

DIAGEO

# Delivering *sustainable* *long-term* growth

Interim Results Fiscal 22

Ivan Menezes

Chief Executive

27 January 2022

## Cautionary statements concerning forward-looking statements and non-GAAP financial measures

The following presentations contain ‘forward-looking’ statements, including statements related to the medium term guidance issued on 16 November 2021, future Total Beverage Alcohol market share ambitions and Diageo’s expectations of performance for the six months ending 30 June 2022. Forward-looking statements involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo's control. All oral and written statements made on or after the date of these presentations and attributable to Diageo are expressly qualified in their entirety by the factors set out in the cautionary statement concerning forward-looking statements at the end of the presentations and to the statements under “Our principal risks and risk management” in Diageo’s Annual Report and under “Risk Factors” in Diageo’s Annual Report on Form 20-F filed with the US Securities and Exchange Commission for the year ended 30 June 2021. The Form 20-F is available from the website maintained by the US Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov) and, together with Diageo’s Annual Report, on the investors section of the website maintained by Diageo at [www.diageo.com](http://www.diageo.com).

Any forward-looking statements made on or after the date of these presentations by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. You should, however, consult and take note of any additional disclosures that Diageo may make in any documents which it publishes and/or files with the US Securities and Exchange Commission. Filings with the US Securities and Exchange Commission are also available to the public from commercial document retrieval services, and from the website maintained by the US Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

These presentations include financial measures which are not presented in Diageo’s financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and are considered “non-GAAP financial measures” under US Securities and Exchange Commission rules. Please refer to the section “Definitions and reconciliations of non-GAAP measures to GAAP measures” set out in the cautionary statement at the end of the presentations.



To be one of the *best performing, most trusted and respected* consumer products companies in the world





# *Strong growth momentum in H1 F22*

1. Delivered strong H1 F22 results
2. Sustained market share gains
3. Invested in long-term growth
4. Continued progress on Society 2030
5. Created shareholder value



# *Strong results* across all key financial metrics

Organic  
volume

↑ +9.3%

Organic  
net sales

↑ +20.0%

Organic  
operating margin

↑ +131bps

Free  
cash flow

£1.6bn

↓ -£0.2bn

Pre-exceptional  
eps

85.6p

↑ +22.5%

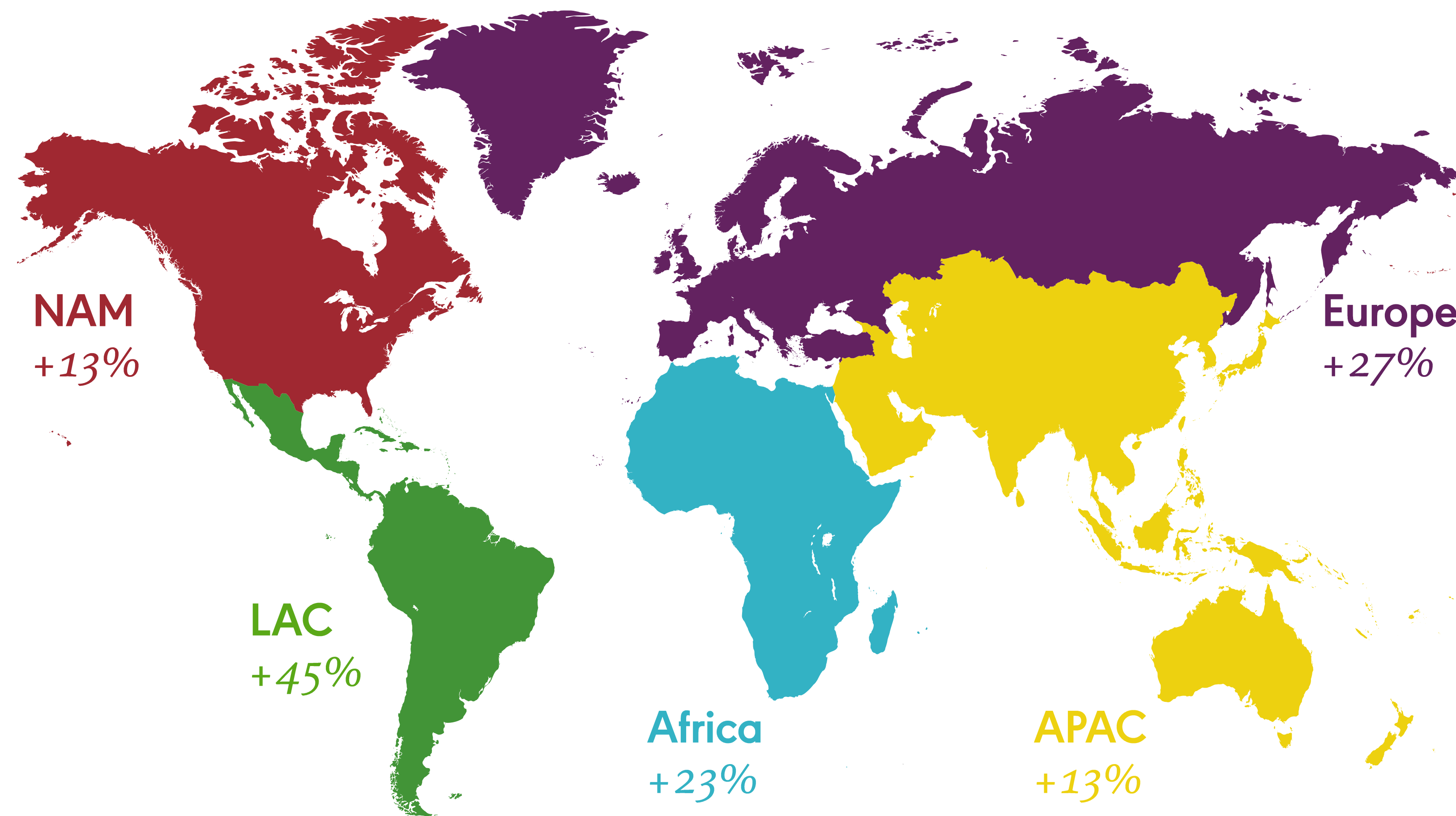
Interim dividend

29.36p

↑ +5.0%



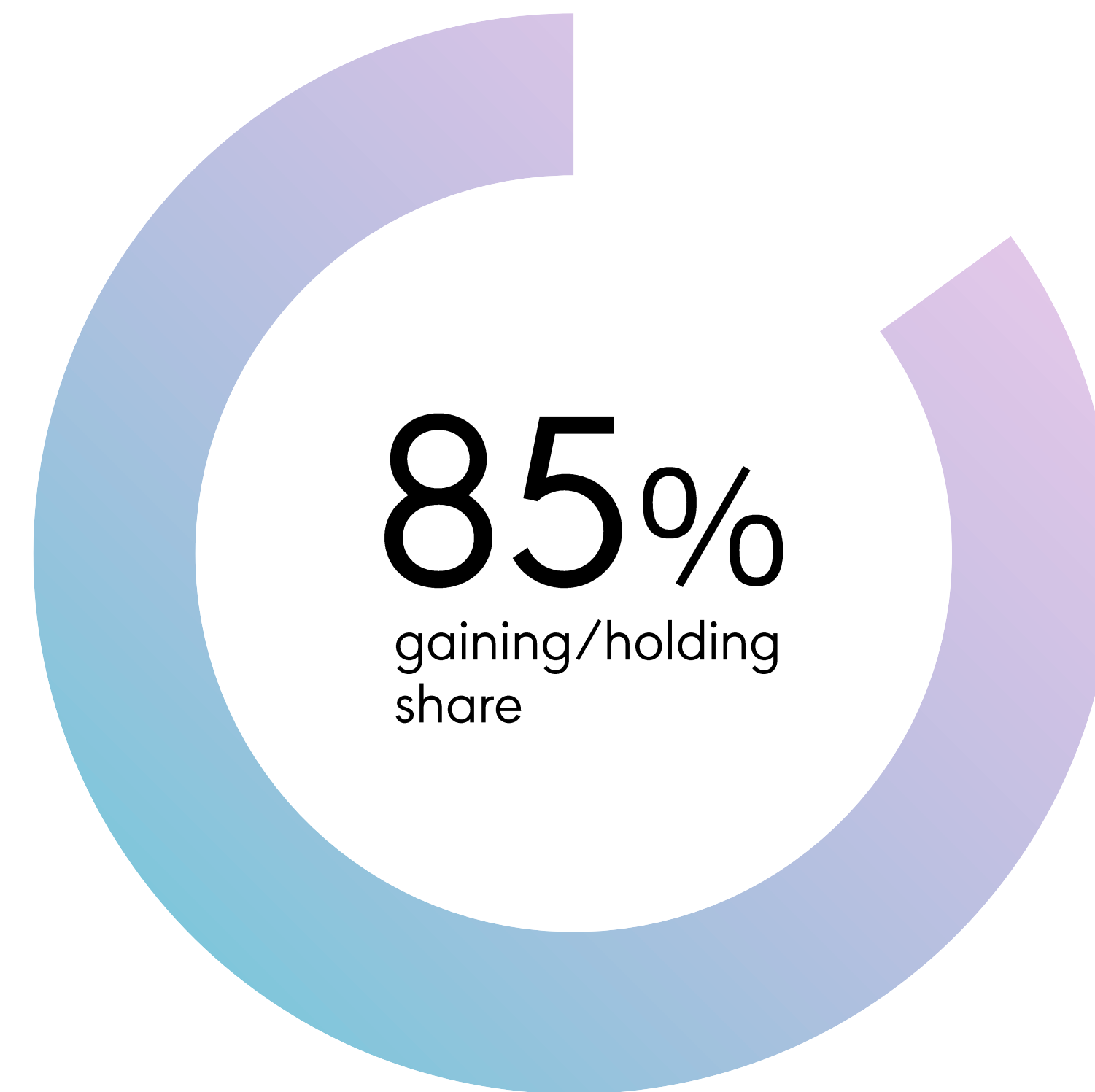
*Strong  
organic net  
sales growth  
across all  
regions*





Advantaged portfolio,  
smart investment and  
strong execution have  
enabled *continued  
off-trade market  
share gains*

Percentage of Diageo total net sales value  
gaining/holding off-trade share in measured markets





