

DIAGEO PLC
Form 6-K
January 30, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF THE

SECURITIES EXCHANGE ACT OF 1934

30 January 2014

Commission File Number: 001-10691

DIAGEO plc

(Translation of registrant's name into English)

Lakeside Drive, Park Royal, London NW10 7HQ

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

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Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): "

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): "

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

Diageo plc
(Registrant)

Date: 30 January 2014 By: /s/ V Cooper
Name: V Cooper
Title: Senior Company Secretarial Assistant

30 January 2014

Interim results, six months ended 31 December 2013

The strength of a diverse portfolio in a tougher environment

· Net sales grew 1.8% in the first half, following growth of 2.2% in Q1*

- North America up 4.6%

- Western Europe down 1.0%, continuing the improving trend seen in Q1

- Emerging markets up 1.3%, impacted by weakness in baijiu in China and in Nigeria

· Continued strong price/mix in both developed and emerging markets at 4ppts

· Marketing investment up 2.7%, ahead of net sales growth, to 15.6% of net sales

· Super and ultra premium brands grew strongly, with reserve brands up 18.5%

· Beer was the only category to decline, down 2.6%, with weakness in Nigeria and Ireland

· Operating profit grew 2.9% with 0.4ppts of operating margin improvement

· Free cash flow was £326 million

· eps pre-exceptional items 62.6 pence per share, up 4%

· Interim dividend increased 9%

· Detailed plans to be developed to de-layer the organisation and deliver further operating efficiencies

Savings of £200 million a year by year ending 30 June 2017 will fund future change programmes, investment in growth and improved margin

Restructuring costs, expected to be taken as an exceptional charge, will be between £200 million and £250 million

**Q1 organic growth restated to \$1 = VEF19 (Venezuelan Bolivars). See explanatory note on organic movements on page 35.*

Ivan Menezes, Chief Executive, commenting on the six months ended 31 December 2013

“We have continued to demonstrate the strength of our broad portfolio and diverse global business in a period which saw a more challenging emerging market environment. Sustained performance in the US and improved performance in Western Europe enabled Diageo to absorb the current challenges in some of our emerging markets. We reacted quickly to the changing emerging market environment, reducing inventory levels in several key markets, which led to a weaker Q2, and tightly managing our cost base to deliver improved operating margins in line with our expectations. We continued to invest in the business increasing marketing spend ahead of net sales growth and keeping our strong focus on innovation and route to consumer improvements.

In the first half the organisation has aligned behind the six key performance drivers which I identified when I was appointed CEO; premium core brands, reserve, innovation, route to consumer, cost and talent. This clarity of focus at a market level enables me to take the changes I have already made to the operating model to the next level. Over the next two months we will set out detailed plans to simplify our processes and de-layer our organisation. This will create a more agile, accountable and effective organisation to deliver our performance ambition. I expect this to deliver cost savings of £200 million a year by the end of fiscal 2017.

We do expect some top line improvement in the second half and our focus across the business on the six key performance drivers means that even though some markets may remain challenging, this business is in good shape for the medium and long term and we remain committed to achieving our performance ambition.”

Key financials:

		2014	2013	Organic growth %	Reported growth %
		H1	H1		
Volume	EUm	84.3	88.4	(3)	(5)
Net sales	£million	5,932	5,975	2	(1)
Marketing spend	£million	903	918	3	(2)
Operating profit before exceptional items	£million	2,060	2,001	3	3
Operating profit	£million	2,040	2,017		1
Profit attributable to parent company's equity shareholders	£million	1,599	1,521		5
Free cash flow	£million	326	708		
Basic eps	pence	63.8	60.8		5
eps pre-exceptional items	pence	62.6	60.2		4
Interim dividend	pence	19.7	18.1		9

Operating profit before exceptional items includes attributable transaction and integration costs of £7 million (2012 – £29 million) in respect of business acquisitions.

The reported tax rate, which includes tax on exceptional items, remained unchanged at 18.2% (2012 – 18.2%). The tax rate before exceptional items for the six months ended 31 December 2013 was 19.4% compared with 18.3% in the six months ended 31 December 2012. In the six months ended 31 December 2013 a higher level of profit in the group's Venezuelan operations impacted the tax charges for the period. Excluding the group's Venezuelan operation, the tax rate before exceptional items was 17.9%.

Organic growth by region:

	Volume %	Net sales %	Marketing spend %	Operating profit %
North America	(2)	5	5	8
Western Europe	(2)	(1)	(2)	(3)
Africa, Eastern Europe and Turkey	(4)	2	8	(4)
Latin America and Caribbean	(2)	8	8	10
Asia Pacific	(4)	(6)	(3)	(4)

Exchange rate
movement

	£million
Net sales	(86)
	(54)

Operating profit
before
exceptional items

The exchange rate movement for net sales and operating profit before exceptional items include the translation of prior year reported results at current year exchange rates. A rate of \$1 = VEF9 has been used in respect of the translation of the current and prior period's reported performance in Venezuela.

