



DIAGEO

DIAGEO
(NYSE: DEO)
Current Price: \$195.16
Target Price: \$230

Catherine Kight
Darcie Robert
Jack Crawford
Luke Daniel
Sean Brock

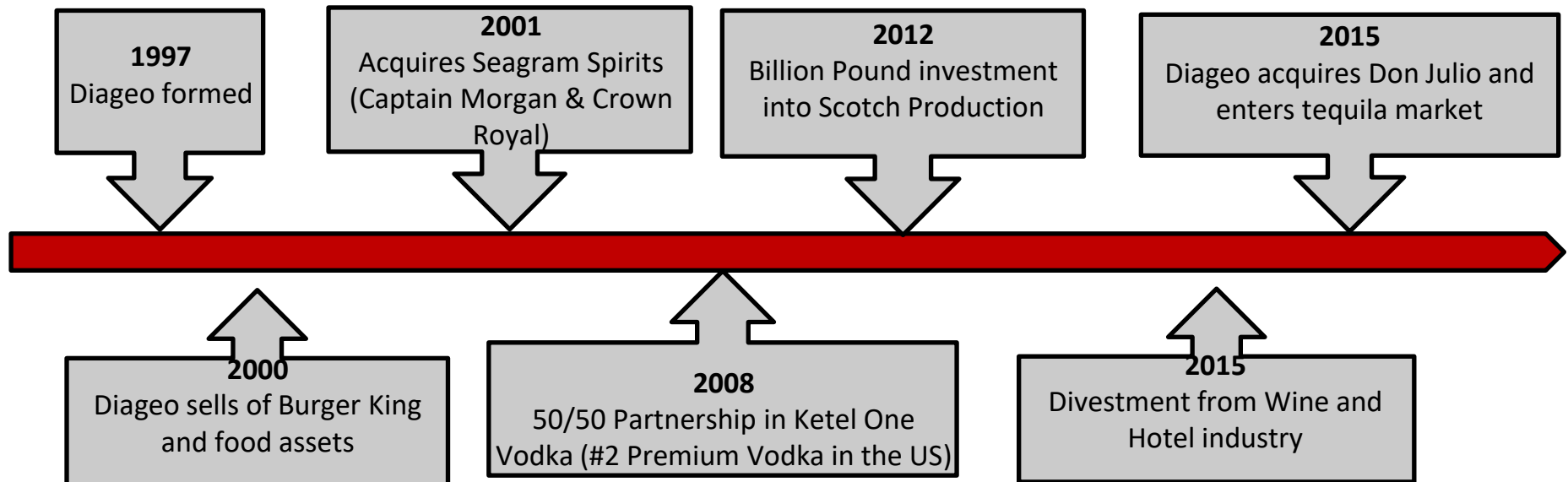
Business Overview

- Headquartered in London, Diageo is the world’s second largest distiller behind China’s Kweichow Moutai
- Diageo was formed in 1997 in the merger of Grand Metropolitan and Guinness
- Diageo own over 200 brands sold in more than 180 countries and produced in more than 140 sites around the world. The company is a major distributor of spirits and the largest producer of Scotch Whiskey