# Strong performance enabled by our *core capabilities*



Best brand builders



Supply chain excellence



Advantaged culture



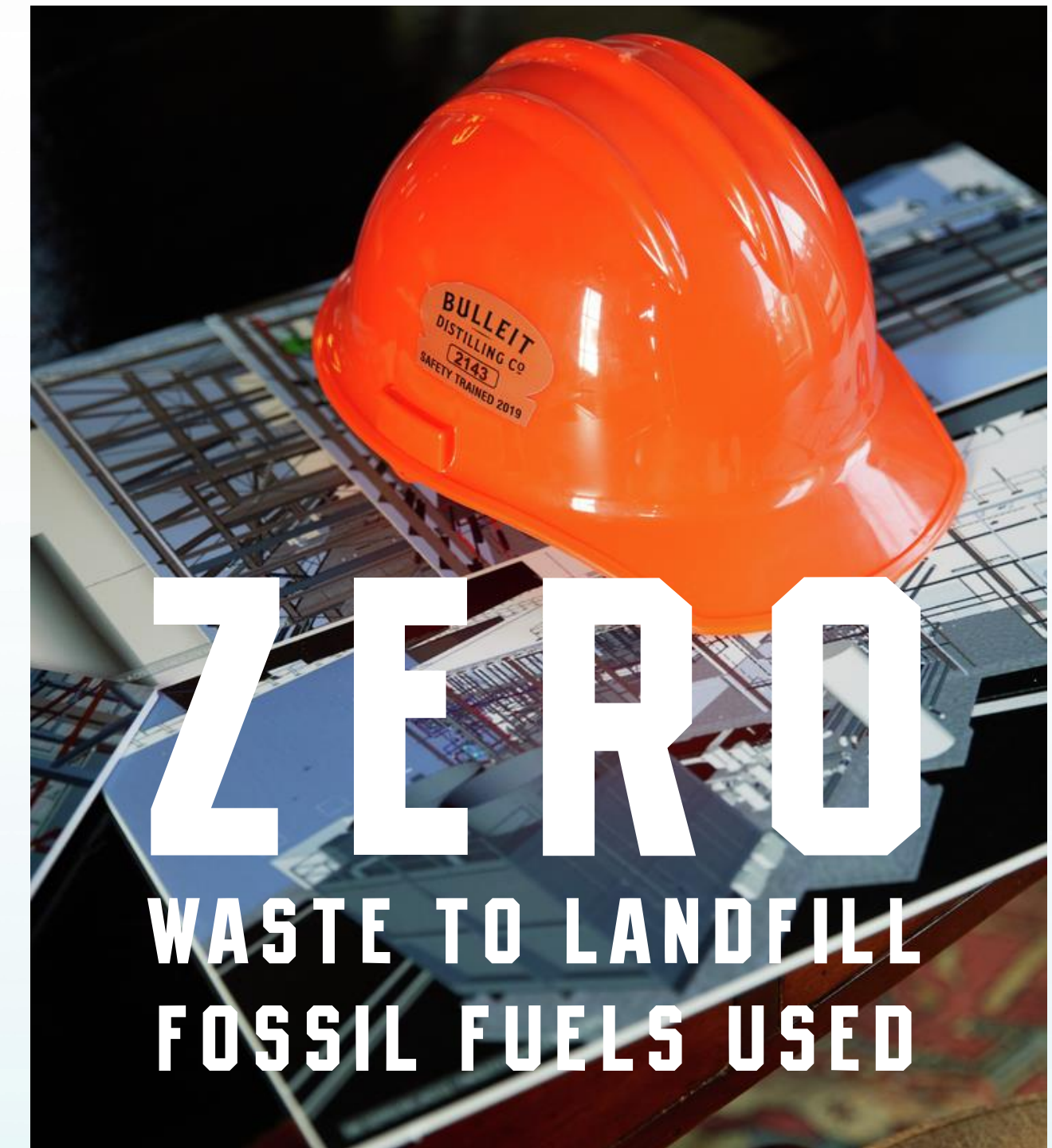
## Investing to deliver our *Society 2030* sustainability action plan



