out the ready-to-drink portfolio from the rest of spirits, because that is the most promoted part of the spirits category. And of course there's been just a lot of competition come in there. And so that's still the area that we're seeing the most promotion in. That being said, actually, look, from a tequila standpoint, there's been a lot of entrants, it certainly is competitive, but we would say that it's not necessarily people down trading as much as super premium is the place where people are entering tequila. So remember the tequila category, latest 12 months, is still growing in this environment, at almost 7%. And by the way, household penetration on tequila is still two thirds of vodka, so it's got a long runway to go.

Super premium plus — that's the heart of the category, plus 12%. But ultra-premium plus, where we really play heavily, is plus 3%, and we're gaining share within that. So it's not so much that people are down trading, certainly the $100 plus type bottles, that aspirational 1942 on a Tuesday night, that occasion is not [inaudible] — but that we've really lapped. What we're seeing now is more about consumers coming into tequila from other things and they're entering at that super premium plus price point.

And to your point on Blanco, Blanco is where there is the most activity. I think what we really like about our portfolio, and the moat we feel like we're building, we actually have a very different tequila business from most. As an example, Don Julio, two thirds of the brand is Reposado and above. You take the direct competitor to Don Julio, that business is the opposite, only about a quarter is Reposado and above. For Casamigos it's 50/50, so that's a bit more of a Blanco business. We've seen the price competition in that. But we still feel good about our total tequila portfolio and what we're doing and being able to drive the total portfolio and gain share. So that's what we're seeing.

Whiskey environment, we're not bothered by anything we're seeing. What we see seems to be quite normal activity for this time of year. You do have retailers that are, as they're competing for traffic, sometimes retailers will do some things, but there's nothing that we're seeing in whiskey that we're concerned about. Thank you.

Operator: Thank you. Our next question comes from James Edwardes Jones of RBC. Your line is now open. Please go ahead.

James Edwardes Jones (RBC): Thank you. Morning Debra, morning Lavanya. A couple, please. First I think, Debra, you said the price mix is holding up okay in the US and the problem is volume. And this sounds like classic price elasticity. Diageo's the category leader, have you considered just lowering prices overall and seeing what happens? And secondly, to LAC, further to Simon's question, you were saying we can't assume a bounce back in LAC. But volumes are down 15% odd, last year basically because you weren't selling product to a lot of distributors for quite a long time. Accepting the consumer is subdued, but just arithmetically, shouldn't there be some sort of bounce back because of that?

Debra Crew: Yeah, so we'll take the LAC one first. Look, in Mexico in Q4, the industry was down 20%. So yes, we have destocked, but to think even though it's lapping, remember in the first half of the year we were down in that range. It doesn't necessarily just mean it's just going to whip back based on the consumer environment that we're seeing. And so that's why we have flagged that.

So we're not saying that there won't be a bounce back, and we certainly see that in certain markets, but the Mexico one is one I flagged because it is our second largest market. But even in other places in South LAC and other places, we are definitely seeing, just with the volatility in the region, it's just didn't want you to mechanically drop that in thinking, oh, that'll be, it is done. The consumer environment there is quite volatile so you would expect though our performance to more align with that consumer environment versus what we just cycled.

And then lowering pricing, look, we've got super premium brands, and remember super premium plus is what is driving the growth. So what you're seeing are consumers, when they have the occasions that they want to consume spirits, they want the brands that they want and they want premium brands. So lowering price isn't a panacea by any means. And look, we're still very affordable luxury. When you put us into perspective of other goods, this is still a great way people do want to celebrate. One of the things that even when sentiment has remained low in place is people do want to go out and celebrate with their friends. They're doing more low tempo occasions. And these are places where we know when we get it right, we're hitting it out of the park. Things like Crown Royal Blackberry, that has brought people into whiskey, and it is because it is a great easy serve and it really captured people's imagination.

So it's not just about lowering price. But one thing I will say, I do think when I talked about the volume declines, in the category, we're mostly on vodka and rum. Those are the more standard and value priced parts of the portfolio and so they are most likely more sensitive and because of that, that's what you see going on there and that's why there is more competitive activity there. But you see it's not coming out in net sales total growth. So hopefully that answers your question. Thanks.

Operator: Thank you. Our next question comes from Laurence Wyatt of Barclays. Your line that's now open. Please go ahead.

Laurence Wyatt (Barclays Bank): Morning Debra and Lavanya. Thanks very much for the questions. A couple on your key brands. Casamigos didn't have the best year despite Don Julio doing pretty well. You mentioned a couple of reasons earlier in the call such as Casamigos not having quite so much in the higher end. Do you think there's a structural problem with the brand now that it's got so big that we hear a bit more about consumers getting fatigued with celebrity tequilas or perhaps Casamigos not having that sort of ultra-premium line extensions? Do you think there's possibility that Casamigos sort of got as big as it can ever get and we shouldn't really expect too much growth from there? And then similarly, in China, you actually got some very strong success with Shui Jing Fang but of course many of your peers are reporting much weaker results from China and international spirits. Do you think there's any sort of structural change in China that's causing consumers to want to drink more domestically-made spirits as opposed to international? Thank you very much.