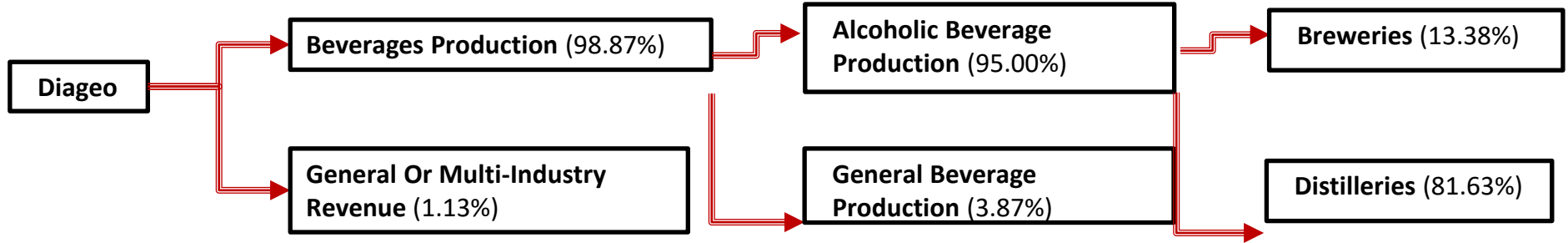
5 Year Monthly Stock Price



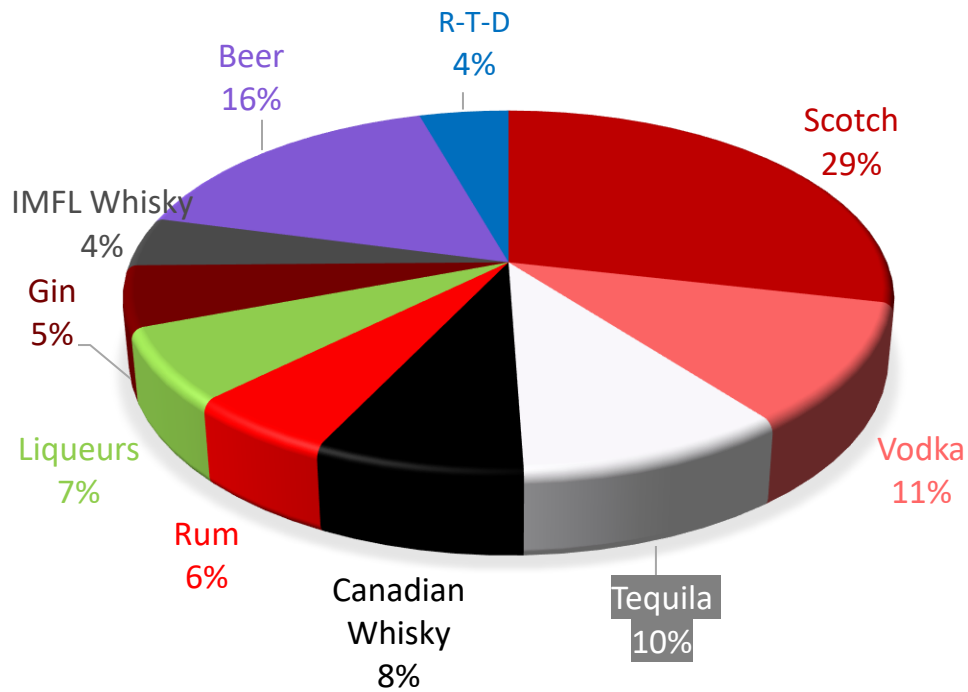
Corporate Timeline



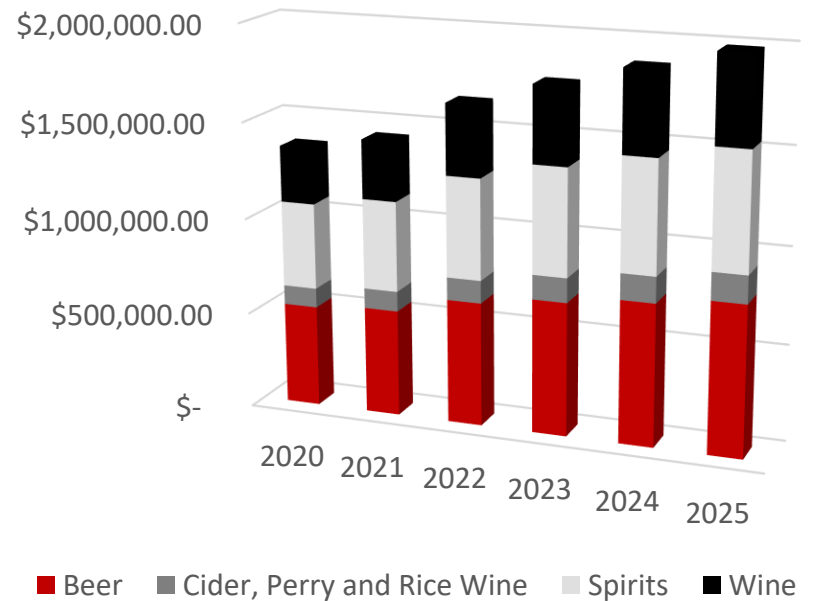
Segment Revenue



Sales by Category



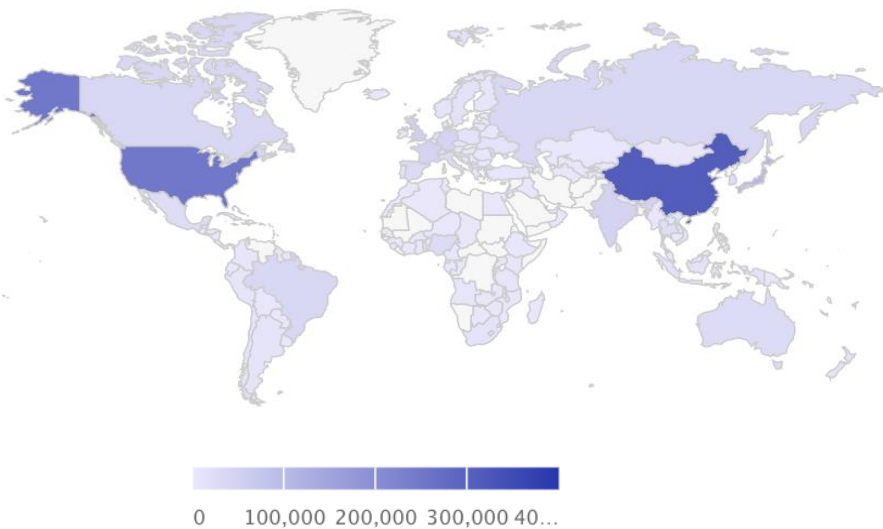
Worldwide Revenue By Segment



Alcoholic Beverage Industry Trends and Highlights

- The average volume consumed per person in the worldwide alcoholic drinks market is expected to amount to 39.34L in 2022
- More people than ever participated in “Dry January” this year. According to research firm CGA, 35% of legal aged US adults skipped alcohol for the month and opted for non-alcoholic beverages and mocktails which make it “easier to forego alcohol while not making social sacrifices.”
- Ready-to-Drink beverages saw extreme growth throughout the pandemic as pre-packaged cocktails grew in popularity throughout the pandemic
- Trailing only premixed cocktails, tequila and mezcal was the second fastest growing spirits category of 2021, and is primed to take the lead as America’s favorite liquor

