

Diageo PLC

Valuation & Strategic Considerations

WallSt Jar Jar
January 10, 2024

Executive summary

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Company Walkthrough

- Due to changing customer behaviour after the COVID pandemic, Diageo decided to focus their strategy even more on premiumisation by organically growing their existing luxury brands and acquiring new ones
- The recent challenges have weakened the trust of Diageo's investors in the management team
- Our team believes that maintaining a high CAPEX and Marketing Expenditure will be crucial for Diageo to defend its competitive position
- Diageo will have to maintain its diversity and flexibility in the product portfolio to adapt to the volatile industry

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Industry Walkthrough

- The largest segment in the industry is spirits (39% of revenues), which is Diageo's core product
- Most players in the beverage industry are located in the US
- Trends like premiumisation and "revenge-conviviality" contributed to a good post-pandemic recovery
- Current focus on quality over quantity, taste and sustainability are driving the market

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Valuation Walkthrough

- Diageo is still believed to be undervalued by most analysts, even though the recent declines in target share prices
 - Our projected target share price is **£33.50** for Diageo
- DCF valuation:** Share price of £33.00 in baseline scenario, in £29.36 downside, in £35.61 upside
- Trading Comparables:** EV/EBITDA suggests a share price of ~£40.57, EV/Revenue suggests a share price of ~£33.10
- Precedent Transactions:** EV/EBITDA suggests a share price of ~£41.04, EV/Revenue suggests a share price of ~£47.54

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Corporate Finance Advice

- Many companies come into question as potential targets
- Benefits will be diversification and strengthening of current position
- Recommended targets are Rémy Cointreau, Constellation Brands and Fevertree
 - Rémy Cointreau seems to be the most suitable company, solidifying Diageo's luxury brands and expanding its geographical presence. This would be a good strategic fit
 - Fevertree would represent a diversification for Diageo, building up its soft drinks sector whilst keeping its position as a premium brand

Section 1

Company Walkthrough

General Overview

Financial Overview

Business Model

Company – General Overview

Company Highlights

- **History:** Founded in 1979 through the merger of Grand Metropolitan (est. 1934) and Guinness (est. 1759)
- **Valuation:** Stock performance staggered by scepticism about the management team, misalignment of demand expectations and struggles to adjust to new customer behaviour post-covid
- **Strategy:** Diageo takes advantage of its widely diversified portfolio – both in terms of product offerings and geography - by constantly growing it through M&A activity and recently focusing on the premium category
- **Brand:** Well-known brands in 1) Spirits: Johnnie Walker, Smirnoff, Tanqueray 2) Beer: Guinness and 3) Ready-to-drink brands
- **Major Corporate Finance Transactions:**
2017: Acquires Casamigos, a celebrity tequila brand
2020: Acquires Aviation Gin, a celebrity gin brand
2023: Acquires Don Papa, a luxurious rum brand
- **Operations:** Diageo has presence in more than 180 countries, distributing over 200 brands, with distribution centres and a sizeable sales team all over the world, which allows it to get above-market average operational margins

Management Team and Board of Directors

Key Management



Debra Crew, Chief Executive Officer

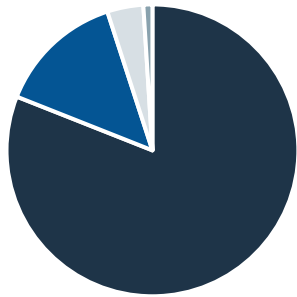
In April 2019, she was appointed as a non-executive director of the Diageo board and became president of Diageo North America. In July 2023, she was appointed as the CEO of the company after Ivan Menezes retired due to health reasons.

Board of Directors

Javier Ferrán, Chairman
Susan Kilsby, Chairman
Karen Blackett, Director
Sir John Manzoni, Director
Ireana Vittal, Director

Lavanya Chandrashekar, CFO
Melissa Bethell, Director
Alan Stewart, Director
Tom Shopshire, Counsel
Valérie Chapoulaud-Floquet, Director

Revenue Share by Product Categories



- Spirits
- Beer
- Ready to Drink

Spirits: 81%

Spirits are the main driver of revenues, however post the covid outbreak Diageo struggled to find the right product focus



Beer: 14%

Main value drivers

The Guinness brand is part of the Diageo heritage, however some analysts circulated the idea of disinvesting from the other brands due to low ROI.



Ready to Drink: 4%

Diageo aims to capitalise on the trend of making cocktails at home during Covid by RTD products



Other: 1%

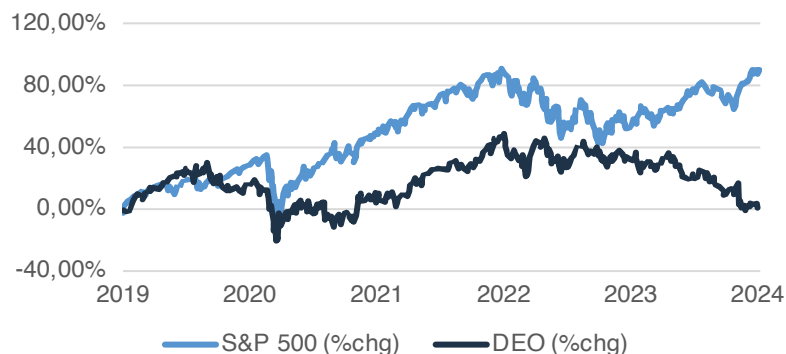
Wine and non-alcoholic drinks, not relevant revenue drivers



Tanqueray 0.0%
Justerini & Brooks

Company – Financial Overview

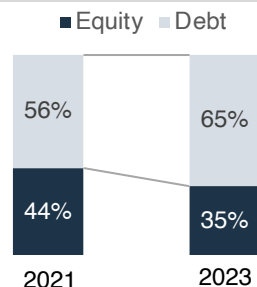
Share Performance



Valuation Statistics (£mm)

Market Cap	61,887
Enterprise Value	78,073
P/E	17.7x
EV/EBITDA	17.4x
EBITDA margin	35%
Debt/EBITDA	2.7x
Dividend yield	2.3%

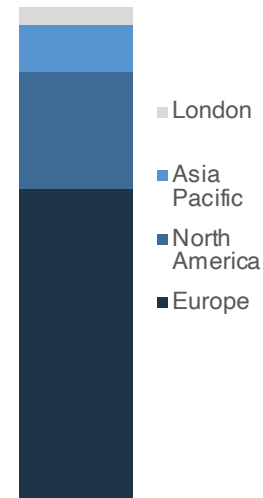
Capital structure



Capital Structure (mm)

Rank	Shareholder Name	Nationality	2023
1	BlackRock	UK	231
2	Capital Research	US	125
3	MFS Investment	US	113
4	Vanguard Group	US	76
5	Norges Bank	EU	56
6	Lindsell Ltd.	UK	37
7	Cascade Investment	US	37
8	GIC Ltd.	Asia	30
9	Wellington Mgmt.	US	29
10	Fundsmith	UK	25