Promote  
positive drinking



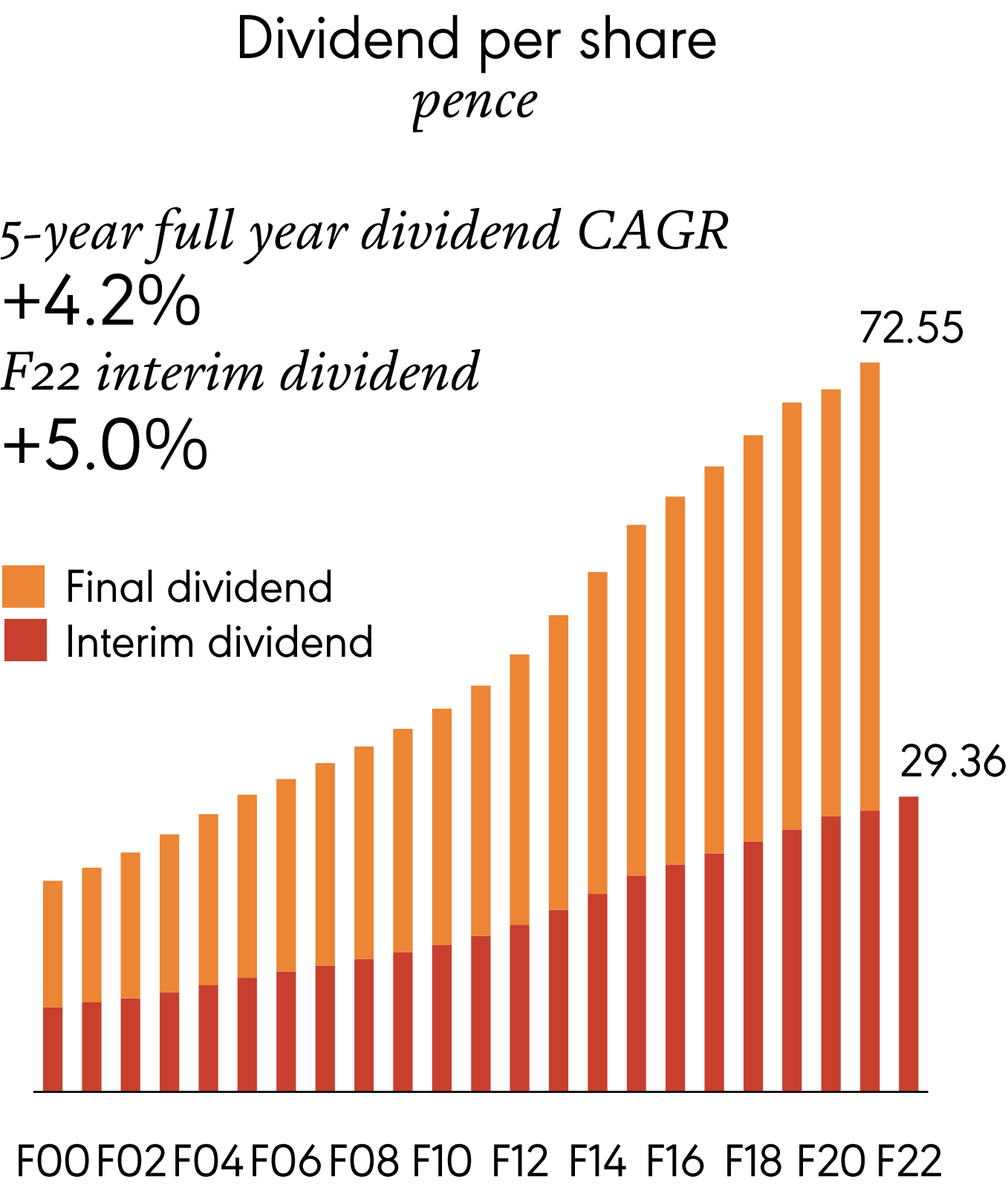
Champion  
inclusion and diversity



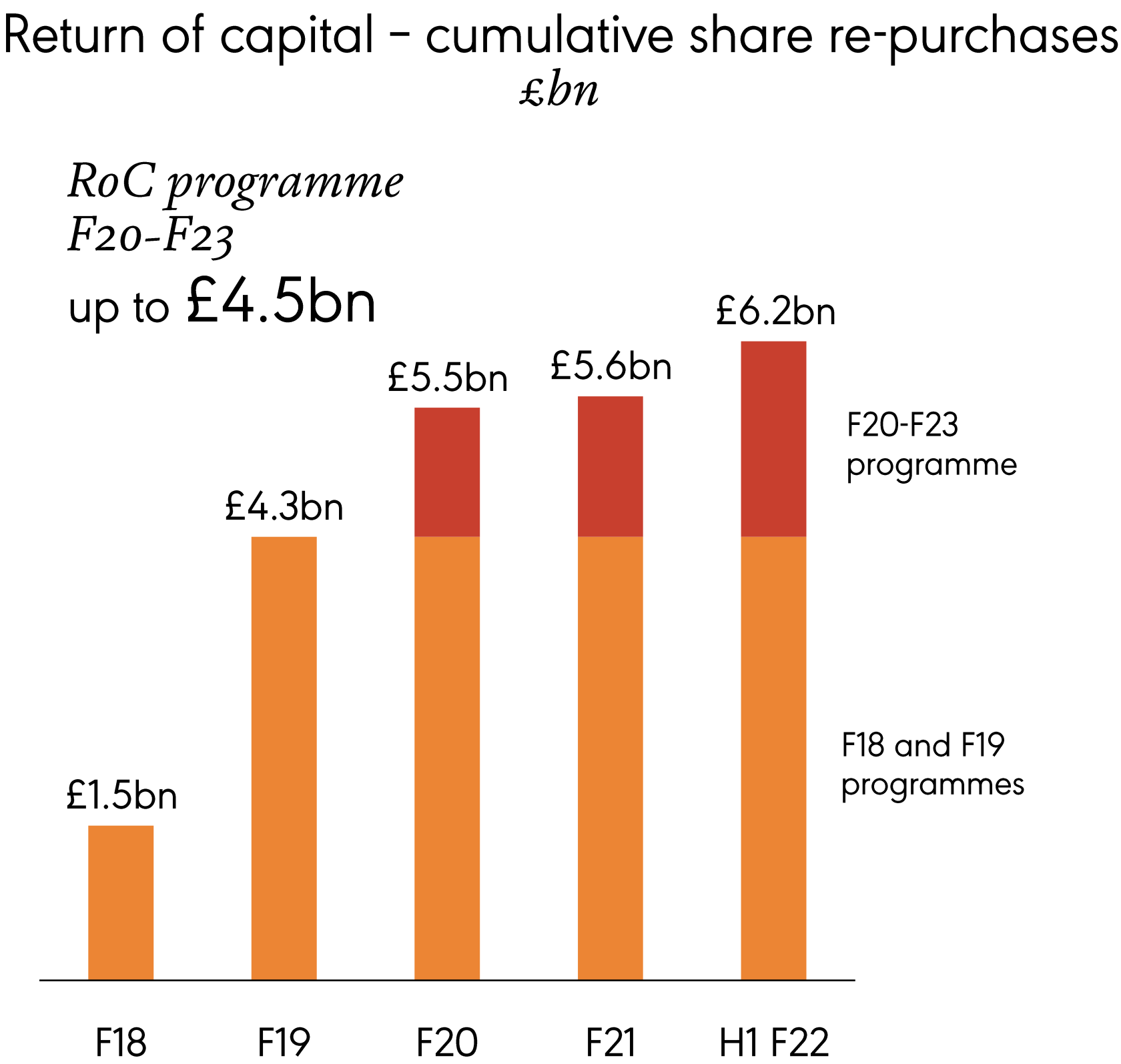
Pioneer  
grain to glass sustainability



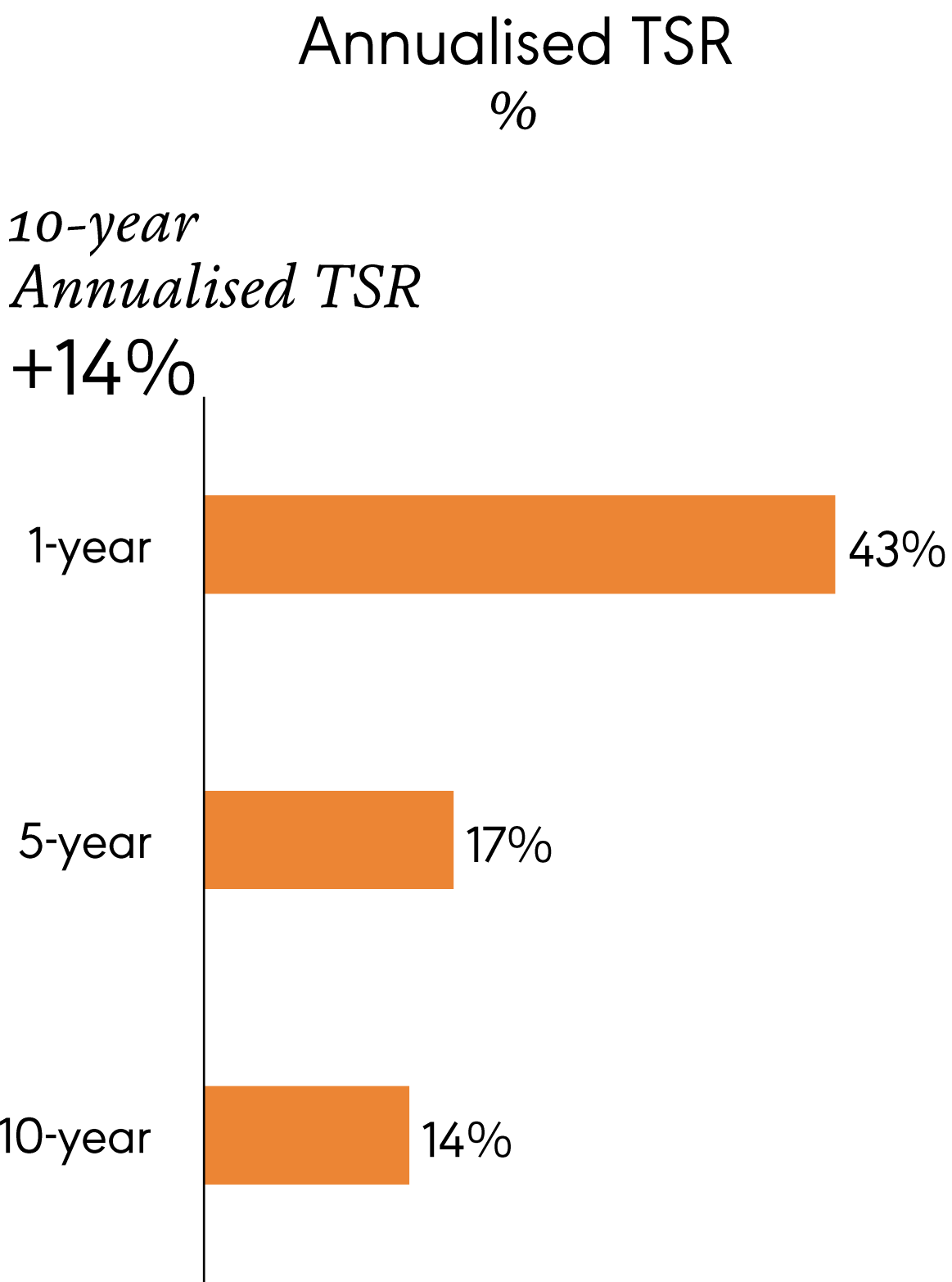
# Strong track record of *creating shareholder value*



Source: Diageo internal information



Source: Diageo internal information



Source: FactSet as of 31 December 2021



# Strong performance across all key financial metrics

## Efficient growth

Organic net sales  
value growth

↑ +20.0%

Free  
cash flow

£1.6bn  
↓ -£0.2bn

Organic operating  
margin expansion

↑ +131bps

Pre-exceptional  
EPS

85.6p  
↑ +22.5%

## Value creation

Return on invested  
capital

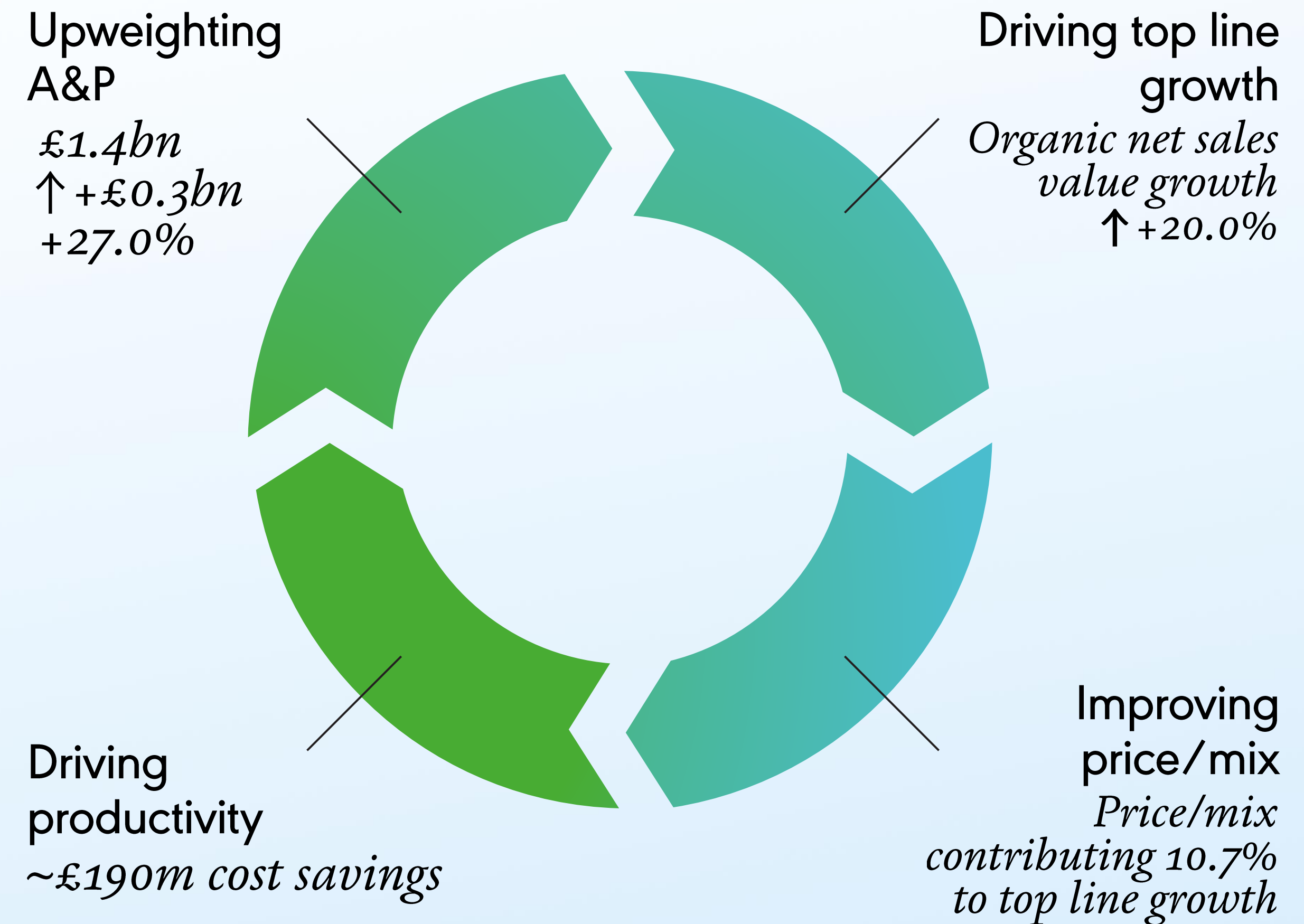
19.3%  
↑ +352bps

Total shareholder  
return<sup>(i)</sup>

18%

# Our profitable growth algorithm delivers *quality long-term growth*

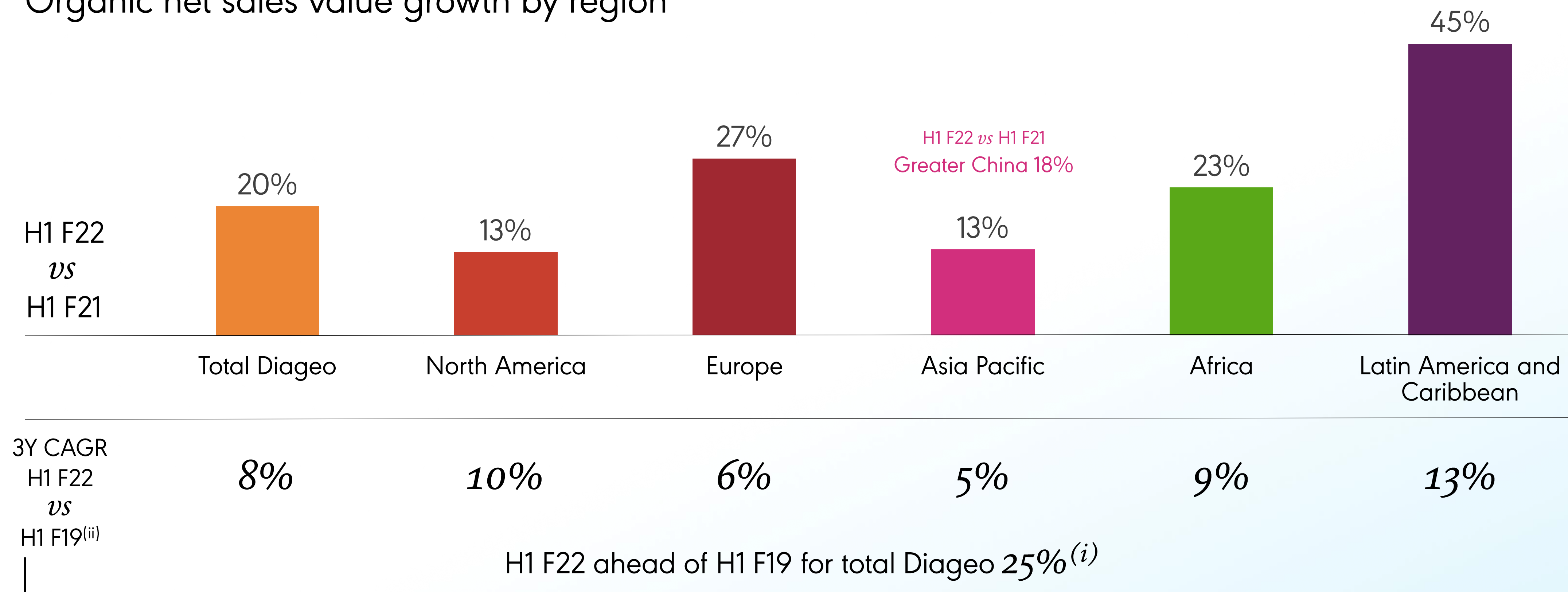
1. Driving top line growth
2. Improving price/mix
3. Driving productivity
4. Upweighting A&P