Global Revenue Comparison 2021:



Regional Insights

Top 5 2021 (in millions USD)

1. China	311,827
2. United States	249,088
3. Japan	108,060
4. United Kingdom	53,219
5. France	44,429

- **China** is a large leader in alcoholic beverage consumption, with spirits as their top category.
- **US** alcoholic beverage market revenue is expected to grow annually by 7.45% from 2022-2025

Geographical Rev Breakdown

Country	% Total Rev.
United States	38.1%
India	6.9%
United Kingdom	6.3%
Mainland China	6.1%
Nigeria	4.2%
Germany	2.8%

Supply Chain Excellence

- Line in Shieldhall, Scotland can produce 600 bottles per minute.
- “Never Be Out” stock-keeping units, or SKUs case fill rate improved by over 2% from this segmentation process
- Teams in US have increased glass capacity by ~25%
- In 2021, sourced 80% of the agricultural raw materials used in African operations locally, up from 50% in fiscal ‘13



Advantaged Culture

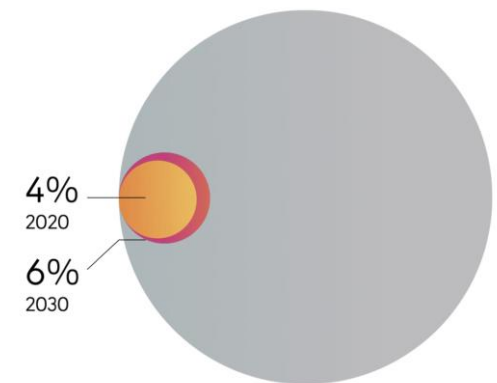
- The average volume consumed per person in the worldwide alcoholic drinks market is expected to amount to 39.34L in 2022
- Ready-to-Drink beverages saw extreme growth throughout the pandemic as pre-packaged cocktails grew in popularity
- Trailing only premixed cocktails, tequila and mezcal was the second fastest growing spirits category of 2021, and is primed to take the lead as America’s favorite liquor
- US alcoholic beverage market revenue is expected to grow annually by 7.45% from 2022-2025

Total Beverage Alcohol Market Share Expansion

Bold ambition for 2030...