By Region



Even though US investors dominate the list of the top 10 owners, nearly 65% of the investors are from Europe, and most of them are institutional investors

Revenue and EBITDA Forecast (£mm)

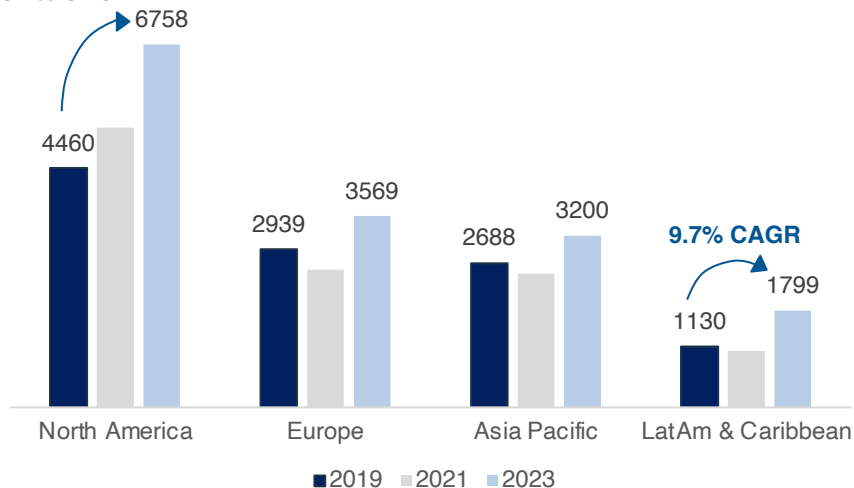
	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Revenues	12,733	15,452	17,133	17,351	18,294	19,350	20,377	21,378
Revenue Growth Rate	8.3%	21.4%	10.7%	1.4%	5.4%	5.8%	5.3%	4.9%
EBITDA	4,526	5,637	6,396	6,091	6,578	6,913	7,433	7,736
EBITDA Margin	35.3%	36.5%	35.4%	35.0%	35.9%	35.6%	36.4%	36.1%

Company – Business Model

Diageo Sales by Region (£mm)

Total and Segmented Revenues

8.7% CAGR



Trend drivers

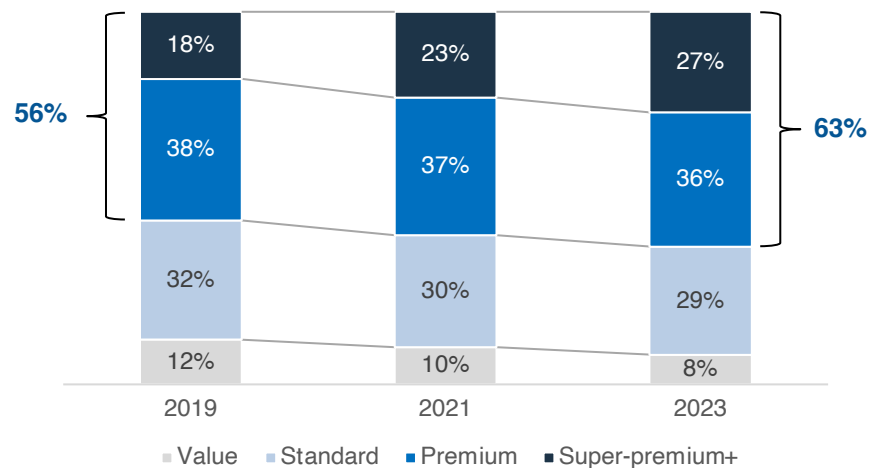
- Diageo is struggling to keep up its market shares in spirits in North America, due to increasing competition and changing customer behaviors
- In LatAm Diageo has overestimated the customer demand, which has decreased due to the company's focus on luxury products and overstocked their inventories

Impact on Strategy

- Diageo will have to decide which market to focus on and how while making sure they align sales forecasts with real product take-off
- Diageo needs to stand out from the competition to regain their market stability, which can be done through M&A activity
- LatAm needs to be restocked and the regional strategy needs to be revised

Diageo Sales by Price Tier

Shift towards premium and better quality lines to account for changing consumer taste



Trend Drivers

- After the Covid-19 pandemic, consumers' willingness to spend on better quality spirits are increasing, even though they consume less
- The middle class is growing – especially in emerging markets, thus increasing the customer base that can afford the premium and above quality products

Impact on Strategy

- Focus on M&A activity to widen the premium+ portfolio (Don Papa, Casamigos, etc.)
- Premium+ brands accounted for 57% of organic net sales growth in 2023
- Diageo still aims to maintain a well-diversified portfolio to be ready to adapt to ever-changing consumer trends and seize new opportunities

Section 2

Industry Walkthrough

Industry Overview

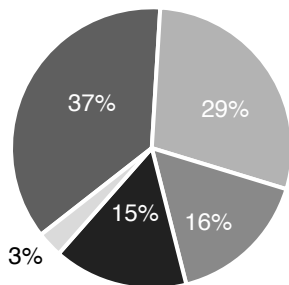
Industry Trends

Industry - Overview

Industry Characteristics

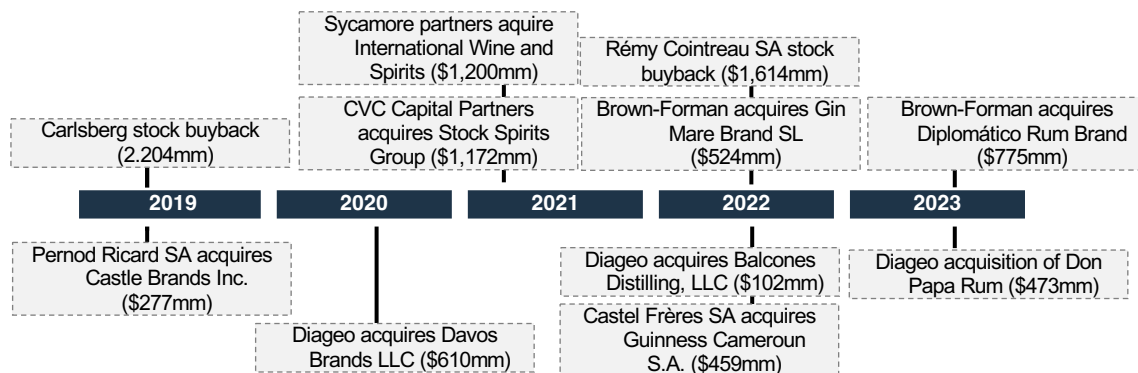
EV/EBITDA	17.0x
EV/Revenue	6.1x
Price/Earnings	24.6x
Total Debt/EBITDA	2.7x
EBITDA Margin	15.1%
EBITDA/Interest Expense	5.4x