# Driving *double-digit top line growth* across all regions

## Organic net sales value growth by region



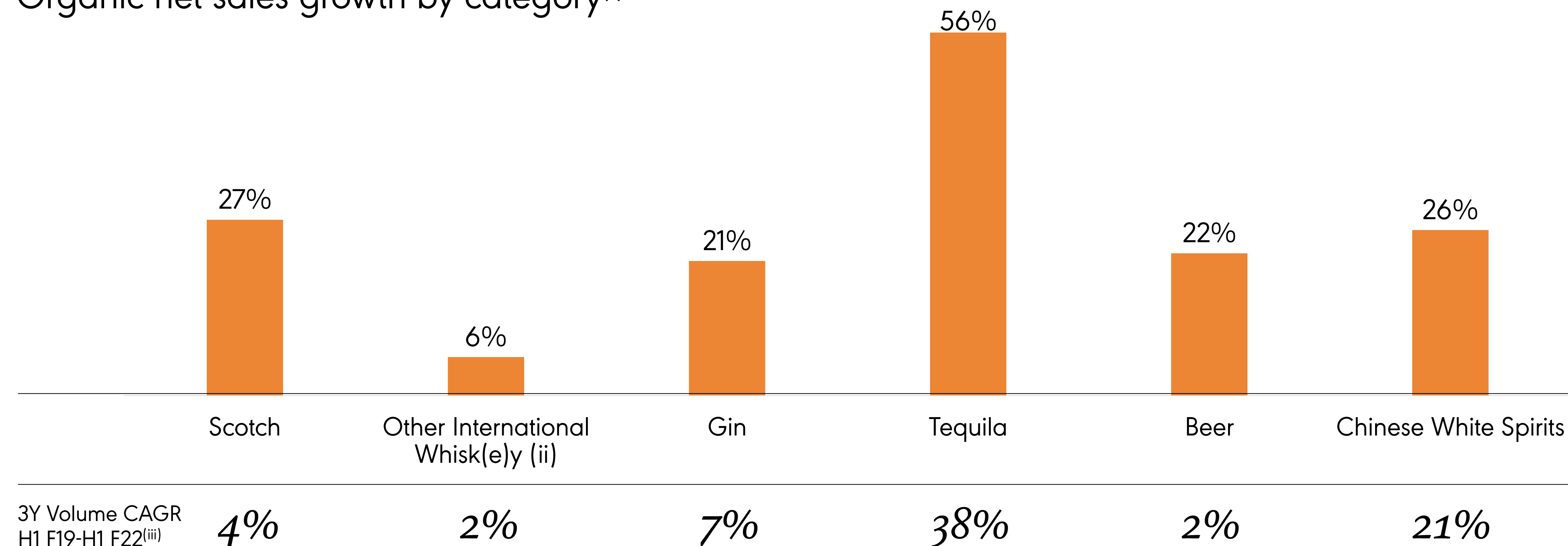
Source: H1 F22 Diageo internal information

(i) For further detail on first half fiscal 22 growth compared to first half fiscal 19 on a constant basis please see financial/legal appendix

(ii) 3Y CAGR H1 F19 to H1 F22 indicative, based on unrounded numbers and the impact from disposals and acquisitions and re-classifications may not be fully captured

# Our *advantaged portfolio* in fast-growing spirits categories and recovery of beer are *driving top line growth*

Organic net sales growth by category<sup>(i)</sup>



Source: H1 F22 Diageo internal information

(i) Growth rates reflected are year-on-year

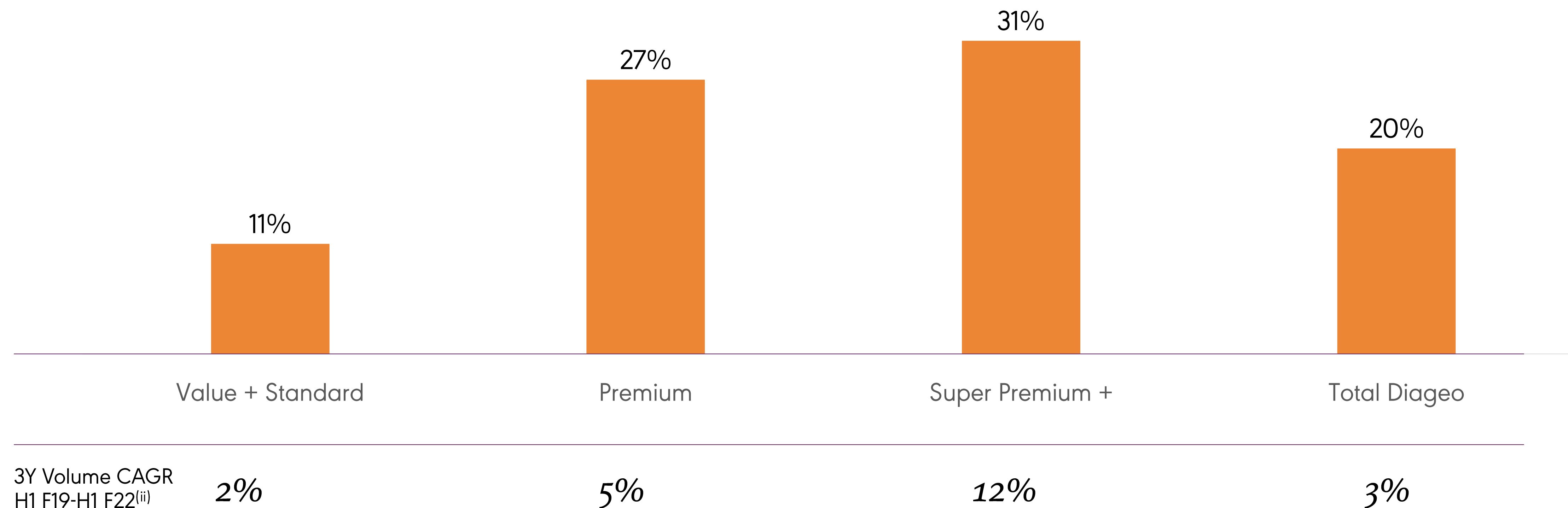
(ii) Other international whiskey comprises all whiskey categories except for scotch and Indian-Made Foreign Liquor (IMFL) whisky

(iii) 3Y CAGR H1 F19 to H1 F22 indicative, based on unrounded numbers and the impact from disposals and acquisitions and re-classifications may not be fully captured



*Over 70% of net sales growth was in the premium plus price tiers*

Organic net sales growth by price tier<sup>(i)</sup>



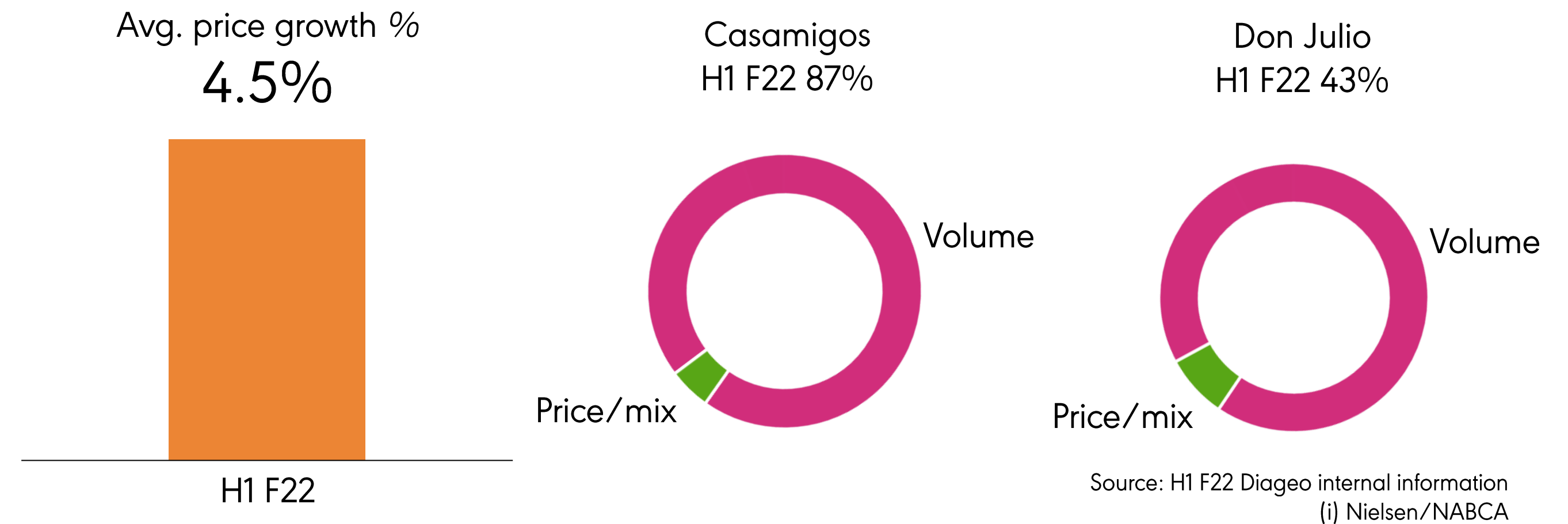
Source: H1 F22 Diageo internal information

(i) Growth rates reflected are year-on-year

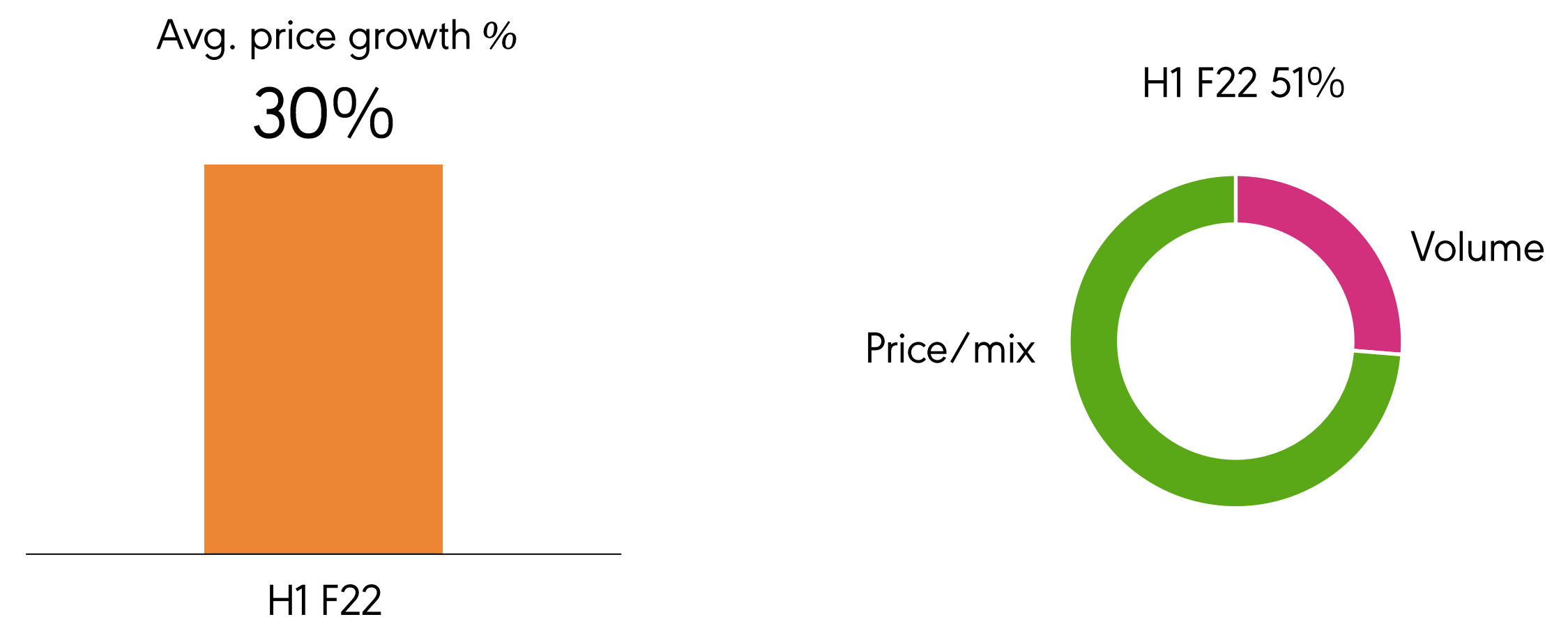
(ii) 3Y CAGR H1 F19 to H1 F22 indicative, based on unrounded numbers and the impact from disposals and acquisitions and re-classifications may not be fully captured