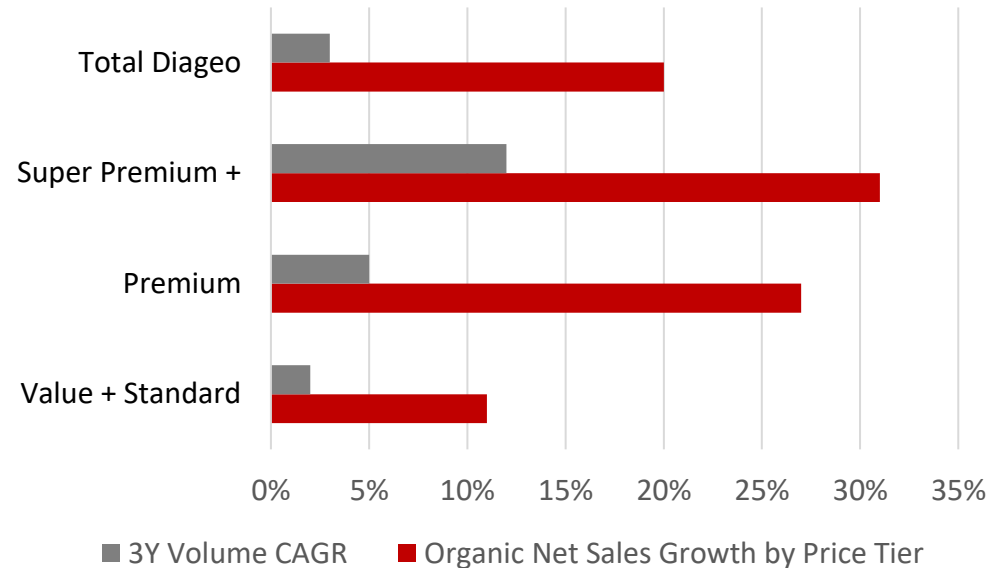
~ 50%

increase in Diageo’s TBA market share ambition by 2030

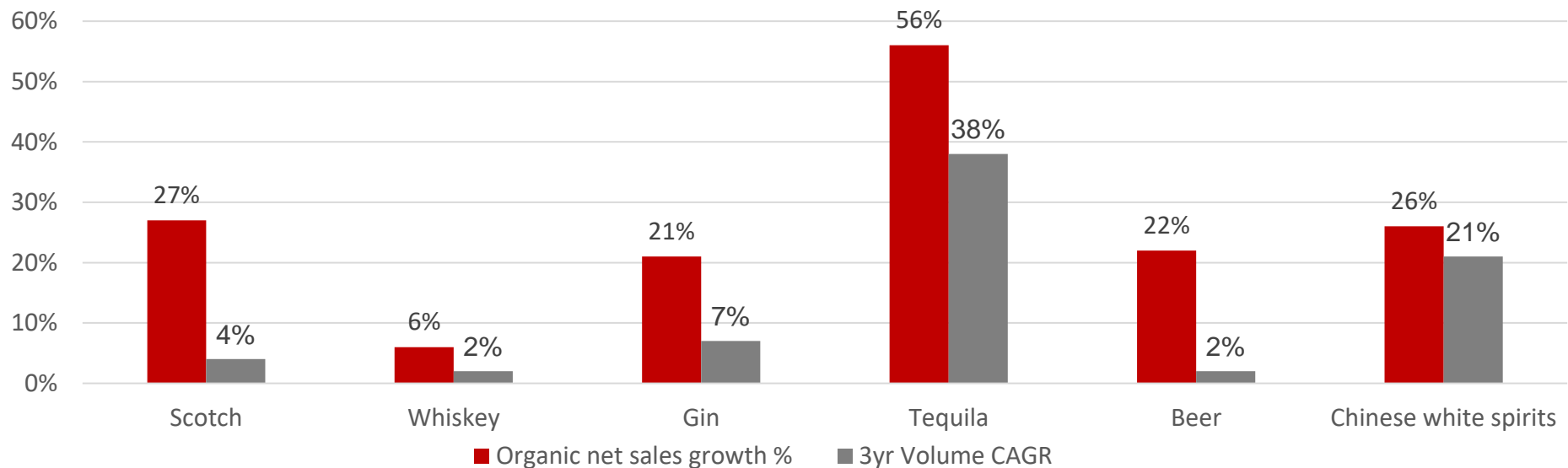


Growing Sales and Market Share

- Premium brands helped drive Diageo’s sales. With these brands accounting for 56% of reported net sales and 74% of organic net sales growth
- Super-premium plus Tequila grew very strongly, even ahead of the tequila growth category for the US
- Diageo gained/held roughly 85% of total net sales of off-trade share
- Well timed Acquisition of Casamigos, the leading tequila brand currently



Fast-Growing Spirit categories and Beer Recovery Driving top line growth



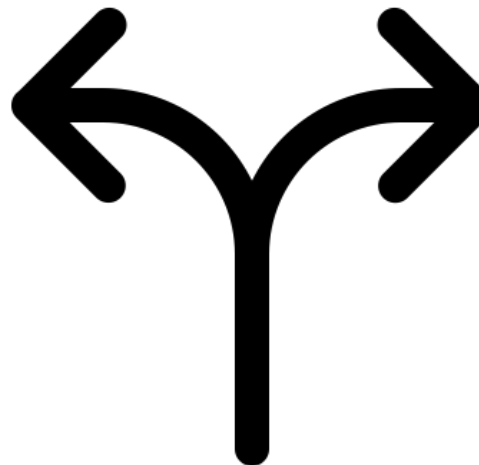
Growing Markets

- In 2018 Africa was home to 16% of the world's population and consumed only 5% of the world's alcohol. Diageo has since pushed into this market. In H1 FY 22 Diageo saw 23% increase in Organic net Sales Value growth in Africa lead by 30% in Nigeria.
- Diageo has built a lower price point portfolio for Emerging market consumers.
- ***"As emerging market consumers' disposable incomes rise, these products give them access to quality at affordable prices"***
- China has the largest and fastest-growing super premium and above spirits segment in the world. Johnnie walkers Is now China's largest Scotch brand by volume and retail sales. Diageo Views Scotch as the prime target as they perceive China's consumers will move to drinking better and not more.

Two-Pronged Approach to Increased Spirits Drinking Over Beer & Wine

Emerging Markets

- In many emerging markets, spirits penetration is still low compared to developed markets, providing the potential for future growth
- An Emerging Middle class is seeking new drinking experiences away from illicit alcohol and driving demand for quality drinks at a range of prices.



Developed Markets

- While in developed markets like the US, ***Gin*** and ***ready to drink*** accelerated during the pandemic, with consumers increasingly choosing spirits in the off-trade occasion
- In the United States, spirits penetration grew nearly three times as fast as beer and twice as fast as wine
- Acquisition of Davos brands headlined by Ryan Reynolds owned Aviation Gin

**Premium Name
Admits Economic
Uncertainty &
Inflationary Pressures**

- Over 200 brands being sold in more than 180 countries leaves Diageo vulnerable to foreign exchange rate fluctuation risk
- DEO has been able to prove that they can minimize the effects of exchange rate fluctuations as a result of translation

**Premium Name
Admits Economic
Uncertainty &
Inflationary Pressures**

- **30-year high inflationary rates** could pose a threat against consumer spending on luxury items
- Builds on cultural heritage surrounding distinctive brands that have found their way deeply embedded into local cultures
- Guinness most talked about beer brand in the world on social media in 2021
- Premium total beverage alcohol has remained resilient during COVID-19 and the long-term trends seem to be remaining attractive
- ***New legal age consumers expected to enter the market by 2031: 600 million***

**Extensive Recent
M&A Activity Despite
Consumer Disruption
Risk**

- Diageo agreed to pay **\$700 million USD** upfront for Casamigos and a further potential **\$300 million USD** depending on the brand's ten-year performance; Davos Brand LLC and Aviation Gin acquired for a total consideration of **\$610 million USD**
- Legalization of cannabis potential impact on the beverage alcohol segment
- Recreational marijuana is now legal in 18 states, Washington D.C., and Guam (approx. ~13 % of geographical revenues)
- Despite such extensive M&A activity, they have been able to maintain an above average ratings compared to other beverage making companies in the alcoholic industry
- ***Local Currency LT & Foreign Currency LT: A-***