Revenue Per Segment



- Spirits
- Beer
- Cider, Perry & Rice Wine
- Wine
- Hard Seltzer

Corporate Finance Activity



Competitive Landscape

	DIAGEO	MOLSON COORS <small>St. Lawrence company</small>	Carlsberg	Pernod Ricard	BROWN-FORMAN	REMY COINTREAU	CAMPARI <small>GRUPPO</small>	Constellation Brands
Primary Region	North-America	US	Western Europe	Worldwide	US	Americas	Americas	US
Performance	- Revenue: 17bn; - Net: 3.73 bn	- Revenue: 11,541bn; - Net: 255mm	- Revenue: 10,503.4bn; - Net: 1,115.1mm	- Revenue: 12.14bn; - Net: 2.26bn	- Revenue: 4,272mm; - Net: 780mm	- Revenue: 1,549mm; - Net: 294mm	- Revenue: 2,899mm; - Net: 351mm	- Revenue: 9,786mm; - Net: 1,517mm
Core sector	Spirits, beer, wine	Beers, craft beers, ciders	Beers, Craft, Beers, Ciders	Spirits, Champagne, Wine	Whiskey, Tequila, Vodka, Liqueurs	Cognac, Liqueurs, Spirits	Wine, Spirits	Beer, Wine, Spirits

Industry - Trends

Macroeconomic View

- Weak economy in 2024
- Consumption, high employment, and robust sector activities drove growth
- Inflationary pressure
- Restrictive monetary policies affecting consumer spending
- Monetary policies expected to loosen in 2024

Previous Trends

- Decline in sales during challenging COVID-period
- Quick growth of e-commerce during COVID, but the proportion stayed low, accounting for only 4% of total sales in 2022
- The post-pandemic « revenge-conviviality » facilitated a recovery, with global drinks volumes approaching the pre-pandemic level
- Thanks to accumulated savings, the sales volume of alcoholic drinks stayed resilient until late 2022
- Considering the macroeconomic landscape, a deceleration in premiumisation rates is anticipated
- Nevertheless, long-term habits are stable, with customers prioritising quality over quantity

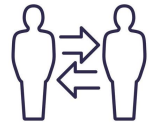


Less but better

Premiumisation is still in the foreground
Customers are in search of high-quality drinks and experience

Generational Change

New focus on health and well-being
Shift to low calories and non-alcoholic alternatives



Taste

Focus on taste and complexity of the product
Shift on change and discovery

Sustainability

Increasing popularity of local products
Customers pay detailed attention to provenance

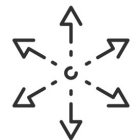


Ready-to-drink Cocktails

RTD is the largest-growing alcohol segment
Main entry point for soft drink companies

Diversification

Top 10 players represent over half the volume
Some companies aim for diversification



Section 3

Valuation Walkthrough

Discounted Cash Flow Analysis

Trading Comparables Overview

Precedent Transaction Valuation

Valuation Summary – Football Field

Discounted Cash Flow Analysis

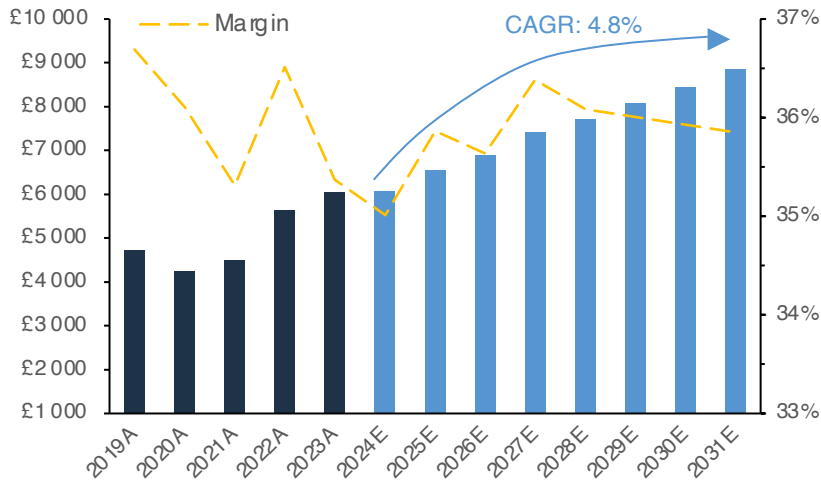
Valuation Scenarios	Upside	Baseline	Downside ¹
Revenue CAGR	6.2%	4.7%	3.0%
EBITDA CAGR	6.6%	4.8%	3.2%
Enterprise Value	£97,435 mm	£91,506 mm	£83,236 mm
Share price	£35.61	£33.00	£29.36

WACC Assumptions
Risk-free Rate: 4.0%
Market Premium: 7.5%
Beta: 0.58
CAPM Cost of Equity: 8.4%
After-tax Cost of Debt: 3.2%
WACC: 6.8%

- ### Revenue Drivers
- Increasing customer **willingness to spend**
 - Diversity of portfolio** in terms of product lines and geography balances the volatility of the spirit market in certain geographies
 - The great amount of intangible assets owned by Diageo creates a pricing power, in turn increasing profit margins

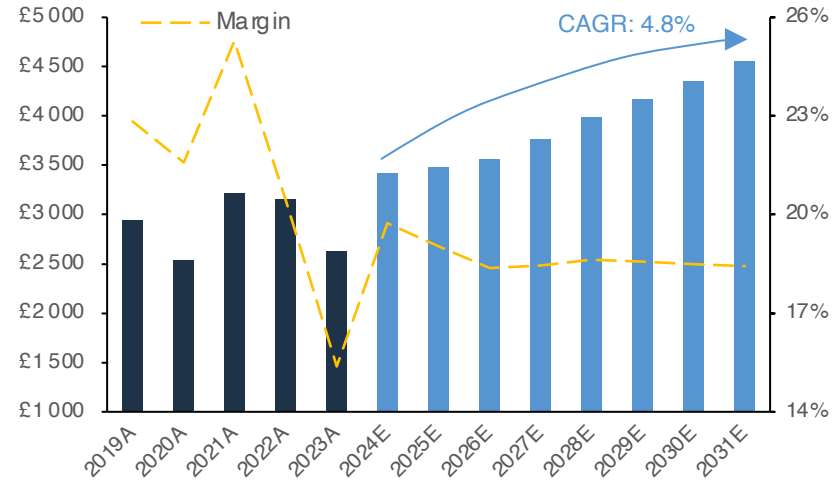
- ### Expense Drivers
- Inaccurate demand expectations create **inventory expenses** and hinder growth rates
 - Higher **marketing expenses** due to increasing competition and decreasing market share
 - High **CAPEX expenses** due to the need to expand geographically and via product portfolio

Baseline DCF – Adjusted EBITDA Forecast (£mm)



¹Adjusted exit EBITDA assumption to 11.0x

Baseline DCF – Free Cash Flow Forecast (£mm)



Trading Comparables Overview

Sub-Industry	EV/Revenue	EV/EBITDA	Selected Peer Group
Wines & Spirits	4.1x	13.2x	▪ Pernod Ricard SA
	6.6x	19.5x	▪ Brown-Foman Corporation
	4.2x	16.9x	▪ Davide Campari-Milano N.V.
	4.7x	20.5x	▪ Emperador Inc.
Beer	2.5x	7.9x	▪ Ambev S.A.
Mixed Offering	-	-	▪ n.a.
Other	-	-	▪ n.a.
Average	4.4x	15.6x	-
Diageo	4.8x	14.3x	-

EV/Revenue

Revenue Multiple 4.4x

Share Price: 33.10 GBP

EV/EBITDA









EBITDA Multiple: 15.6x

Share Price: 40.57 GBP

Key Takeaway

Based on our trading comparables valuation and the current share price of 28.25 GBP, we find that Diageo is undervalued for both the EV/Revenue and EV/EBITDA multiples.