Revenue growth  
management is  
*strengthening top line  
growth and margin  
expansion*

US: Casamigos and Don Julio share of US spirits up over +60bps<sup>(i)</sup> and +25bps<sup>(i)</sup> respectively in H1 F22



Nigeria: share of measured categories up over +75bps in H1 F22





# Upweighted investment and marketing effectiveness are *driving growth* and *share gains*

Upweighted  
A&P investment

**+27%**

£1,353m  
+£287m  
incremental  
investment vs H1 F21

Increased  
re-investment rate

**17%**

of reported net sales  
in H1 F22

Gained/held  
off-trade share

**~85%**

of total net sales in  
measured markets  
in H1 F22<sup>(i)</sup>

Accelerated  
top line growth

**+20%**

organic net sales  
growth in H1 F22



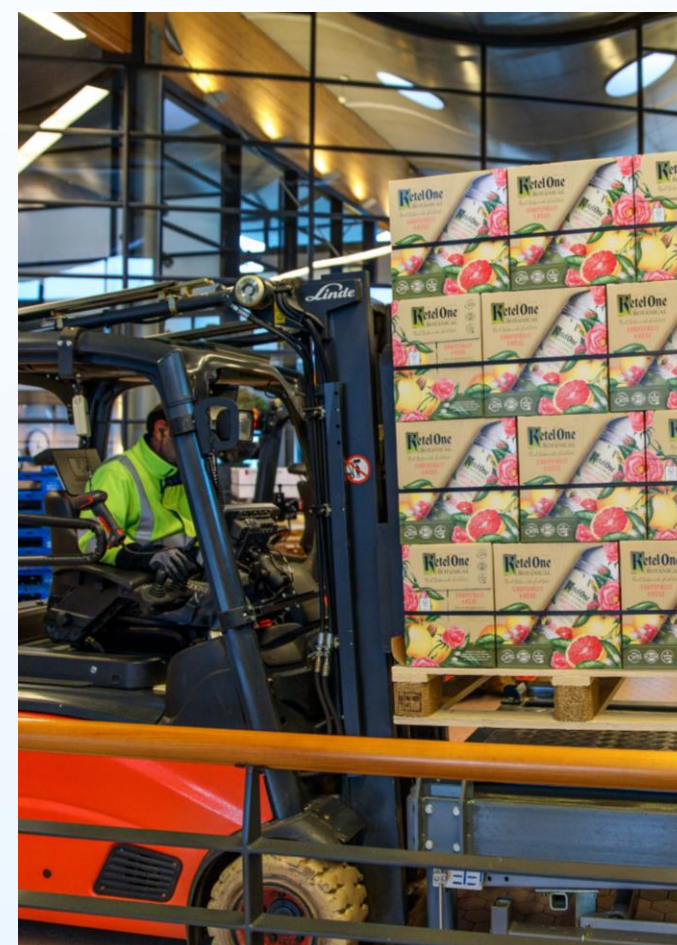
# Productivity initiatives delivered close to £190m of *cost savings* through H1 F22



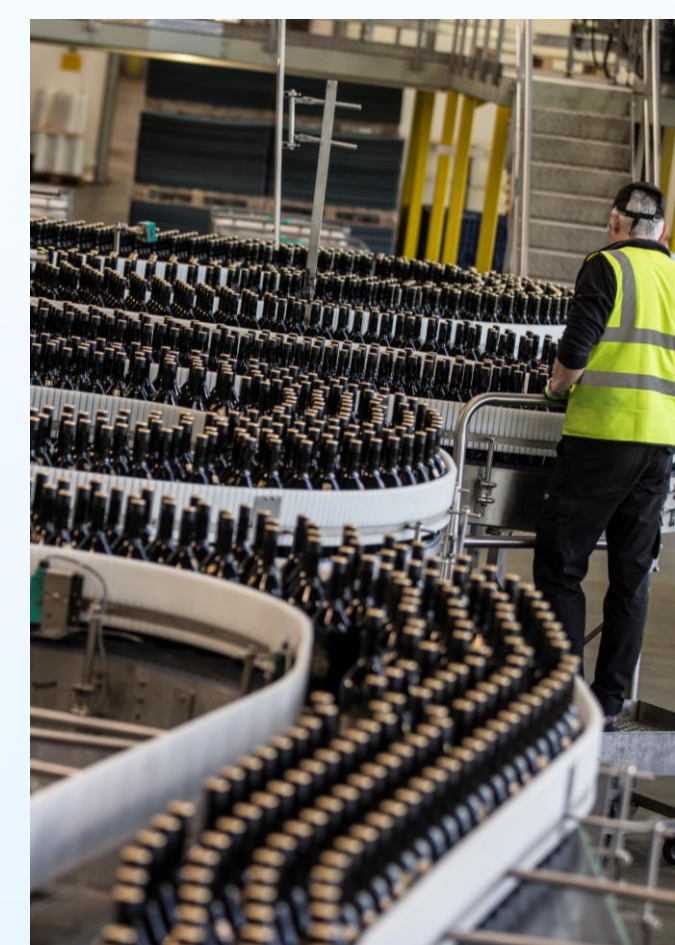
Procurement



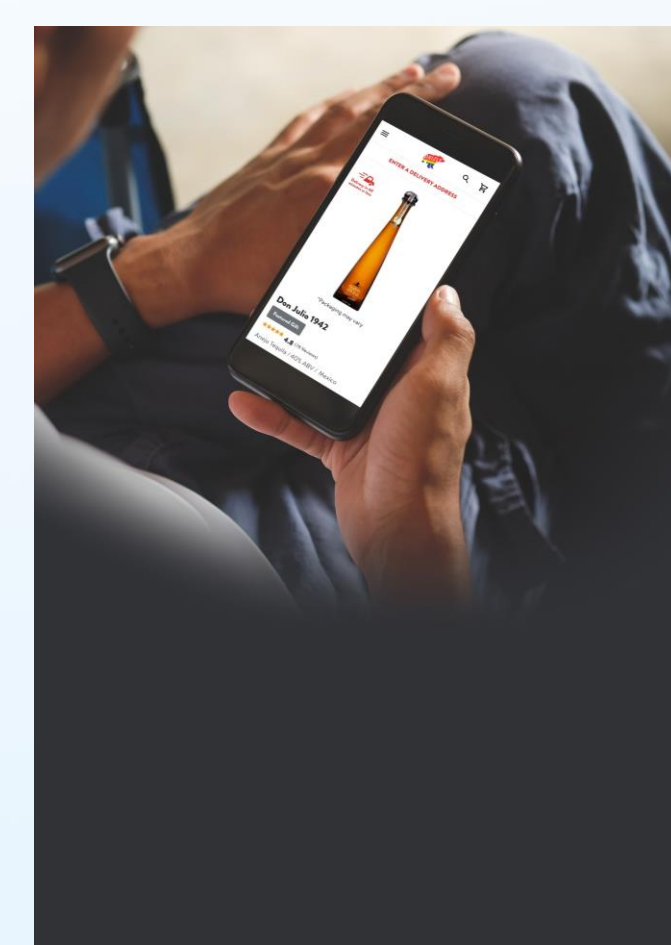
Product



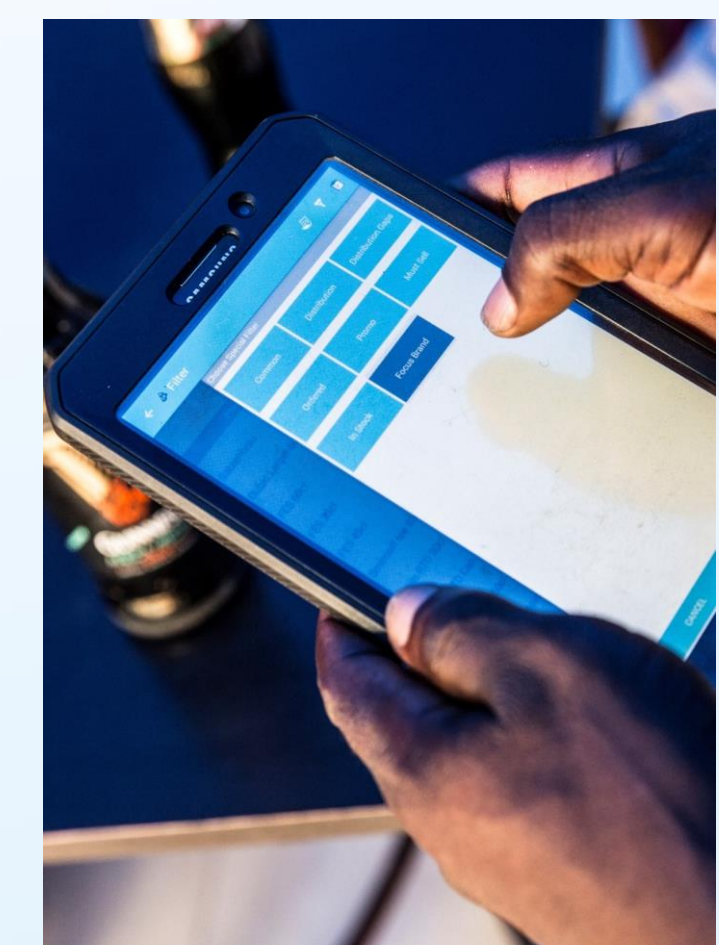
Logistics



Manufacturing



Marketing effectiveness



Overhead efficiencies

COGS productivity

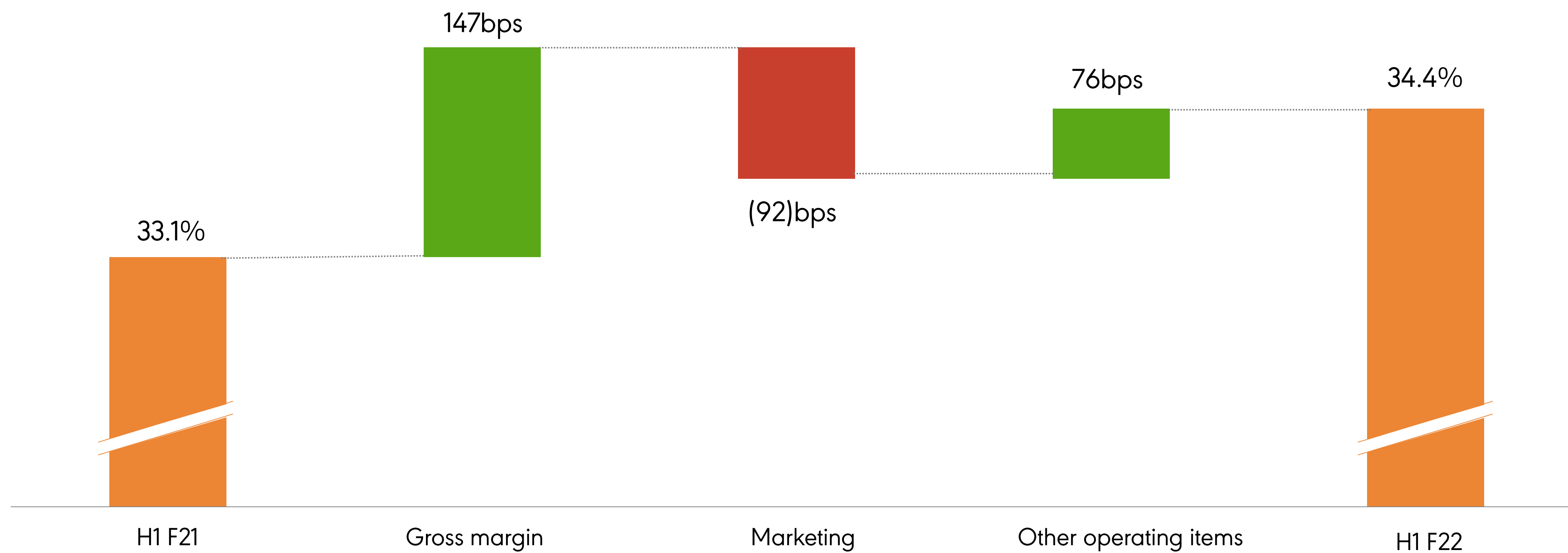


# *Strong growth* in operating profit driven by *organic growth*

	H1 F22	H1 F21	Reported operating margin <sup>(ii)</sup>
<b>PRIOR PERIOD OPERATING PROFIT<sup>(i)</sup></b>	<b>£2,256</b>	<b>£2,501</b>	<b>32.8%</b>
Exchange rate movements	£(87)	£(134)	5bps
Fair value remeasurement & other	£34	£(8)	46bps
Acquisitions & disposals	£(10)	£(18)	(17)bps
Organic growth	£550	£(85)	131bps
<b>CURRENT PERIOD OPERATING PROFIT<sup>(i)</sup></b>	<b>£2,743</b>	<b>£2,256</b>	<b>34.5%</b>