(\$ in millions)	2021A	2022E	2023E	2024E	2025E	2026E	CAGR	Terminal Year
Revenue	\$17,129.95	\$19,356.84	\$21,098.96	\$22,575.89	\$23,930.44	\$25,366.27	8.2%	\$25,366.27
% Growth	15.77%	13.00%	9.00%	7.00%	6.00%	6.00%		
EBITDA	\$5,670.52	\$6,462.53	\$7,044.16	\$7,551.54	\$8,028.00	\$8,535.14	8.5%	\$8,535.14
% Margin	33.10%	33.39%	33.39%	33.45%	33.55%	33.65%		
(-) D&A	\$601.36	\$655.48	\$714.47	\$778.78	\$848.87	\$925.26		
EBIT	\$5,069.16	\$5,807.05	\$6,329.69	\$6,772.77	\$7,179.13	\$7,609.88	8.5%	\$7,609.88
% Margin	29.59%	30.00%	30.00%	30.00%	30.00%	30.00%		
(-) Taxes	\$1,220.20	\$1,397.82	\$1,523.63	\$1,630.28	\$1,728.10	\$1,831.78		
NOPAT	\$3,848.96	\$4,409.23	\$4,806.06	\$5,142.49	\$5,451.03	\$5,778.10	9.0%	\$5,778.10
(+) D&A	\$601.36	\$655.48	\$714.47	\$778.78	\$848.87	\$925.26		
(+/-) Δ NWC	(\$694.20)	\$973.98	\$437.52	\$370.92	\$340.19	\$360.60		
(-) CapEx	\$842.17	\$1,069.56	\$1,080.25	\$1,091.05	\$1,101.96	\$1,112.98		
Unlevered Free Cash Flow	\$4,302.35	\$3,021.17	\$4,002.76	\$4,459.28	\$4,857.75	\$5,229.77	4.0%	\$5,229.77
Time Factor		1	2	3	4	5		
Present Value		\$2,866.19	\$3,602.62	\$3,807.62	\$3,935.08	\$4,019.12		

Assumptions	
Company Ticker	DEO
Current Share Price	\$199.88
Shares Outstanding	583
Cash	\$3,964.76
Debt	\$20,846.08
Effective Tax Rate	24.07%
Marginal Tax Rate	21.00%
Perpetuity Growth Rate	2.50%
Perpetuity Step	0.25%
Terminal Multiple	19x
Terminal Multiple Step	1x
WACC	5.41%
WACC Step	0.50%

Cost of Equity

Risk-free Rate	1.86%
Blended Beta	0.77
Equity Risk Premium	5.37%
Cost of Equity	5.98%

Hurdle Rate

6%

Cost of Debt

Cost of Debt	2.65%
Tax Rate	21.00%
After-Tax Cost of Del	2.09%

Capital Structure

Shares Outstanding	583
Current Price	\$199.88
Market Cap	\$116,530
Market Value of Deb	\$20,846
% of Equity	84.83%
% of Debt	15.17%

WACC

WACC 5.41%

Perpetuity Growth

	1.50%	1.75%	2.00%	2.25%	2.50%
4.00%	\$ 303.02	\$ 337.10	\$ 379.70	\$ 434.47	\$ 507.50
4.50%	\$ 246.72	\$ 269.52	\$ 296.87	\$ 330.30	\$ 372.09
5.00%	\$ 206.53	\$ 222.75	\$ 241.67	\$ 264.03	\$ 290.87
5.50%	\$ 176.39	\$ 188.46	\$ 202.25	\$ 218.17	\$ 236.73
6.00%	\$ 152.96	\$ 162.25	\$ 172.70	\$ 184.54	\$ 198.08

Terminal Multiple

	13.x	14.x	15.x	16.x	17.x
4.00%	\$ 160.10	\$ 172.13	\$ 184.17	\$ 196.20	\$ 208.23
4.50%	\$ 155.90	\$ 167.65	\$ 179.40	\$ 191.15	\$ 202.89
5.00%	\$ 151.82	\$ 163.29	\$ 174.76	\$ 186.23	\$ 197.70
5.50%	\$ 147.85	\$ 159.05	\$ 170.25	\$ 181.45	\$ 192.66
6.00%	\$ 143.99	\$ 154.93	\$ 165.87	\$ 176.81	\$ 187.75