Precedent Transaction Valuation

Date	Target	Acquirer	EV/Revenue	EV/EBITDA
29 Nov 2021			2.7x	13.9x
1 Oct 2021	International Wine and Spirits Ltd.		2x	n.a.
30 Apr 2018			7.6x	n.a.
10 Oct 2016			7.7x	19x
30 Apr 2014			6.1x	19.8x

Average

5.2x

16.8x

Diageo

4.8x

14.3x

EV/Revenue

Revenue Multiple 5.2x

EV/EBITDA

EBITDA Multiple: 16.8x

Share Price: 47.54 GBP

Share Price: 41.04 GBP

Key Takeaways

- The average EV/EBITDA multiple of all transactions is 5.4x, and the range is 2x – 14x
- The average EV/Revenue multiple of all transactions is 17.4x, and the range is 9.9x – 40.3x
- Taking previous transactions, we see that Diageo is still undervalued

Valuation Summary – Football Field

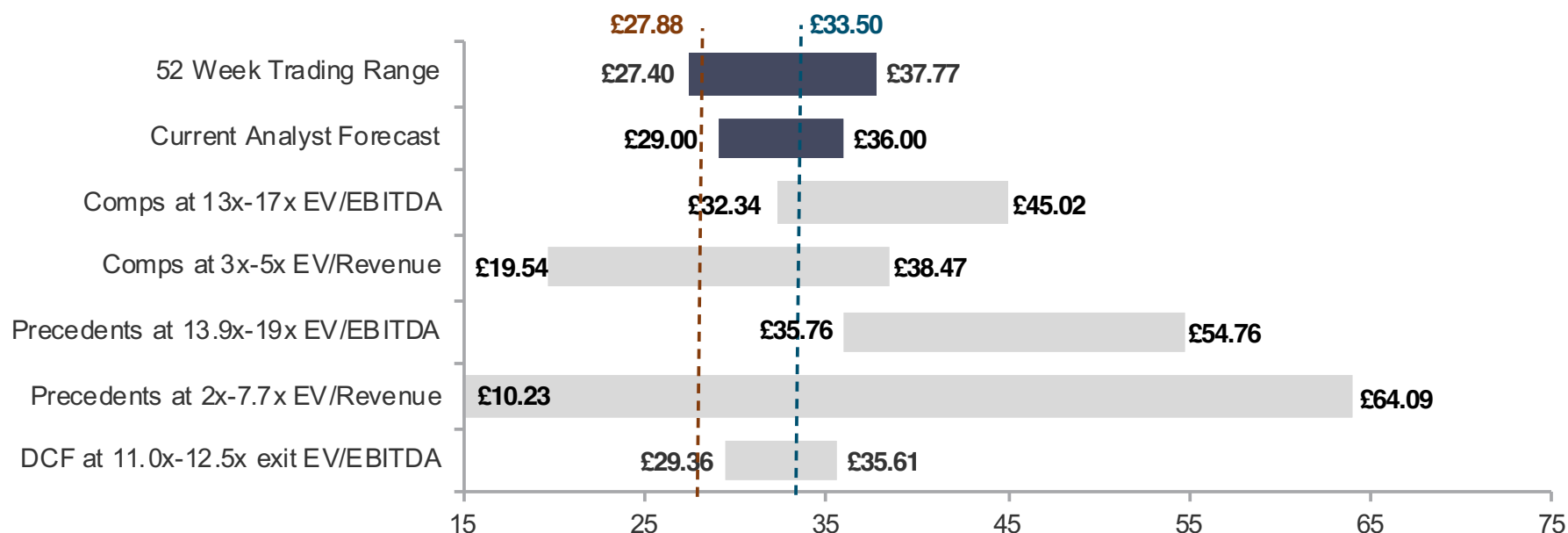
According to the combination of the valuation methodologies presented the company is undervalued; the valuation implies a target share price of £33.50, 18% above the current market share price

Current Share Price: £27.88

Target Share Price: £33.50

Analyst Target Price: £31.70

- Diageo's share price has taken a huge hit after the announcement of the problems in LatAm, staggering investor sentiment
- Even though analysts have lowered their valuation as well, most of them still believe that the company is undervalued



Section 4

Corporate Finance Advice

Potential Public M&A Targets

In-depth M&A Overview - Rémy Cointreau

In-depth M&A Overview – Constellation Brands








In-depth M&A Overview – Fevertree

M&A Target Summary

Potential Public M&A Targets

Strategic review & recommendations

Debra Crew, CEO of Diageo, wrote that she will focus on continuing to gain market share through premiumization and active portfolio management.

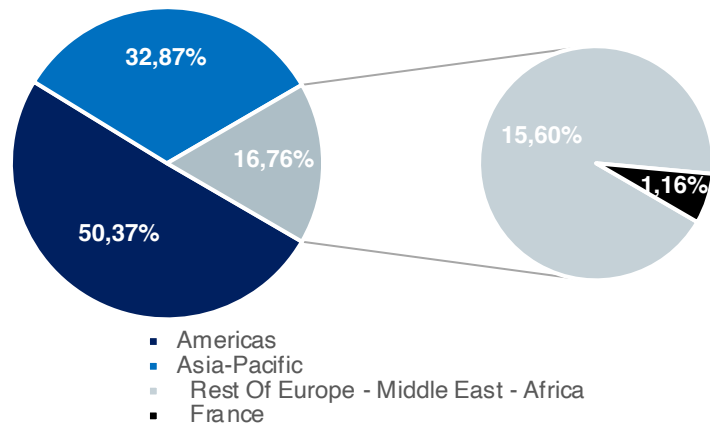
Acquirer & Targets	Profitability & estimates(2024E)	Business Overview	Acquisition Considerations
	Diageo Mkt Cap: \$96.5bn Net Debt: \$19.5bn	Revenue: \$20.9bn EBITDA: \$7.1bn	<ul style="list-style-type: none"> a global leader in alcoholic beverages with an outstanding collection of brands across spirits and beer, including Johnnie Walker, Guinness, and Smirnoff.
	Pernod Ricard Mkt Cap: \$56.4bn Net Debt: \$11.2bn	Revenue: \$13.4bn EBITDA: \$4.1bn	<ul style="list-style-type: none"> a French company that owns a comprehensive portfolio of distilled beverages, wines, and spirits, including notable brands like Absolut vodka and Jameson Irish whiskey. portfolio diversification
	Heineken Mkt Cap: \$54.2bn Net Debt: \$14.6bn	Revenue: \$33.1bn EBITDA: \$7bn	<ul style="list-style-type: none"> one of the world's leading brewers, with a wide-ranging portfolio of beer and cider brands, most famously its Heineken lager. portfolio diversification
	Brown-Forman Mkt Cap: \$31.3bn Net Debt: \$2.5bn	Revenue: \$4.4bn EBITDA: \$1.4bn	<ul style="list-style-type: none"> one of the largest spirits and wine businesses globally, with flagship brands such as Jack Daniel's Tennessee Whiskey. premium brand positioning
	Rémy Cointreau Mkt Cap: \$9.2bn Net Debt: \$0.5bn	Revenue: \$1.4bn EBITDA: \$0.4bn	<ul style="list-style-type: none"> a French spirits group known for its range of premium alcoholic beverages, including Rémy Martin Cognac and Cointreau liqueur. premium brand positioning
	Constellation Brands Mkt Cap: \$41.3bn Net Debt: \$12.3bn	Revenue: \$9.9bn EBITDA: \$3.7bn	<ul style="list-style-type: none"> a leading international producer and marketer of beer, wine, and spirits with a diverse portfolio including Corona beer and Robert Mondavi wines. portfolio diversification
	Fever-Tree Mkt Cap: \$1.5bn Net Debt: \$-0.1bn	Revenue: \$490.9mn EBITDA: \$41.7mn	<ul style="list-style-type: none"> a British producer of premium drink mixers, widely recognized for its high-quality tonic waters and other carbonated mixers. premium brand positioning