# *Strong improvement in operating margin* despite increased cost inflation and upweighted marketing

Movement in organic operating margin

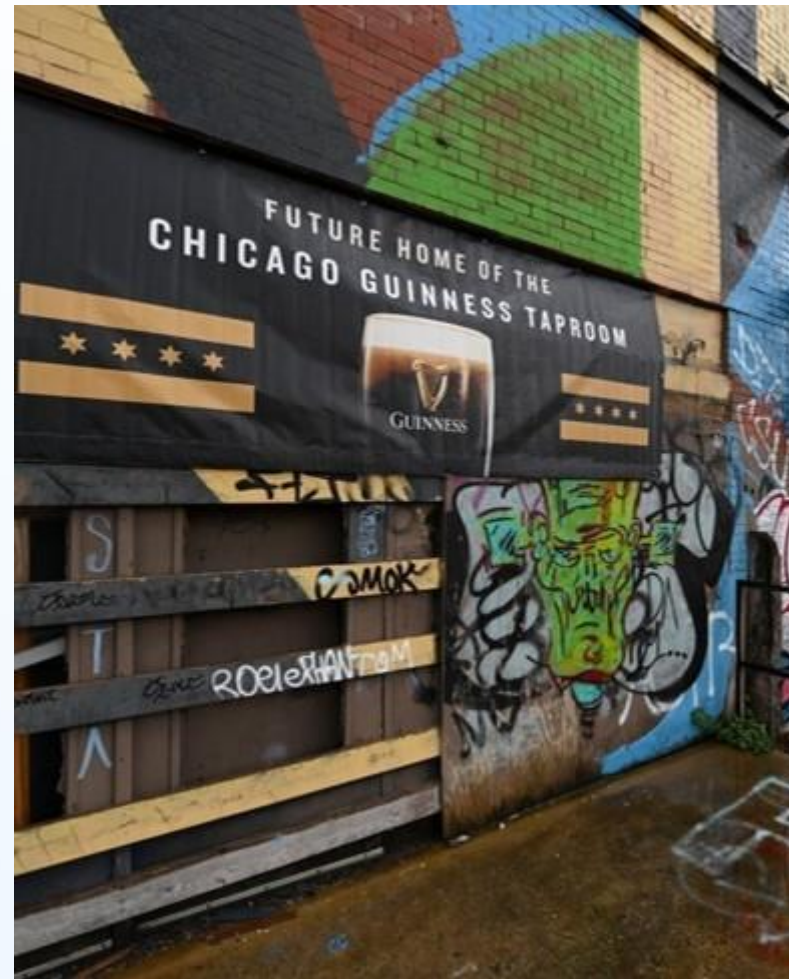




We are investing smartly to *win share*  
and *sustain long-term growth*



A&P



Consumer  
experiences



Core capabilities/  
digital tools



Capacity

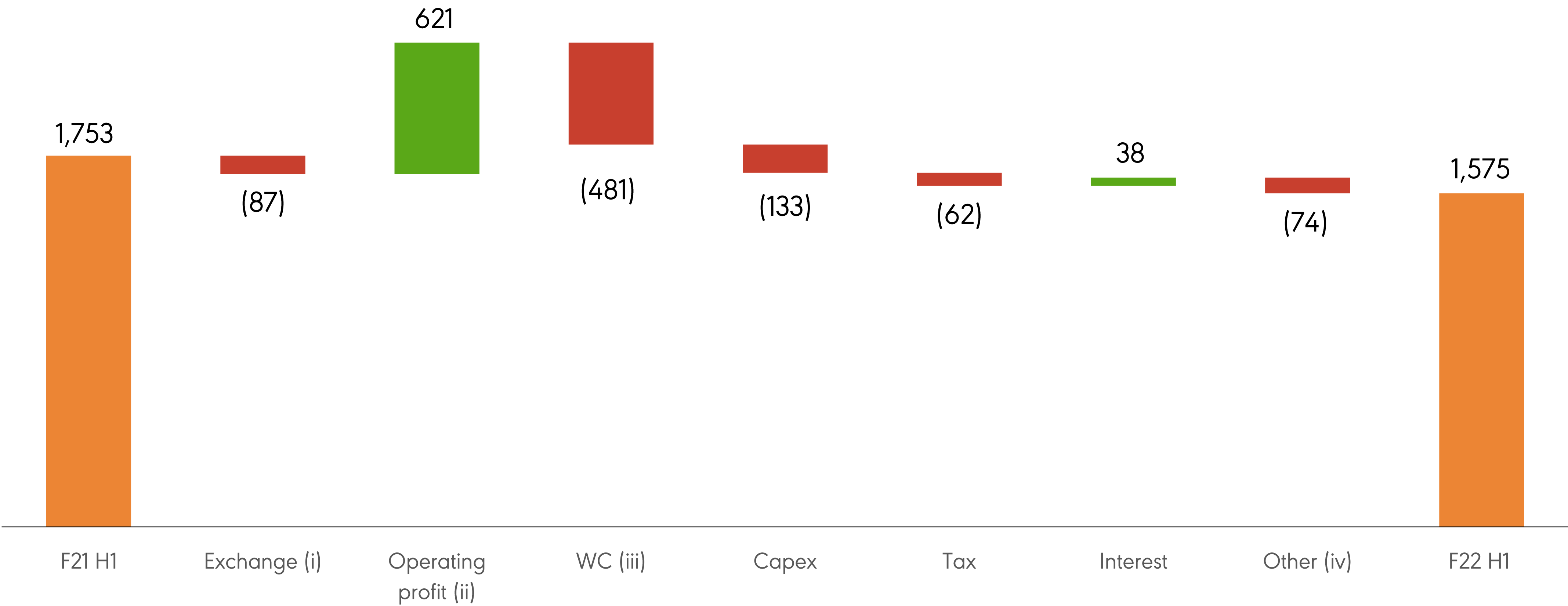


ESG



# Strong free cash flow generation

Movement in free cash flow (£m)



Source: H1 F22 Diageo internal information

(i) Exchange on operating profit before exceptional items

(ii) Operating profit excluding exchange, depreciation and amortisation, post employment charges and non-cash items but including operating exceptional items

(iii) Working capital movement includes maturing inventory

(iv) Other items include dividends received from associate and joint ventures, post employment payments and movements in loans and other investments.



# Leverage ratio remains *within our target range*

		H1 F22	H1 F21	Movement
Closing net debt <sup>(i)</sup>	£m	(12,331)	(12,661)	330
<b>Average net debt<sup>(i)</sup></b>	<b>£m</b>	<b>(12,359)</b>	<b>(13,168)</b>	<b>809</b>
Net interest charge	£m	(162)	(186)	24
Net other finance charges	£m	(18)	(14)	(4)
<b>Net finance charges</b>	<b>£m</b>	<b>(180)</b>	<b>(200)</b>	<b>20</b>
Effective interest rate	%	<b>2.6</b>	2.8	<b>(0.2)</b>
<b>Adjusted<sup>(ii)</sup> net debt<sup>(i)</sup> / Adjusted<sup>(iii)</sup> EBITDA</b>	<b>x</b>	<b>2.5</b>	<b>3.4</b>	<b>(0.9)</b>

Source: H1 F22 Diageo internal information

(i) Net debt is equivalent to net borrowings

(ii) Adjusted to include net debt and post employment plan benefit liabilities

(iii) Earnings before exceptional operating items, interest, tax, depreciation, amortisation and impairment  
For additional information on non-GAAP measures please see financial/legal appendix

# *Consistent and disciplined* approach to capital allocation

## *Leverage ratio policy*

Adjusted net debt<sup>(i)</sup> to adjusted EBITDA: 2.5x – 3.0x

*Organic  
growth*

*Dividends*  
1.8x to 2.2x  
dividend cover

*M&A and  
portfolio  
management*

*Return excess cash to shareholders*



# Translation driving *adverse impact* from *foreign exchange*

## Exchange rates

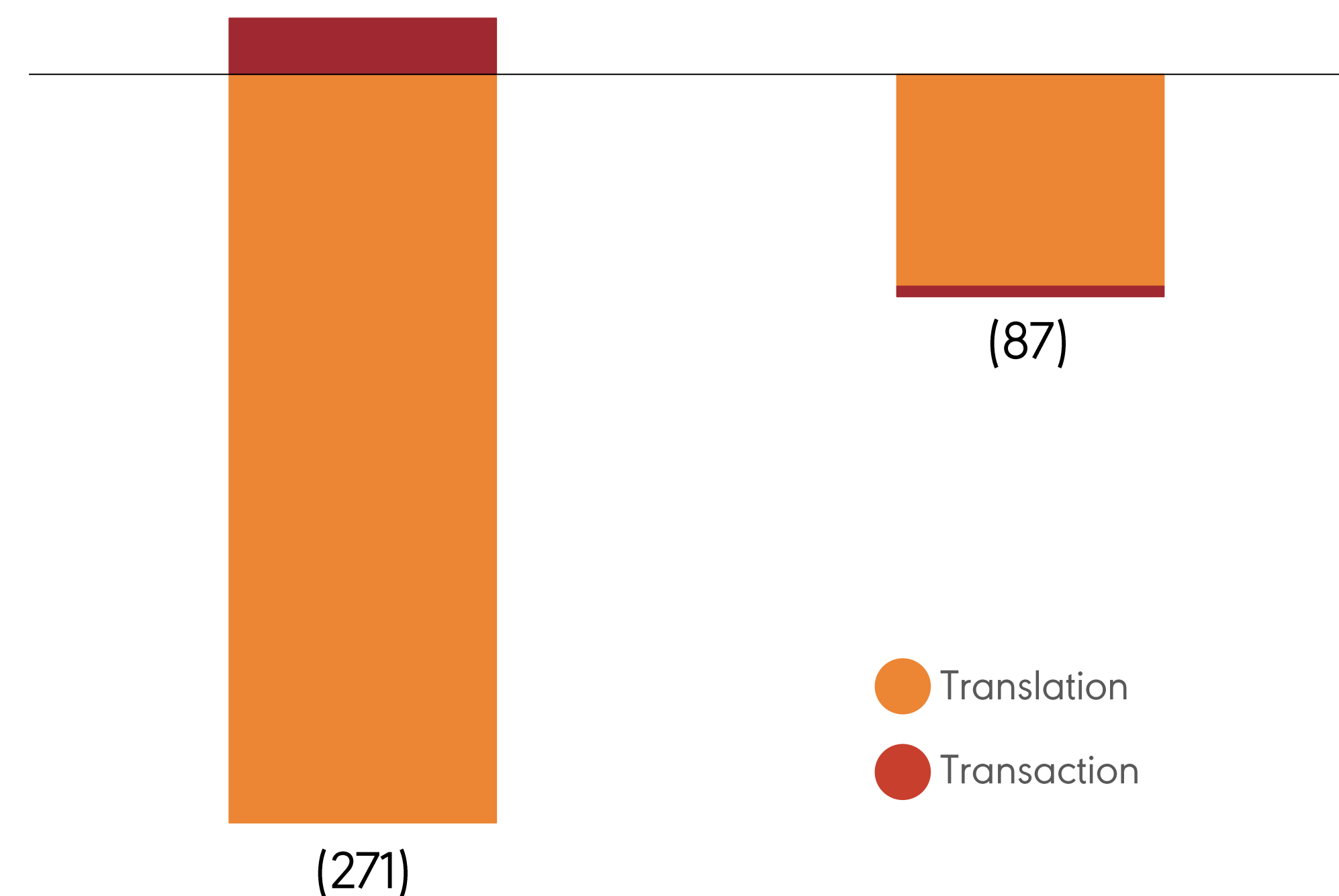
Translation rate			
	H1 F21 <sup>(i)</sup>	H1 F22 <sup>(i)</sup>	F22 forecast <sup>(ii)</sup>
\$/£	1.31	1.36	1.36
€/£	1.11	1.17	1.19