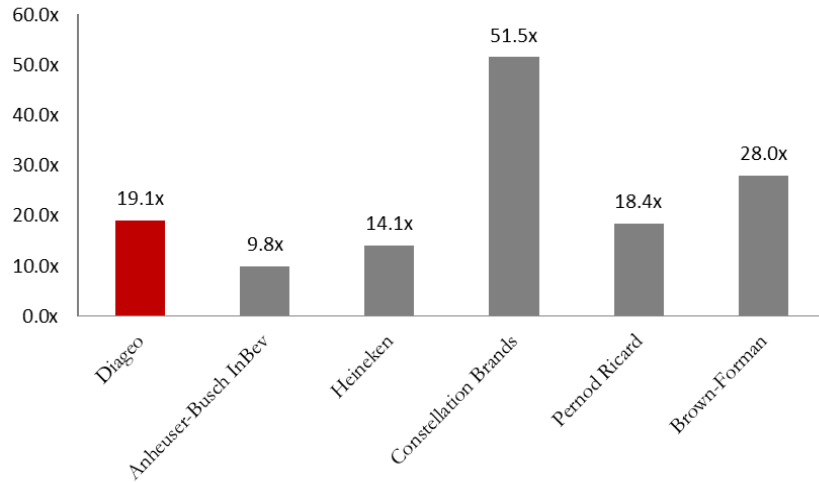
Perpetuity Growth Method

Projection Period FCF	\$18,224
Terminal Value	\$141,051
Enterprise Value	\$159,275
(-) Net Debt	\$16,881
Equity Value	\$142,393
Diluted Shares Outstanding	583
Implied Price	\$244.24
Current Price	\$204.67
(Premium)/Discount to Price	19.33%

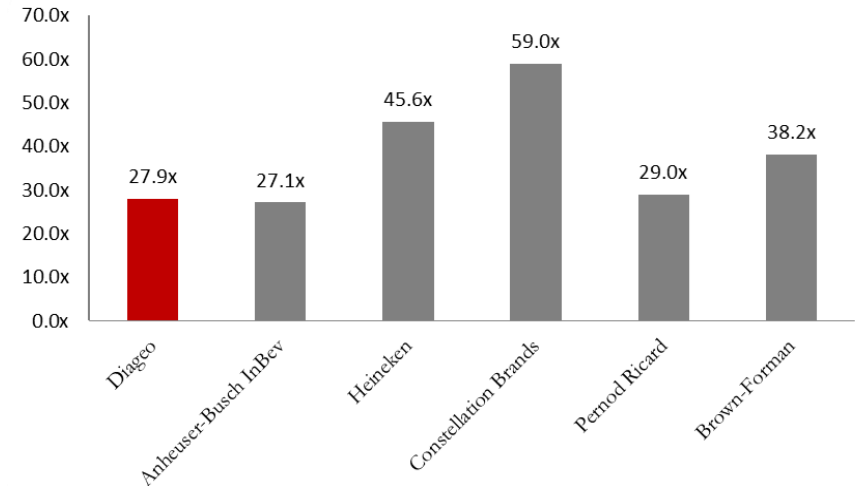
Multiples Method

Projection Period FCF	\$18,224
Terminal Value	\$124,557
Enterprise Value	\$142,782
(-) Net Debt	\$16,881
Equity Value	\$125,900
Diluted Shares Outstanding	583
Implied Price	\$215.95
Current Price	\$204.67
(Premium)/Discount to Price	5.51%