In-depth M&A Overview - Rémy Cointreau

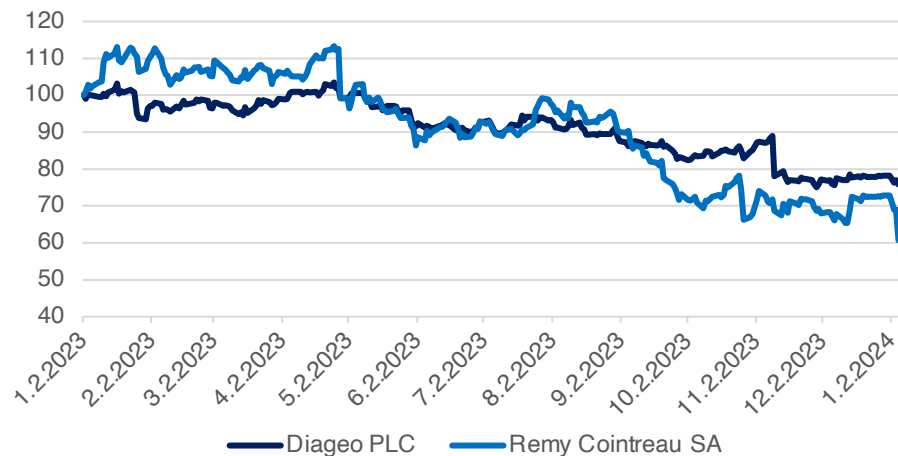
Company Highlights

- **History:** Rémy Cointreau SA was founded in 1724 and is headquartered in Cognac, France. Initial public offering (IPO) on the Paris Stock Exchange on January 2, 1991.
- **Operations:** Rémy Cointreau SA engages in the production, sale, and distribution of liqueurs and spirits. It offers liqueurs, brandy, gin, single malt whisky, rum, wine, and champagne primarily under various household brands. The company operates in Europe, the Middle East, Africa, the Americas, Asia, Australia, and New Zealand.
- **Major Corporate Finance Transactions:**
 - Disposal of Champagne de Telmont (2022)
 - Disposal of Passoã SAS (2022)
 - Acquisition of Champagne de Telmont (2020)

Revenue Geographical Segment Mix

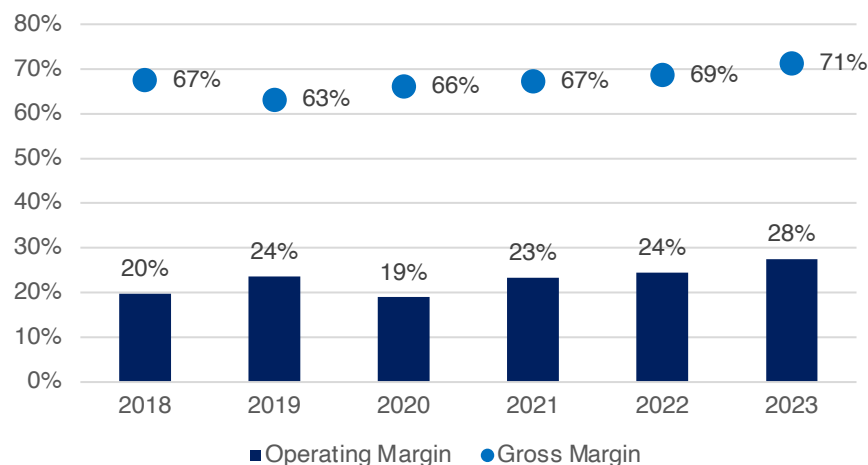


Relative Share Price Performance



Rémy Cointreau Margin Expansion

The operating and gross margins have been growing steadily

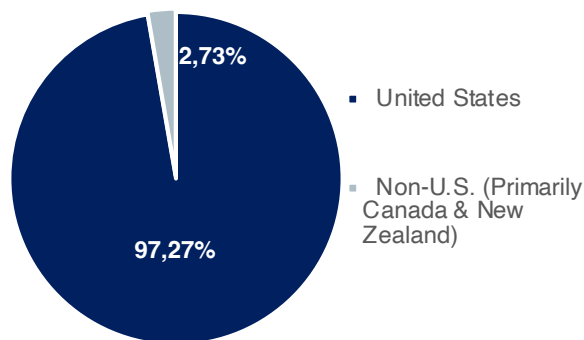


In-depth M&A Overview - Constellation Brands Inc.

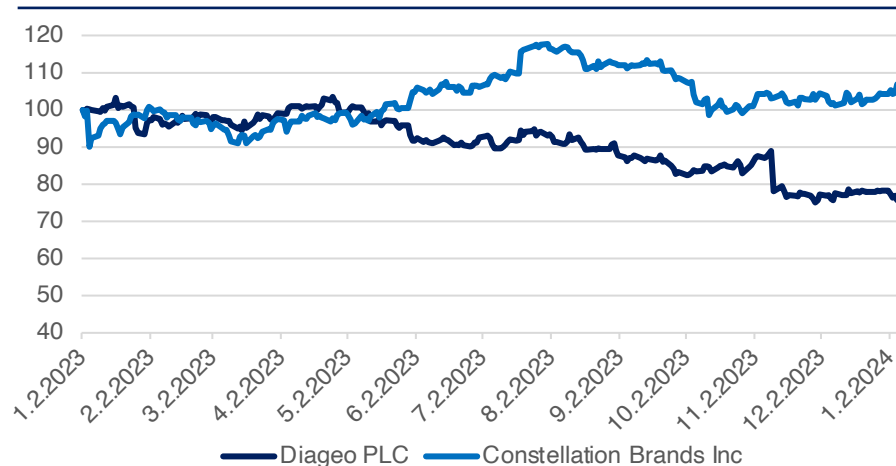
Company Highlights

- **History:** Constellation Brands Inc. was founded in 1945 and is headquartered in Victor, New York. Initial public offering in 2006.
- **Operations:** Constellation Brands produces, imports, markets, and sells beer, wine, and spirits including brands Corona Extra, Corona Premier, Corona Familiar, Corona Light, and more. The company operates in the United States, Canada, Mexico, New Zealand, and Italy
- **Major Corporate Finance Transactions:**
 - Acquires Domaine Curry Wine (2023)
 - Acquires Tost Beverages (2023)
 - Stock Buyback (2021)

