

Diageo delivers while investing in future growth

Diageo has reported its 2022 Preliminary Results, with year end June 30, 2022. Here are the highlights:

Delivered strong net sales growth across all regions

- The company reported net sales of £15.5 billion (US\$18.7 billion), up 21.4%, primarily driven by strong organic net sales growth, up 21.4%, with strong double-digit growth across all regions.
- Growth reflects continued recovery of the on-trade, resilient consumer demand in the off-trade and market share gains, and was underpinned by favorable industry trends of spirits taking share of total beverage alcohol and premiumization.
- Price/mix growth was 11.1 percentage points, reflecting positive mix from strong performance in super- premium-plus brands, and mid-single digit price growth driven by price increases across all regions.

Expanded operating margin while increasing marketing investment

- Reported operating profit of £4.4 billion (US\$5.3 billion), up 18.2%, primarily driven by organic operating profit growth. Reported operating margin decreased 77bps, with organic margin expansion more than offset by exceptional operating items of £388 million (US\$470 million).
- Organic operating profit grew 26.3%, with growth across all regions.
- Organic operating margin increased 121bps, reflecting a strong recovery in gross margin and leverage on operating costs, while increasing marketing investment.
- Price increases and supply productivity savings more than offset the absolute impact of cost inflation, and mostly offset the adverse impact on gross margin.

Delivered broad-based category growth and gained market share

- Growth was broad-based across categories, with particularly strong growth of scotch, tequila and beer.
- Premium-plus brands contributed 57% of reported net sales and drove 71% of organic net sales growth.
- Off-trade market share grew or held in over 85% of total net sales value in measured markets.

Strengthened portfolio through acquisitions and disposals

- Acquired 21Seeds, a rapidly growing flavored tequila brand, and Mezcal Unión, a premium artisanal mezcal brand.
- Disposed of Meta Abo Brewery in Ethiopia and Picon brand; signed agreements for the sale of the Windsor business in Korea and the disposal and franchising of a portfolio of brands in India.

Invested to sustain long-term growth.

- Increased organic marketing investment 24.7%, ahead of organic net sales growth.
- Invested £1.1 billion (US\$1.2 billion) of capex in production capacity, sustainability, digital capabilities and consumer experiences.

Delivered strong cash generation

- Net cash flow from operating activities increased £0.3 billion to £3.9 billion, and free cash flow decreased £0.3 billion (US\$0.3 billion) to £2.8 billion (US\$3.4 billion) due to lapping an exceptionally strong working capital benefit in fiscal 21.
- Strong balance sheet, with leverage ratio of 2.5x at 30 June 2022, at the low end of target range.

Continued progress in delivering Society 2030 goals

- Brand moderation campaigns reached 456 million people, educated more than 607,000 people on the dangers of underage drinking through the SMASHED program.
- Strong momentum in creating a diverse and inclusive organization, with 44% female leaders globally, up 2%, and 41% ethnically diverse leaders, up 4%.
- Continued water stewardship, delivering 3.7% improvement in water efficiency globally and generating annual capacity to replenish more than one million cubic metres of water in water-stressed areas.

Created long-term shareholder value

- Increased basic eps by 23.2% to 140.2 pence and pre-exceptional eps by 29.3% to 151.9 pence.
- Increased recommended final dividend by 5% to 46.82 pence per share.
- Completed £3.6 billion (US\$4.36 billion) of share buybacks as part of return of capital program of up to £4.5 billion (US\$5.4 billion).
- Expect to complete remaining £0.9 billion (US\$1 billion) of the program during fiscal 23.

Ivan Menezes, Chief Executive, said, “I am very pleased with our fiscal 22 results. We delivered double-digit organic net sales growth across all regions and we gained or held off-trade market share in over 85% of our total net sales value in measured markets. We expanded operating margin while increasing marketing investment ahead of net sales growth and we used our strong cash generation to invest in long-term growth. I am very proud of what my 28,000 colleagues have achieved through their energy and creativity.

In a year of significant global supply chain disruption, our double-digit volume growth demonstrates the tremendous agility and resourcefulness of our teams. Our net sales growth was across categories. We benefitted from the on-trade recovery, continued global premiumization trends, with our super-premium-plus brands up 31%, and from price increases across our regions. I am particularly proud of the performance of Johnnie Walker, which delivered double-digit growth across all regions to surpass 21 million cases globally. This fantastic milestone exemplifies our world-class brand-building and execution capabilities.

Looking ahead to fiscal 23, we expect the operating environment to be challenging, with ongoing volatility related to Covid-19, significant cost inflation, a potential weakening of consumer spending power and global geopolitical and macroeconomic uncertainty.

Notwithstanding these factors, I am confident in the resilience of our business and our ability to navigate these headwinds.

We believe we have an advantaged portfolio with extraordinary brands across geographies, categories and price points. And we continue to actively shape our portfolio to fast-growing categories through innovation and acquisitions. We are staying close to our consumers and our digital tools and data capabilities enable us to quickly understand trends and execute with precision. Continued smart re-investment is being fueled by our culture of everyday efficiency and our expertise in revenue growth management is enabling strategic pricing actions.

Total beverage alcohol is an attractive sector with strong fundamentals, and we are making good progress towards our ambition of delivering a 50% increase in our value share to 6% by 2030. Despite the challenging environment, we are executing our strategic priorities, including our ambitious 10-year sustainability plan. I am confident that we are well-positioned to deliver our medium-term guidance for fiscal 23 to fiscal 25 of organic net sales growth consistently in the range of 5% to 7% and organic operating profit growth sustainably in the range of 6% to 9%.”