Debra Crew: Yeah, thanks. So look, on Casamigos, and Casamigos has been on quite a tear for the last several years that we flagged in there. It's been a plus 70% growth CAGR. But it is a newer brand, and one of the things that is we've uncovered on it, so first of all it is — structurally we're in more Blanco, there is more competition there. But that being said, we're still growing on-premise and on premise is where brands get grown. And on premise is where people first try brands in this industry. And so, we actually feel great about the runway for Casamigos. We still have various states, quite fascinating when you start to have the footprint. And this is what's nice about having as broad of a portfolio that we have in tequila, because we can see opportunities for Casamigos, yet in several states where we're actually under share.

And what's interesting about the brand is that brand awareness is two thirds of Don Julio and other competitors. So it is a big opportunity for us. For fiscal 25, we've made the announcement, we are fully integrating Casamigos into our Diageo-dedicated sales division and we're excited about this because we can put more feet on the street against this brand and bring the full power of Diageo, bring in all the advanced analytics, the RGM. And so, we see Casamigos having a huge future. It's a great liquid if you don't know if you're going to like tequila, you try Casamigos and you're like, wow, I like tequila. It's very different and complimentary to Don Julio. So, we still feel great there's a lot of people to yet bring in to Casamigos.

On China, yes, we did post plus 12% and it was driven by SJF. We also saw pressure on our whiskey business and on our imported scotch. Within that, Singleton, actually our malt business, we have plus 12% on Singleton. So felt really good there. And part of that we saw some trade down, but it's like you're going from Singleton 21 to Singleton 15, so it is still a really nice price mix for us. It is traded down but it is still affordable and it's a great value. So we're not seeing anything structural there other than, I mean, China really still hasn't fully recovered from COVID. We haven't seen the bounce back there that we saw in other markets around the world. So we're still waiting to see that and to see a little more confidence from the Chinese consumer. Lavanya mentioned earlier, the local whiskey distillery that we're building, we're excited about the opportunity on that, so more to come in that space. But China for us, we're still underdeveloped. Net-net, it is an opportunity for us. Thanks.

Operator: Thank you. Our next question comes from Sarah Simon of Morgan Stanley, your line is now open. Please go ahead.

Sarah Simon (Morgan Stanley): Yes. Hi, I've got two questions, please. First one was on Guinness, obviously you benefited from quite a lot of price in fiscal 24. Can you give us an idea what kind of pricing we should expect for Guinness in 2025? And then the second one was more about the kind of structural. Take your point about Gen Z being more likely to drink spirits and so on, but what about — what do you think in terms of volumes? Because anecdotally it would appear that people are just trying to scale back volumes across the board. So if everybody does that, is the fact that Gen Z might be a bit more spirits inclined still enough to offset that? Thanks.

Debra Crew: Yeah, I mean, look, we're not going to flag any forward pricing information. I mean, we're very thoughtful and disciplined about how we do pricing and some of the pricing that we've done has really been around the inflationary environment that we've been in and needing to handle that. And particularly remember Guinness being very focused in on Europe and we've had some particularly high inflation in Europe over the past year. But look, we are seeing inflation start to come down, so that's all I'll say about pricing.

And then as far as your questions around structural and volumes based, look, what we've always said is people want to drink better not more. And so, there's part of this that plays into the premiumisation journey I think as well. I flagged that spending is actually in line — for Gen Zs in line with prior generations, but of course you're getting less for those dollars. So I don't think it's a generational issue, I think it's more — it is that same economic pressure that everyone's feeling. In the US, the student loan repayments having to resume and some of this puts pressure and wallets across generations. I would attribute some of that more to what's happening in just the economy and how people are feeling. And in particular, young people are feeling pressure on their wallets. So, I don't think there's really anything else I would point to at this point. You can certainly explain what we're seeing based on the economy and the more cyclical things versus structural. Thanks.

Operator: Thank you. Our next question comes from Jeremy Fialko of HSBC, the line is now open. Please go ahead.

Jeremy Fialko (HSBC): Thanks for taking the questions from me. First one is just following up on James's question, can you tell us what the exit rate was or H2 sell-out in LAC, where you just take it from an overall regional perspective? And then the second question is on innovation, and actually you did well with the Crown Royal Blackberry, but perhaps you could talk about how some of the other innovations have landed? And I guess particularly North America, how you see the innovation pipeline shaping up for fiscal 25 when you scale it and size it relative to what there was in fiscal 24. Thanks.