Revenue Geographical Segment Mix

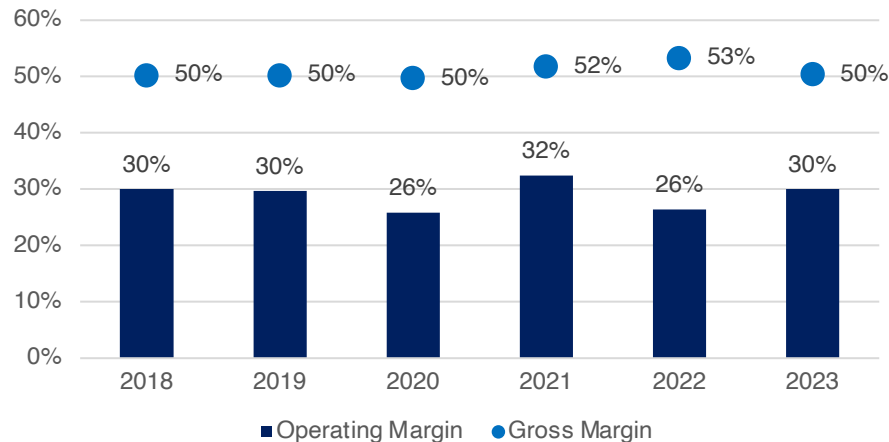


Relative change in share price



Constellation Brands Margin Expansion

The operating and gross margins have been fluctuating around 30% and 50% respectively in the past six fiscal years.

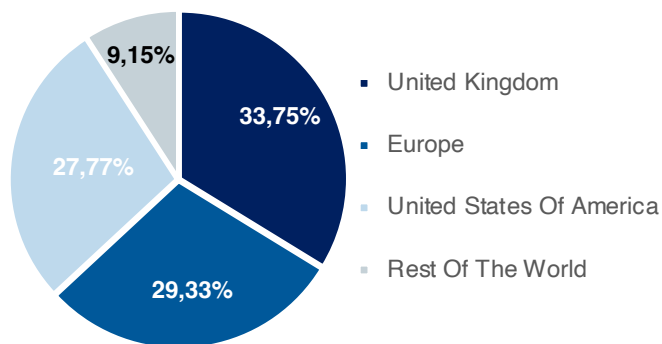


In-depth M&A Overview - Fevertree Drinks PLC

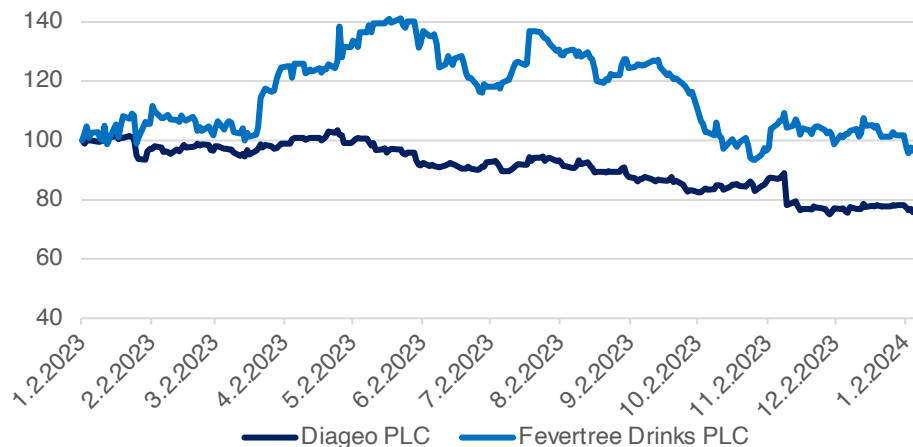
Company Highlights

- **History:** Founded in 2004 by Charles Rolls and Tim Warrillow, Fevertree Drinks PLC is headquartered in the UK and listed on the AIM market of the London Stock Exchange since November 2014.
- **Operations:** Fevertree is a premium mixer company that provides a variety of carbonated mixers, including tonic waters, ginger ales, and lemonades, to over 70 countries internationally, emphasizing quality ingredients and catering to the high-end spirits market.
- **Major Corporate Finance Transactions:**
 - Acquires Powell & Mahoney, Ltd. (2022)
 - Acquires Global Drinks Partnership (2020)

Revenue Geographical Segment Mix

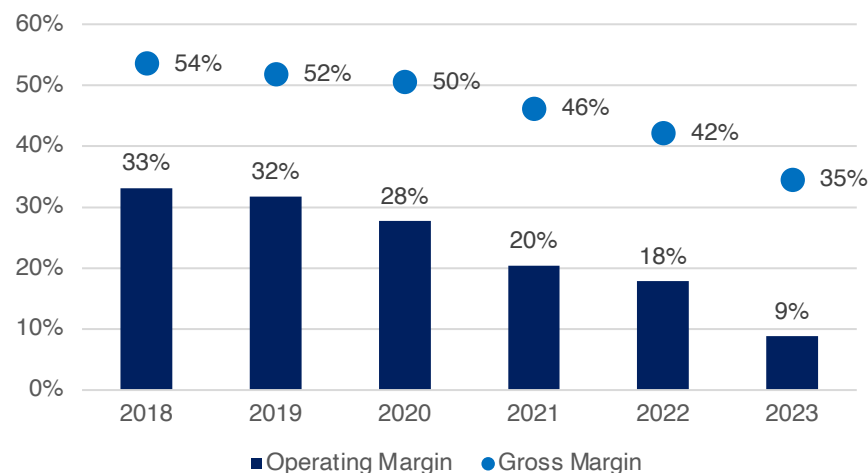


Relative change in share price



Fever-Tree Margin Expansion




The operating and gross margins have decreased drastically



Potential M&A Targets Summary

Strategic review & recommendations

M&A Overview Scorecard

	Global expansion	Premiumization	Product Diversification	Strategic fit	Comments
1  RÉMY COINTREAU	●	●	◐	●	<ul style="list-style-type: none"> • expertise in the cognac category highly regarded in Asia could provide Diageo with a stronger foothold • represents the epitome of premiumization, could enhance Diageo's existing luxury range.
2  Constellation Brands	◐	◐	●	◐	<ul style="list-style-type: none"> • provides the most product diversification due to its significant beer and wine business • spirits portfolio is not as extensive or premium-focused • broad focus might not align perfectly with Diageo's strategy of premiumization in the spirits sector
3  FEVER-TREE	●	●	◐	●	<ul style="list-style-type: none"> • offers diversification within the mixers market, complementary to Diageo's business • synonymous with premium quality, which could support Diageo's existing premium spirits globally

While all three companies have attributes that could benefit Diageo, Rémy Cointreau and Fever-Tree appear to align more closely with Diageo's strategy of premiumization and portfolio management. Fever-Tree stands out for global expansion potential in the mixers category, which directly complements Diageo's premium spirits. Rémy Cointreau offers strong strategic fit in terms of premium products and could enhance Diageo's position in key global markets, especially within the luxury segment.