Transaction rate <sup>(iii)</sup>			
	H1 F21	H1 F22	F22 forecast <sup>(iii)</sup>
\$/£	1.34	1.30	1.32
€/£	1.11	1.15	1.15

## Total exchange impact (£m)

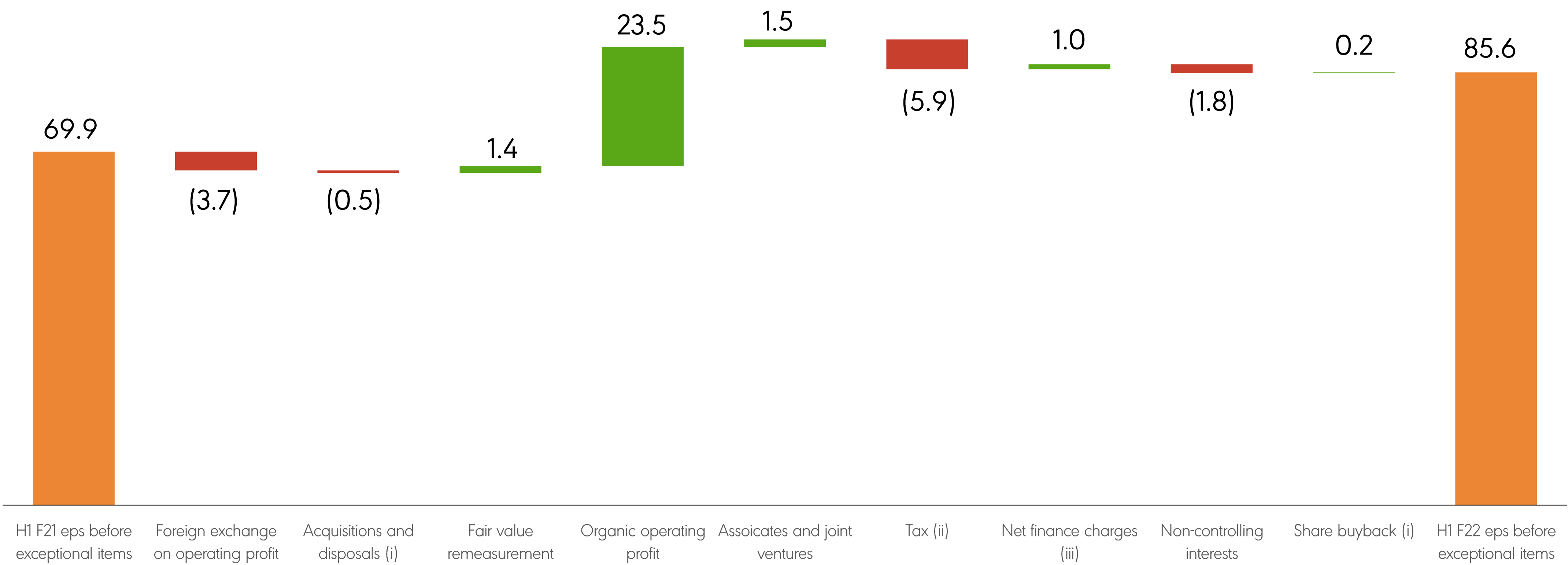
Total impact on net sales

Total impact on operating profit <sup>(iv)</sup>



# Strong growth in eps

Movement in earnings per share before exceptional items (pence)

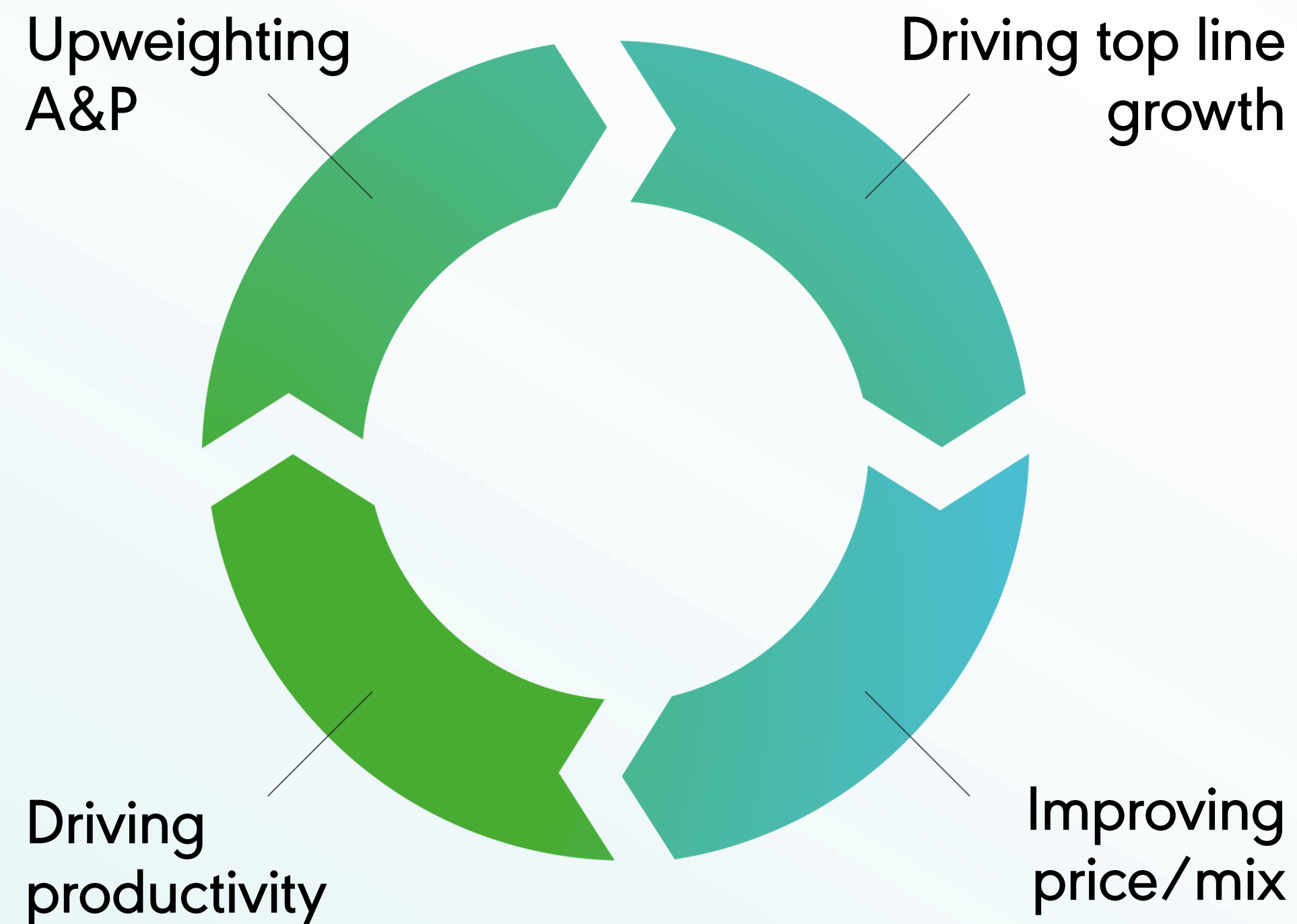


Source: H1 F22 Diageo internal information  
(i) Includes finance charges net of tax  
(ii) Excludes tax related to acquisitions and disposals  
(iii) Excludes finance charges related to acquisitions and disposals



*Well  
positioned* for  
the second half of  
fiscal 22

## Confident in our *profitable growth algorithm*



Advantaged portfolio and geographic footprint drives *accelerated top line growth*

Embedded culture of everyday efficiency enables *continued margin expansion*

*Continued investment* for long-term growth and *progressive dividend policy*

Confident in our medium-term guidance

- Organic net sales growth **5%** to **7%**
- Organic operating profit growth **6%** to **9%**



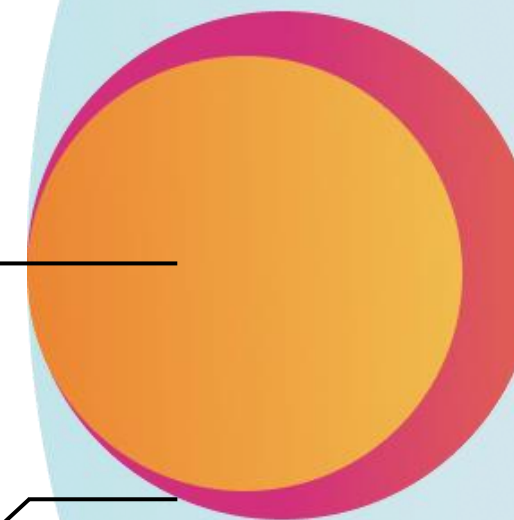
# *Bold ambition* for 2030

~50%

increase in Diageo's  
TBA market share  
ambition by 2030

4%  
2020

6%  
2030



Confident in our  
strategy and  
ability to deliver  
*sustainable  
long-term growth*

1. TBA opportunity is large and growing
2. Diageo has an advantaged portfolio
3. Our capabilities are a competitive advantage
4. We invest for the long-term
5. We do business the right way



# DIAGEO

*Celebrating life, every day, everywhere*



# *Financial/legal appendix:*

## **Definitions and reconciliation of non-GAAP measures to GAAP measures**

Diageo's strategic planning process is based on certain non-GAAP measures, including organic movements. These non-GAAP measures are chosen for planning and reporting, and some of them are used for incentive purposes. The group's management believes these measures provide valuable additional information for users of the financial statements in understanding the group's performance. These non-GAAP measures should be viewed as complementary to, and not replacements for, the comparable GAAP measures and reported movements therein.