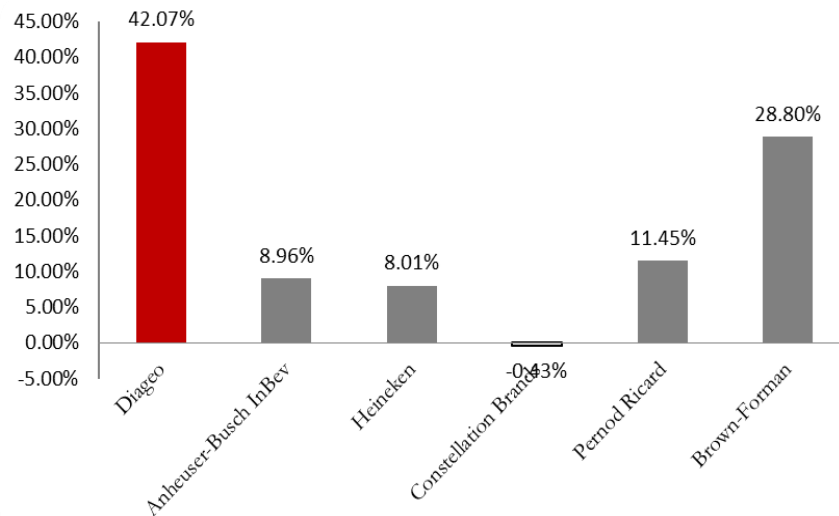
EV / EBITDA



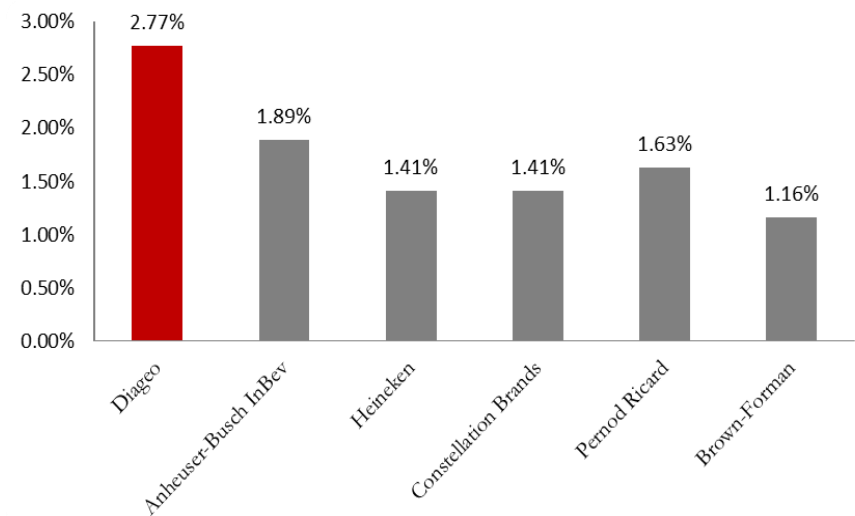
P / E



Return on Equity

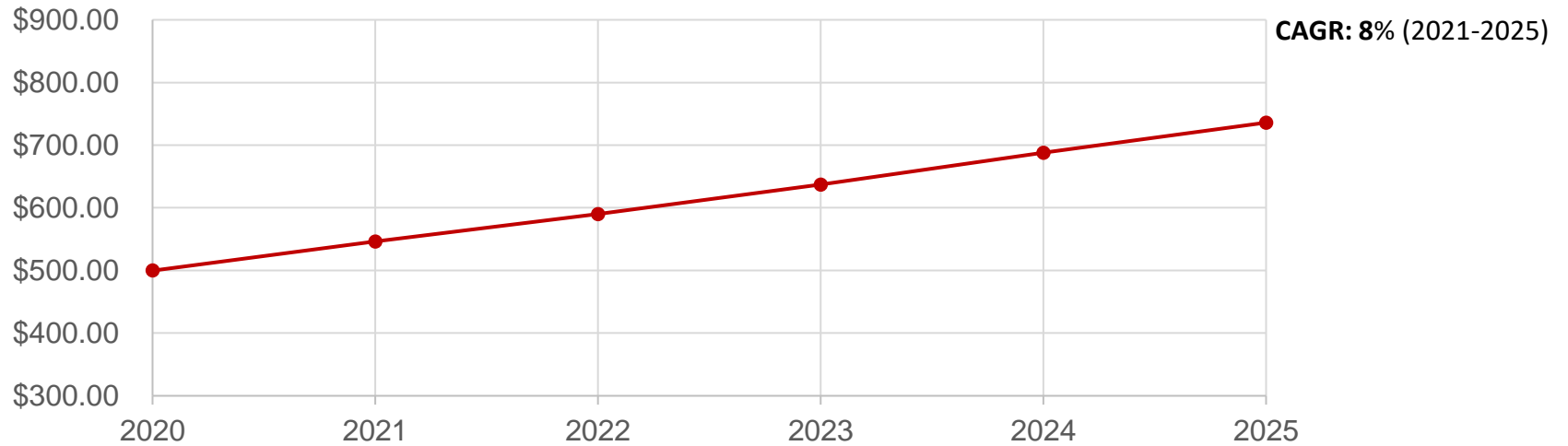


Dividend Yield

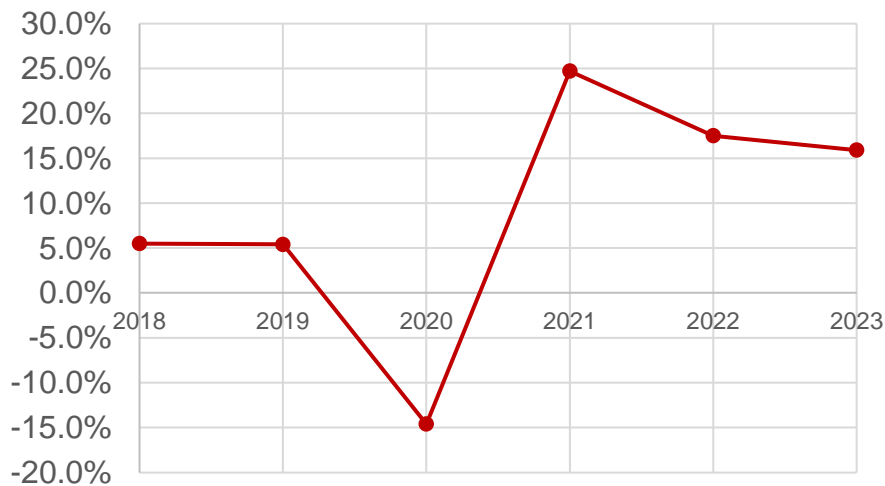




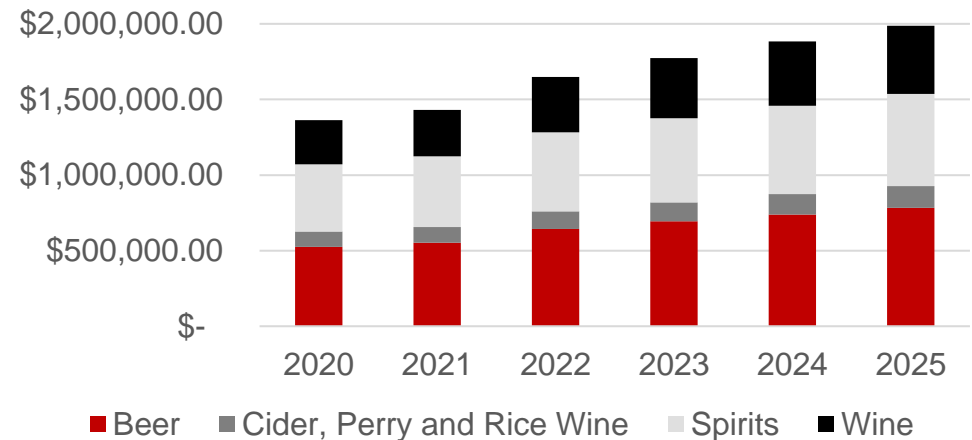
Alcoholic Beverage Industry Market Value (Billions) :