In the calculation of organic growth for the six months ended 31 December 2013, the group's Venezuelan operations have been translated at a rate of \$1 = VEF19 (£1 = VEF30.4) to ensure currency controls do not materially distort the group's performance. The rate of \$1 = VEF19 is derived from the consolidation rate of \$1 = VEF9 adjusted by inflation. Applying this method the exchange rate for the year ending 30 June 2014 is expected to be approximately \$1 = VEF26 (£1 = VEF42.4) and our full year guidance, for reported results and for the organic growth calculation is based on this rate.

Using the following rates (£1 = \$1.65 ; £1 = €1.21 ; £1 = VEF42.4), exchange rate movements for the year ending 30 June 2014 are expected to adversely impact operating profit by £280 million and decrease finance charges by £10 million (excluding IAS21 and IAS39).

Update on strategic transactions

On 26 November 2013, Diageo acquired an additional 1.35% equity share (1.97 million shares) in United Spirits Limited (USL) through an on-market purchase on the Bombay Stock Exchange. This purchase brought the aggregate equity stake of USL held by Diageo to 26.37% and followed the closing of the earlier USL transaction announced on 9 November 2012 under which, as previously announced on 4 July 2013, Diageo acquired a shareholding of 25.02% of USL for a total consideration of INR 52 billion (£592 million).

There are currently various proceedings pending in courts in India in relation to the earlier USL transaction. More detailed analysis of these proceedings appears in Note 13 to the Financial Statements.

Definitions

Unless otherwise stated in this announcement:

- volume is in millions of equivalent units (EUm)
- net sales are sales after deducting excise duties
- percentage movements are organic movements
- commentary refers to organic movements
- share refers to value share

See page 35 for additional information for shareholders and an explanation of non-GAAP measures.

BUSINESS REVIEW**For the six months ended 31 December 2013**

North America

Larry Schwartz, President, Diageo North America, commenting on the six months ended 31 December 2013, said:

“Our North American business has delivered a strong set of results in a market where economic recovery has been uneven. Net sales grew 5% with 7ppts of positive price/mix, driven by price increases, favourable mix in US spirits and new innovation launches. Our reserve brands grew 26%, driven by Cîroc, Bulleit, Ketel One vodka and Johnnie Walker which gained a point of share and consolidated its leadership position in the category. Smirnoff’s volume declined as it maintained its price position in an increasingly competitive standard vodka category. Our leadership in innovation continued to be a key driver of growth with a number of current and prior year launches amongst the strongest performers in innovation in the United States. Diageo Canada has been affected by economic slowdown as well as a decline in ready to drink and Baileys. While DGUSA net sales declined 10% as a result of destocking in the pouch segment, Guinness was back in growth as our new marketing campaign reinvigorated the brand. Marketing investment was up 5% and focused on key brands such as Guinness and Johnnie Walker and our reserve brands. We have continued to build on our already strong route to market, covering more retail outlets and increasing dedicated resources. Our strong price/mix drove gross margin expansion and overheads were reduced, resulting in an operating margin expansion of 1.3ppts.”

Key financials £m:

	2013	Acquisitions			2014	Reported
	H1	FX	and	Organic	H1	movement
			disposals	movement		%
Net sales	1,942	(9)	(111)	82	1,904	(2)
Marketing spend	299	(1)	(18)	13	293	(2)
Operating profit before exceptional items	822	-	(31)	60	851	4
Exceptional items	-				(1)	
Operating profit	822				850	3

Key markets and categories:

Organic

The strategic brands**:

Organic

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			Organic	Reported			Organic	Reported					
	volume*		net	net		volume*	net	net					
	%		sales	sales		%	sales	sales					
			%	%			%	%					
North America	(2)	5	(2)	Johnnie Walker	1	13	13				
					Crown Royal	(3)	1	-				
US Spirits & Wines	(1)	6	(1)	Buchanan's	18	19	19				
DGUSA	(8)	(10)	(10)	Smirnoff	(7)	(5)	(5)
Canada	(3)	(1)	(7)	Ketel One vodka	4	7	7			
					Cîroc	16	18	18					
Spirits**	(2)	5	(1)	Captain Morgan	2	3	2				
Beer	(3)	-	(1)	Baileys	(1)	2	1			
Wine	(3)	5	5	Tanqueray	(4)	(3)	(3)		
Ready to drink	(10)	(17)	(30)	Guinness	1	4	3			

* (5)%, spirits (7)% and ready to drink (17)%, reflecting the disposal of Nuvo and the termination of the Jose Cuervo distribution agreement.