It is not possible to reconcile the forecast tax rate before exceptional items to the most comparable GAAP measure as it is not possible to predict, without unreasonable effort, with reasonable certainty, the future impact of changes in exchange rates, acquisitions and disposals and potential exceptional items.

## **Volume**

Volume is a performance indicator that is measured on an equivalent units basis to nine-litre cases of spirits. An equivalent unit represents one nine-litre case of spirits, which is approximately 272 servings. A serving comprises 33ml of spirits, 165ml of wine, or 330ml of ready to drink or beer. Therefore, to convert volume of products other than spirits to equivalent units, the following guide has been used: beer in hectolitres, divide by 0.9; wine in nine-litre cases, divide by five; ready to drink in nine-litre cases, divide by 10; and certain pre-mixed products that are classified as ready to drink in nine-litre cases, divide by ten.

## **Organic movements**

Organic information is presented using pounds sterling amounts on a constant currency basis excluding the impact of exceptional items, certain fair value remeasurement and acquisitions and disposals. Organic measures enable users to focus on the performance of the business which is common to both years and which represents those measures that local managers are most directly able to influence.

## **Calculation of organic movements**

An explanation of non-GAAP measures, including organic movements, is set out on page 74 of Diageo's Annual Report for the year ended 30 June 2021.

*Continued on the following page*



*Continued from the previous page*

**(a) Exchange rates**

'Exchange' in the organic movement calculation reflects the adjustment to recalculate the reported results as if they had been generated at the prior period weighted average exchange rates.

Exchange impacts in respect of the external hedging of intergroup sales by the markets in a currency other than their functional currency and the intergroup recharging of services are also translated at prior period weighted average exchange rates and are allocated to the geographical segment to which they relate. Residual exchange impacts are reported as part of the Corporate segment. Results from hyperinflationary economies are translated at respective years' actual rates.

**(b) Acquisitions and disposals**

For acquisitions in the current period, the post acquisition results are excluded from the organic movement calculations. For acquisitions in the prior period, post acquisition results are included in full in the prior period but are included in the organic movement calculation from the anniversary of the acquisition date in the current period. The acquisition row also eliminates the impact of transaction costs that have been charged to operating profit in the current or prior period in respect of acquisitions that, in management's judgement, are expected to be completed.

Where a business, brand, brand distribution right or agency agreement was disposed of, or terminated, in the reporting period, the group, in the organic movement calculations, excludes the results for that business from the current and prior period. In the calculation of operating profit, the overheads included in disposals are only those directly attributable to the businesses disposed of, and do not result from subjective judgements of management.

**(c) Exceptional items**

Exceptional items are those that in management's judgement need to be disclosed separately. Such items are included within the income statement caption to which they relate, and are excluded from the organic movement calculations. It is believed that separate disclosure of exceptional items and the classification between operating and non-operating further helps investors to understand the performance of the group. Changes in estimates and reversals in relation to items previously recognised as exceptional are presented consistently as exceptional in the current year.

Exceptional operating items are those that are considered to be material and unusual or non-recurring in nature and are part of the operating activities of the group such as impairment of intangible assets and fixed assets, indirect tax settlements, property disposals and changes in post employment plans.

*Continued on the following page*

*Continued from the previous page*

Gains and losses on the sale of businesses, brands or distribution rights, step up gains and losses that arise when an investment becomes an associate or an associate becomes a subsidiary and other material, unusual non-recurring items, that are not in respect of the production, marketing and distribution of premium drinks, are disclosed as non-operating exceptional items below operating profit in the consolidated income statement.

Exceptional current and deferred tax items, comprising material unusual non-recurring items that impact taxation. Examples include direct tax provisions and settlements in respect of prior years and the remeasurement of deferred tax assets and liabilities following tax rate changes.

**(d) Fair value remeasurement**

Fair value remeasurement in the organic movement calculation reflects an adjustment to eliminate the impact of fair value changes in biological assets, earn-out arrangements that are accounted for as remuneration and fair value changes relating to contingent consideration liabilities and equity options that arose on acquisitions recognised in the income statement.

## **Organic growth excluding Travel Retail and Guinness**

The performance of the Travel Retail channel is dependent on the level of international travel and the performance of Guinness is highly dependent on the availability of the on-trade channel (particularly in Europe). Due to ongoing travel restrictions and market variability of on-trade recovery conditions brought about by the Covid-19 pandemic, slower growth had been experienced in Travel Retail and Guinness performance.

Additional information on the performance of the business excluding Travel Retail and Guinness has therefore been provided. Management use this information to assess business performance, and similarly believed that such information will be useful to readers of this document.

In the first half of fiscal 22, the recovery of the on-trade, particularly in Europe, and the partial recovery of Travel Retail has driven a significant improvement in volumes for Travel Retail and Guinness. As a result, the performance of Travel Retail and Guinness has not had a significant impact on the performance of the group, thus this information has not been highlighted in this presentation.

An explanation of non-GAAP measures, including organic movements excluding Travel Retail and Guinness and 2019 to 2021 growth on a constant basis, are described on page 74 of Diageo's Annual Report for the year ended 30 June 2021. For further information and analysis, please see pages 47 to 53 in the Diageo Interims results, six months ended 31 December 2021 press release.



*Continued from the previous page*

With respect to Global Travel, the impact of continued Covid-19 travel restrictions on this channel will have also driven some incremental sales of our products in certain domestic markets, which would have a positive impact on their reported results. However, it is not possible to quantify the impact of any such incremental sales either at the Diageo or an individual market level.

### **Shareholder value metrics**

- Dividends: Diageo internal information.
- Return of Capital (RoC): Diageo internal information.
- TSR: FactSet as of 31st December 2021. TSR based on time periods of 6 months, 1 year, 5 years and 10 years up to 31st December 2021. TSR for 6 months calculated as the cumulative TSR performance of the stocks up to 31st of December 2021. TSR for 1 year, 5 years and 10 years calculated as the annualised TSR performance of the stocks up to 31st of December 2021. TSR based on trading currency.

### **Off-trade market share approach**

- All analysis of data has been applied with a tolerance of +/- 3 bps
- Percentages represent % of markets by total Diageo net sales contribution who have held or gained off-trade share.
- India, Nigeria and Canada share data represents total trade.
- Measured markets indicate a market where we have purchased any market share data.
- Market share data may include beer, wine, spirits or other elements.
- Measured market net sales value sums to 87% of total Diageo net sales value in first half of fiscal 22.

## Cautionary statements concerning forward-looking statements and non-GAAP financial measures

This document contains 'forward-looking' statements, including statements related to the medium term guidance issued on 16 November 2021, future TBA market share ambitions and our expectations of performance for the second half of fiscal 22. Forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook, objectives and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to Diageo, anticipated cost savings or synergies, expected investments, the completion of any strategic transactions or restructuring programmes, anticipated tax rates, changes in the international tax environment, expected cash payments, outcomes of litigation or regulatory enquiries, anticipated changes in the value of assets and liabilities related to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Diageo's control.

Factors that could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements include, but are not limited to:

- economic, political, social or other developments in countries and markets in which Diageo operates (including as a result of the Covid-19 pandemic), which may contribute to a reduction in demand for Diageo's products, adverse impacts on Diageo's customer, supplier and/or financial counterparties, or the imposition of import, investment or currency restrictions (including the potential impact of any global, regional or local trade wars or any tariffs, duties or other restrictions or barriers imposed on the import or export of goods between territories, including but not limited to, imports into and exports from the United States and the European Union and/or the United Kingdom, as well as the United Kingdom's recent departure from the European Union);
- the impact of the Covid-19 pandemic, or any other global or regional public health threats, on Diageo's business, financial condition, cash flows and results of operation;
- the effects of climate change, or legal, regulatory or market measures intended to address climate change, on Diageo's business or operations, including on the cost and supply of water;
- changes in consumer preferences and tastes, including as a result of disruptive market forces, changes in demographics, evolving social trends (including any shifts in consumer tastes towards at-home occasions, premiumisation, small-batch craft alcohol, lower or no alcohol, or other alternative products), changes in travel, holiday or leisure activity patterns, weather conditions, health concerns, pandemics and/or a downturn in economic conditions;
- changes in the domestic and international tax environment, including as a result of the OECD Base Erosion and Profit Shifting Initiative and EU anti-tax abuse measures, leading to uncertainty around the application of existing and new tax laws and unexpected tax exposures;
- changes in the cost of production, including as a result of increases in the cost of commodities, labour and/or energy, supply chain disruptions and/or inflation;

*Continued on the following page*

*Continued from the previous page*

- any litigation or other similar proceedings (including with tax, customs, competition, environmental, anti-corruption or other regulatory authorities), including litigation directed at the beverage alcohol industry generally or at Diageo in particular;
- legal and regulatory developments, including changes in regulations relating to production, distribution, importation, marketing, advertising, sales, pricing, labelling, packaging, product liability, antitrust, labour, compliance and control systems, environmental issues and/or data privacy;
- the consequences of any failure of internal controls, including those affecting compliance with existing or new accounting and/or disclosure requirements;
- the consequences of any failure by Diageo or its associates to comply with anti-corruption, sanctions, trade restrictions or similar laws and regulations, or any failure of Diageo's related internal policies and procedures to comply with applicable law or regulation;
- cyber-attacks or any other disruptions to core business operations including manufacturing and supply, business service centres and/or information systems;
- contamination, counterfeiting or other circumstances which could harm the level of customer support for Diageo's brands and adversely impact its sales;
- Diageo's ability to maintain its brand image and corporate reputation or to adapt to a changing media environment;
- increased competitive product and pricing pressures, including as a result of actions by increasingly consolidated competitors or increased competition from regional and local companies, that could negatively impact Diageo's market share, distribution network, costs and/or pricing;
- increased costs for, or shortages of, talent, as well as labour strikes or disputes;
- Diageo's ability to derive the expected benefits from its business strategies, including in relation to expansion in emerging markets, acquisitions and/or disposals, cost savings and productivity initiatives or inventory forecasting;
- fluctuations in exchange rates and/or interest rates, which may impact the value of transactions and assets denominated in other currencies, increase Diageo's financing costs or otherwise adversely affect Diageo's financial results;
- movements in the value of the assets and liabilities related to Diageo's pension plans;
- Diageo's ability to renew supply, distribution, manufacturing or licence agreements (or related rights) and licences on favourable terms, or at all, when they expire; or
- any failure by Diageo to protect its intellectual property rights.



## Other Information

All oral and written forward-looking statements made on or after the date of this document and attributable to Diageo are expressly qualified in their entirety by the above risk factors, by those set out in Diageo's annual report for the year ended 30 June 2021 under "Our principal risks and risk management", and by the 'Risk factors' section contained in the annual report on Form 20-F for the year ended 30 June 2021 filed with the US Securities and Exchange Commission (SEC). Any forward-looking statements made by or on behalf of Diageo speak only as of the date they are made. Diageo does not undertake to update forward-looking statements to reflect any changes in Diageo's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that Diageo may make in any documents which it publishes and/or files with the SEC. All readers, wherever located, should take note of these disclosures.

This document includes names of Diageo's products, which constitute trademarks or trade names which Diageo owns, or which others own and license to Diageo for use. All rights reserved. © Diageo plc 2022.

The information in this document does not constitute an offer to sell or an invitation to buy shares in Diageo plc or an invitation or inducement to engage in any other investment activities.

This document may include information about Diageo's target debt rating. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating.

Past performance cannot be relied upon as a guide to future performance.