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Diageo Posts Surprise Sales Gain

Guinness demand lifts the spirits maker, but North America sales fall 9.4% under its new chief executive.

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Diageo said on Wednesday that quarterly organic sales rose 0.3%, beating analysts' expectations, even as weakness in North America continued to weigh on the world's largest spirits maker and its new chief executive, Dave Lewis, moved to confront what he called the company's biggest challenge.

The owner of Johnnie Walker, Guinness and Casamigos had been expected to report a 2.3% decline in organic net sales for the third quarter, according to the Reuters summary of analyst forecasts. Instead, the British company benefited from strong demand for Guinness in Britain and Ireland and from stocking by distributors in Latin America and the Caribbean ahead of the soccer World Cup. Shares in Diageo rose about 5% in early trading in London after the results.

The gains, however, did not offset the pressure in the United States, Diageo's largest market. Sales in North America fell 9.4% in the quarter, underscoring how difficult it has been for the company to regain momentum in a market that has been soft for several quarters. Lewis said the company was already taking steps to improve competitiveness there, including price cuts on some tequila brands such as Casamigos.

Lewis, who took over after years of flat or declining sales and growing frustration among investors, said Diageo had done "fundamental" work to address competitiveness across its business. He is scheduled to present his full strategy in August. The executive has earned a reputation for aggressive cost-cutting from earlier roles at Tesco and Unilever, and he has already moved quickly at Diageo by lowering the company's sales forecast and cutting its interim dividend in February.

Investors have been looking for signs that those moves could stabilize performance in the U.S., where consumer demand for spirits has been under pressure from higher living costs and changing drinking habits. James Edwardes Jones, an analyst at RBC Capital, said the quarter offered some support for Lewis's argument that interventions were beginning to work in parts of the business. But he added that it would be premature to say North America was recovering, given its importance to Diageo.

The company kept its full-year forecasts unchanged. It also said it was watching closely for any effect from the conflict between Israel and Iran on energy prices, supply chains and distribution costs. Finance chief Nik Jhangiani said Diageo could build inventory or speed up shipments if needed to manage disruptions.

The results came as spirits makers continue to face a difficult global backdrop. Demand has softened as consumers cut back amid inflation and as drinking patterns shift, leaving companies like Diageo trying to balance pricing, promotions and brand

investment while protecting margins. For now, the strength of Guinness and early signs of improvement elsewhere have given Lewis a better start than many investors had expected, but the company’s U.S. business remains under close scrutiny.