Appendix - DCF Summary (1/3)

DCF Summary - Operating Cashflows

	2019	2020	2021	2022	2023	Cashflow Forecast							
						2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
<i>* All amounts in millions of pounds sterling except per share and multiples</i>													
North America Net Sales	4 460	4 623	5 209	6 095	6 758	6 859	7 134	7 455	7 753	7 986	8 225	8 472	8 726
Europe Net Sales	2 939	2 567	2 558	3 212	3 569	3 747	3 897	4 053	4 195	4 342	4 494	4 651	4 814
Africa Net Sales	1 597	1 346	1 412	1 682	1 699	1 665	1 765	1 888	2 021	2 162	2 313	2 475	2 649
LatAm and Caribbean Net Sales	1 130	908	1 046	1 525	1 799	1 565	1 706	1 842	1 971	2 100	2 226	2 359	2 501
Asia Pacific Net Sales	2 688	2 270	2 488	2 884	3 200	3 424	3 698	4 012	4 333	4 680	5 054	5 459	5 895
Corporate Net Sales	53	38	20	54	88	90	94	99	104	109	115	120	126
Total Net Sales	12 867	11 752	12 733	15 452	17 113	17 351	18 294	19 350	20 377	21 378	22 427	23 536	24 711
Net Sales Growth		(8,7%)	8,3%	21,4%	10,7%	1,4%	5,4%	5,8%	5,3%	4,9%	4,9%	4,9%	5,0%
Cost of Sales	(4 866)	(4 654)	(5 038)	(5 973)	(6 899)	(7 027)	(7 318)	(7 643)	(7 947)	(8 337)	(8 746)	(9 179)	(9 637)
Total Cost of Sales	(4 866)	(4 654)	(5 038)	(5 973)	(6 899)	(7 027)	(7 318)	(7 643)	(7 947)	(8 337)	(8 746)	(9 179)	(9 637)
Marketing	(2 042)	(1 841)	(2 163)	(2 721)	(3 051)	(3 123)	(3 293)	(3 483)	(3 668)	(3 848)	(4 037)	(4 237)	(4 448)
Other Operating Items	(1 917)	(3 120)	(1 801)	(2 349)	(2 531)	(2 429)	(2 561)	(2 903)	(3 057)	(3 207)	(3 364)	(3 530)	(3 707)
Total Operating Expense	(3 959)	(4 961)	(3 964)	(5 070)	(5 582)	(5 552)	(5 854)	(6 386)	(6 725)	(7 055)	(7 401)	(7 767)	(8 155)
EBITDA	4 872	4 235	4 526	5 637	6 396	6 091	6 483	6 895	7 433	7 762	8 125	8 508	8 914
Lease Interest	(7)	(15)	(16)	(12)	(15)	(17)	(17)	(17)	(19)	(21)	(23)	(24)	(25)
Non-operating items	(144)	23	(14)	17	(328)	-	-	-	-	-	-	-	-
Adjusted EBITDA	4 721	4 243	4 496	5 642	6 053	6 075	6 466	6 877	7 413	7 741	8 102	8 484	8 889
EBITDA margin	36,7%	36,1%	35,3%	36,5%	35,4%	35,0%	35,3%	35,5%	36,4%	36,2%	36,1%	36,0%	36,0%
EBITDA growth		(10,1%)	6,0%	25,5%	7,3%	0,4%	6,4%	6,4%	7,8%	4,4%	4,7%	4,7%	4,8%

Appendix - DCF Summary (2/3)

DCF Summary - Financing Cashflows

* All amounts in millions of pounds sterling except per share and multiples	2019	2020	2021	2022	2023	Cashflow Forecast							
						2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Adjusted EBITDA	4 721	4 243	4 496	5 642	6 053	6 075	6 561	6 896	7 414	7 715	8 075	8 456	8 859
Other cashflow from operation adjustments	(194)	(386)	30	(251)	(99)	(134)	(134)	(134)	(132)	(130)	(128)	(127)	(126)
Provision for income taxes	(805)	(901)	(852)	(949)	(1 201)	(1 109)	(1 167)	(1 223)	(1 331)	(1 395)	(1 467)	(1 540)	(1 611)
Working capital and other adjustments	(222)	(328)	331	(179)	(1 175)	(120)	(311)	(323)	(335)	(297)	(311)	(330)	(349)
Capital Expenditure	(270)	(805)	(1 091)	(1 341)	(1 197)	(1 301)	(1 482)	(1 683)	(1 895)	(1 945)	(2 041)	(2 142)	(2 249)
Free Cashflows / Cashflows for Debt Service	3 230	1 823	2 914	2 922	2 381	3 410	3 467	3 532	3 721	3 948	4 127	4 317	4 525
Net Finance Income (Charges)	(252)	(308)	(351)	(328)	(554)	(520)	(525)	(485)	(413)	(421)	(407)	(407)	(433)
Issuance (repayment) of debt	2 319	4 083	(969)	821	948	1 145	1 007	(87)	841	243	12	946	982
Other	(896)	(173)	(119)	(81)	(243)	(97)	(97)	(97)	(97)	(97)	(97)	(97)	(97)
Cashflow Available for Equity Distributions	4 401	5 425	1 475	3 334	2 532	3 938	3 852	2 863	4 051	3 673	3 635	4 759	4 976
Equity issuance / repurchase	(2 724)	(1 227)	(60)	(2 281)	(1 352)	(1 926)	(1 416)	(988)	(1 502)	(1 349)	(1 454)	(1 860)	(1 952)
Dividends (incl. distributions of cash balance)	(1 623)	(1 646)	(1 646)	(1 718)	(1 761)	(1 926)	(2 124)	(1 482)	(2 253)	(2 023)	(2 181)	(2 791)	(2 927)
Net Cashflows	54	2 552	(231)	(665)	(581)	86	313	393	297	301	(0)	108	97
Ending Cash Balance	932	3 323	2 749	2 285	1 439	1 536	1 847	2 246	2 552	2 861	2 869	2 977	3 077
Ending Debt Balance	12 555	16 785	14 727	16 020	16 502	17 630	18 585	18 448	19 235	19 450	19 433	20 340	21 284
Ending Net Debt Balance	11 623	13 462	11 978	13 735	15 063	16 094	16 738	16 202	16 683	16 590	16 565	17 363	18 206
Interest Expense	-	(525)	(465)	(475)	(756)	(727)	(739)	(724)	(684)	(714)	(723)	(723)	(757)
<i>Net Debt to EBITDA</i>	2,5 x	3,2 x	2,7 x	2,4 x	2,5 x	2,6 x	2,6 x	2,3 x	2,3 x	2,2 x	2,1 x	2,1 x	2,1 x
<i>Adjusted EBITDA / Interest Expense</i>	-	8,1 x	9,7 x	11,9 x	8,0 x	8,4 x	8,9 x	9,5 x	10,8 x	10,8 x	11,2 x	11,7 x	11,7 x
<i>Diluted shares outstanding (millions)</i>	2 428	2 354	2 345	2 325	2 271	2 278	2 285	2 292	2 299	2 306	2 313	2 320	2 327
<i>Diluted adjusted earnings (loss) per share attributable to parent company</i>	£ 1,30	£ 0,60	£ 1,13	£ 1,40	£ 1,64	£ 1,53	£ 1,65	£ 1,72	£ 1,87	£ 1,95	£ 2,05	£ 2,14	£ 2,23