** Spirits brands excluding ready to drink.

In **US Spirits & Wines**, which grew net sales 6% with 7ppts of positive price/mix, super and ultra premium segments and new innovation launches fuelled growth. Weaker volume in Smirnoff was the main driver of the 1% volume decline. Good performance from the Smirnoff Sorbet line and the extension of the Confectionary line was not enough to offset a decline in the Smirnoff core variant, whose price premium in an increasingly price competitive segment has impacted volume. Net sales of Johnnie Walker grew 16% on the back of increased marketing investment and the successful launches of new super premium variants such as Johnnie Walker Platinum Label and Johnnie Walker Gold Label Reserve. Crown Royal and Bulleit continued to perform well in the growing North American whiskey category. Crown Royal grew net sales 1% after lapping last year's launch of Crown Royal Maple Finished, Bulleit outperformed the category and grew net sales 59%. Ketel One vodka and Cîroc grew ahead of the vodka category with Ketel One vodka net sales up 7% driven by the new 'Ketel One vodka of substance' campaign and Cîroc up 16% following the successful launch of Cîroc Amaretto. Don Julio continued to perform strongly as net sales grew 25%, and gained share. Buchanan's volume and net sales grew double digit through its continued focus on the Hispanic community. Net sales growth in the second quarter benefitted from the shipment of Captain Morgan white rum ahead of the launch in January.

In **Canada**, net sales were impacted by the weaker economy. Guinness and Cîroc grew while weakness in ready to drink and Baileys led to net sales decline of 1%.

In **DGUSA** net sales were down 10% driven by category decline and destocking in the pouch segment, weakness in Smirnoff Ice, which continued to face competition from innovation in beer, and in Red Stripe. However, Guinness improved its performance and grew net sales 2%, benefitting from increased marketing investment on a new campaign.

Marketing investment was up 5%, largely driven by increases in spend on premium core and reserve brands.

Investment was focused on Johnnie Walker's super and ultra premium variants with the 'Keep walking' campaign aimed at maintaining the brand's relevance for a new generation of consumers, and on Guinness largely driven by the 'Basketball' national television commercial which generated 18 million views on YouTube. We increased media spend on proven campaigns such as the Crown Royal 'Reign on' campaign, 'Luck be a lady' campaign for Cîroc and launched the first Hispanic marketing programme for Captain Morgan, 'Noches del capitán', which contributed to making the brand popular amongst Hispanic male consumers. Marketing investment in our reserve portfolio grew 10% driven by increased commercial activation in Don Julio and support of the launch of Cîroc Amaretto.

Western Europe

John Kennedy, President, Diageo Western Europe, commenting on the six months ended 31 December 2013, said:

“The improvement in performance we delivered in the first quarter has continued through the half as a result of investment in brands and markets and successful innovation. The net sales decline of 1% was largely driven by the tough economic environment in Southern Europe and Ireland, where the beer market continues to decline. Great Britain and France both grew in this half and Germany continues to perform well. We continue to pursue our strategy to invest behind our premium core brands, our innovation agenda and our reserve portfolio. Overall marketing investment declined broadly in line with net sales, we have delivered greater efficiency in marketing spend and increased our media spend especially on Captain Morgan and Tanqueray which were the best performing brands in the region. Our upweighted investment on Cîroc, Johnnie Walker, Zacapa and Talisker has been an important driver of the continued double digit growth of our reserve brands. Innovation was a key contributor to Western Europe's improved performance, as we invested behind recent multi-country launches such as Baileys Chocolat Luxe and Parrot Bay Frozen Pouches, and sustained prior year launches. These results show we have the strategy to capture the growth opportunities in the region.”

Key financials £m:

	2013 H1	FX	Acquisitions and disposals	Organic movement	2014 H1	Reported movement %
Net sales	1,174	38	(21)) (12)) 1,179	-
Marketing spend	176	6	(2)) (3)) 177	1
Operating profit before exceptional items	378	6	(2)) (12)) 370	(2)
Exceptional items	20				-	-
Operating profit	398				370	(7)

Key market and
categories:

The strategic brands**:

	Organic volume* %	Organic net sales %	Reported net sales %		Organic volume* %	Organic net sales %	Reported net sales %
Western Europe	(2)	(1)	-	Johnnie Walker	(1)	(2)	2
				J B	(11)	(14)	(9)
Spirits**	(1)	(1)	1	Smirnoff	(2)	(4)	(2)
Beer	(7)	(4)	-	Captain Morgan			