Debra Crew: Yeah, so look on the exit rates for Latin America, I mean, look, this is a mistake we're not going to make again. Part of [it] is we are looking at the go forward, we are looking at what we're seeing and projecting going forward versus just taking a look — a backward look. That is one of the things that has gotten us into trouble. One of the things that we see is when the market drops off, it drops off quite fast. And remember some of these markets, like Mexico, are quite tied into also the interest rate environment and things like the US. So, there's a lot of factors that play in as we look forward there. What we have flagged is the exit rate from Mexico, that Q4, the industry was down 20%, so that you can expect.

Look, Brazil's a different case, Brazil actually had a flat category, and we were gaining share on that. And that's our largest market, so there's some positive news there. But then when you go into South LAC, we are seeing some volatility there. So it really is quite different, I wouldn't be helping you to give you some kind of regional average.

On innovation, look, on innovation, we actually had a very strong year and that's really one of the things that has helped us I think really pick up share momentum in North America. The Cocktail Collection, which we talked to you about at Capital Markets Day and then rolled out right around the holidays this year, we've continued to expand distribution there. By the way, there's still more distribution opportunities on that, it's growing three times faster than the industry. Our convenience portfolio, all in, so that would be the cans plus what we've been doing on these more ready to serve or the multi-serve shake pour and serve type of products, plus 15%. So that certainly helped us.

We also had really nice innovation on Bulleit with the American single malt, the Rye 12-year-old launch, so that showed up in Bulleit as well. Buchanan's has continued to do well off of Pineapple, and Pineapple's really in its second year. I mean, one of the things we're trying to do with our innovation is we're really trying to have innovation that is not so short cycle, really bringing in new buyers. It's one of the reasons we've touted on the Crown Blackberry. A lot of new buyers into the franchise also new to whiskey. So part of this [is] consumer insights and getting in and making sure you have incremental occasions, it's helping us pair with food, it's helping us for moderation, for convenience, and some of these underlying consumer trends. Going against that, delivering the right product. And we are seeing great results for that.

So, we've got a great pipeline coming up as well. We're actually extending on cocktail collection. We're going to have a Crown [Royal] variant coming out and more to come on that as we move through the year. We'll tell you more about our innovation pipeline as we announce that. Thanks.

Operator: Thank you. Our next question comes from Fintan Ryan from Goodbody. Your line is now open. Please go ahead.

Fintan Ryan (Goodbody): Good morning, Debra and Lavanya. Two questions for me please. Firstly, I guess big picture, just in terms of your marketing spend, appreciate that you pulled back some of the spending in the second half of the year, but for the year as a whole, marketing spend was still about a 15 basis point headwind to group margins. Given that you're now expecting the industry to be softer for longer, how should we think about this marketing spend going forward? Notwithstanding the new Guinness Premier League sponsorship, but is there a situation where marketing could be a tailwind [to] margins in the short term while you sort of retrench a bit if the industry is going to be that bit softer?

And then secondly, just in terms of the route to market changes within France and the Hennessy relationship there, [can] you give us a sense of what that will do in terms of your operations within Western Europe as a whole? And is there potential for you to change your structure with Moet-Hennessy in China?

Debra Crew: So yeah, to go into marketing spend first, I mean, we've always said we don't manage to a specific rate. So we really do look at the returns of what we're doing, and then when we're not getting as much of a return from it, we do pull back money. When we get a great return from it, we're doubling down. And then there's a few, what I would call quite strategic A&P investments that we view with a little bit longer time horizon. But even there, when things aren't working, we are constantly optimising on that. And we've got great tools. We've talked in the past about tools like Catalyst [and] Sensor. We're also adding in virtual create hubs where we can — we actually can make and produce content much cheaper. And we're finding some of that productivity that I flagged, the $700 million actually came from marketing. So, we're able to spend the same amount of dollars and go further.

So it does speak, to your point, we are finding ways to make our dollar stretch. We are looking at the current environment and adjusting accordingly. And that's why you saw us pull back on marketing in certain places and then spend in others. But we're not managing that to a rate, we are looking at where the opportunities are. But we are actively managing that and we're well aware of the environment.

On the route to market for France and MH, look, we saw a great opportunity. We have relatively low market share in France and yet it's a great whiskey market. So, we saw an opportunity and announced earlier in the year that we were going to be setting up our own demand marketing unit within a commercial organisation within France. And then of course we recently made the announcement, we are going ahead and bringing all of our brands in. And we're quite excited about it and we see a great opportunity. It does not impact any of our other JVs that we have with Moet-Hennessy around the world, nor does it impact our overall shareholding. We just make these decisions on a market by market basis and we were seeing an opportunity in France that we thought we could capitalise with our own resources.

So hopefully that answers your question. And I do think we are out of time. So, I want to thank everyone for joining us today and for your interest in Diageo. Thank you.

Operator: Thank you for joining today's call. You may now disconnect your lines.

[END OF TRANSCRIPT]