Appendix - DCF Summary (3/3)

DCF Summary - Valuation Results

* All amounts in millions of pounds sterling except per share and multiples	2019	2020	2021	2022	2023	Cashflow Forecast							
						2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net Sales						17 351	18 294	19 350	20 377	21 378	22 427	23 536	24 711
Adjusted EBIT						5 125	5 476	5 674	6 056	6 335	6 627	6 936	7 264
Add: Depreciation, amortization & impairment						950	1 086	1 222	1 357	1 380	1 448	1 519	1 595
Less: Tax (EBIT * Tax Rate)						(1 230)	(1 287)	(1 333)	(1 423)	(1 489)	(1 557)	(1 630)	(1 707)
Less: Capital Expenditures including funded by share issuance						(1 301)	(1 482)	(1 683)	(1 895)	(1 945)	(2 041)	(2 142)	(2 249)
Change in working capital and other (cashflow statement)						(120)	(311)	(323)	(335)	(297)	(311)	(330)	(349)
Free cash flows to the firm for valuation (FCFF)						3 424	3 482	3 556	3 760	3 983	4 165	4 354	4 555

Enterprise Value Multiple Method

EBITDA Multiple	12,5x
Terminal Year EBITDA	8 859
Terminal Value	110 739
Present Value of Terminal Value	67 561
Present Value of Forecast FCF	23 945
Enterprise Value	91 506
Less: Net Debt	15 577
Less: Unfunded Pension Liabilities (After-Tax)	960
Less: Non-controlling Interest	32
Add: Fair Market Value of associates and joint ventures	-
Equity Value (Market Cap)	74 937
Shares Outstanding	2 271
Fair Value Share Price (GBP)	33,00
Fair Value Share Price (USD)	41,25

WACC Assumptions

Valuation date	31.Dec.23
Benchmark rate	4,0%
Expected market return	11,5%
Market risk premium	7,5%
Beta	0,58
CAPM Cost of Equity	8,4%
Cost of debt	4,2%
Tax rate	23,5%
After Tax Cost of Debt	3,2%
Target gearing	30,0%
WACC	6,8%





Appendix - DCF Assumptions

Operating Assumptions		
Key Metrics	CAGR/Avg	Explanation
Total Net Sales (CAGR)	4,7%	Slowed down by 1, struggles in geographical uniquenesses 2, changing customer behaviors 3, Expected to stabilize on lower rate than past growth. However
Adjusted EBITDA Margin (Average)	35,9%	Recently Diageo has not been able to maintain higher margins experienced in the past, but due to the restabilization of focus in product portfolio and geographical focus, it is expected to reach past levels
Total EBITDA (CAGR)	4,8%	EBITDA is expected to grow larger than net sales, as there were inefficiencies in terms of operations (inventory mgmt) and focus on right customer segmentations and by solving these Diageo can reach past margins
Total EBITDA Margin (Average)	35,9%	Identical to adjusted EBITDA margin, as the amount of lease interest and non-operating items is not detrimental
Capex (% of revenue) (Average)	8,8%	Diageo needs to maintain a high level of CAPEX, as there is an increasing level of competition from the market and many customers are shifting to either non-alcoholic, premium or other more focused categories, where the position of Diageo is not as stable

Valuation Assumptions		
Key Metrics	Key Metric	Explanation
Beta	0,58	Average taken based on analyst sentiments
Risk-free rate	4,0%	10-year maturity treasury rate
Cost of debt (pre-tax)	4,2%	Based on the cost of debt for comparable competitors and on the division of the interest paid by Diageo and its total debt.
Exit EBITDA Multiple	12,5x	Even though the current multiple is higher, based on the multiples of comparable firms and the forecast of Diageo, a lower EBITDA multiple was used for the calculation of WACC

Team Profile

Introduction to Wall Street Jar Jar

Team Member	Education	Key Experiences	Individual Bio
 <p>Zhang, Yaou</p> <p>Yaou.zhang@insead.edu Fontainebleau, France</p>	<p>INSEAD, Master in Management</p> <p>SISU, BSc Finance</p>	<ul style="list-style-type: none">• Morgan Stanley, equity research analyst intern• Deloitte Monitor, consulting project intern• PwC, assurance intern• CITIC Bank, IBD summer analyst	<p>Yaou is currently a Master in Management student at INSEAD, with previous work experience including equity research, market research, assurance practice and biotech start-up. In her spare time, she enjoys traveling, cooking cuisines and skiing.</p>
 <p>Paulik, Bence</p> <p>Bence.paulik@insead.edu Fontainebleau, France</p>	<p>INSEAD, Master in Management</p> <p>UCL, BSc Economics</p>	<ul style="list-style-type: none">• BCG, Visiting Associate, Analyst• EY, Forensics and Integrity Intern	<p>Bence is in the final year of his Master in Management studies at INSEAD. Before joining, he worked as a Future of Work analyst at BCG. In his spare time, he enjoys watching thriller movies, practising martial arts and cooking food from different cuisines.</p>
 <p>Lüber, Guillaume</p> <p>Guillaume.lüber@insead.edu Fontainebleau, France</p>	<p>INSEAD, Master in Management</p> <p>UNIGE, BSc Economics</p>	<ul style="list-style-type: none">• CitéGestion, Investment Team Intern• Bellota-Bellota Geneva, Business Development Manager	<p>Guillaume is finishing up a Master in Management at INSEAD after having helped to open an Iberian restaurant in Geneva. He is passionate about the intrinsic forces driving economic dynamics. He is an avid skier and hiker.</p>
 <p>Depondt, Matthew</p> <p>Matthew.depondt@insead.edu Fontainebleau, France</p>	<p>INSEAD, Master in Management</p> <p>Ghent University, MSc Corporate Finance</p>	<ul style="list-style-type: none">• Realo, Real Estate Analyst• ProjectiveGroup: Student Research Project	<p>Matthew is completing his Master in Management degree at INSEAD. He is passionate about finance and investing and loves playing sports like basketball, running, and cycling.</p>