Alcohol Industry EPS Growth

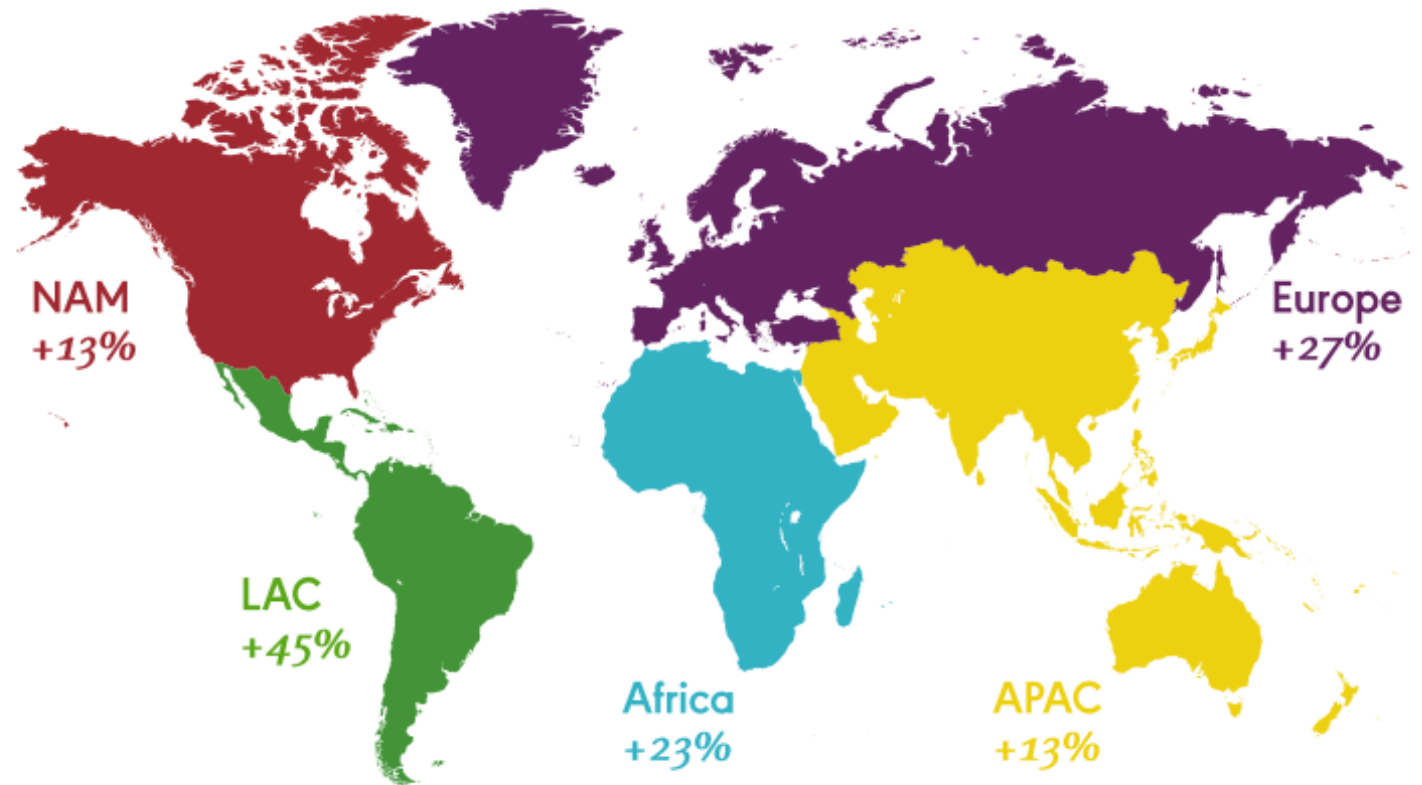


Worldwide Revenue By Segment



Global Growth

Strong organic net sales growth across all regions



Casa UM

- 100% handcrafted mezcal brand, founded in 2011
- Led the way into making mezcal the fastest growing category in the world for the last five years.
- Acquired in January 2022



Casamigos

- George Clooney Tequila Brand
- Acquired in 2017, grew net sales 125% and recently joined the Millionaires' Club, having sold over one million cases in 2020



Davos Brands

- Acquired in 2020 to obtain Ryan Reynold's owned Aviation Gin
- Also obtained Davos Brands' portfolio consisting of Astral Tequila, Sombra Mezcal and TYKU Sake



(\$ in Millions)	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Revenue	\$15,278.39	\$15,531.84	\$17,013.44	\$16,662.97	\$17,922.14	\$19,356.84	\$21,098.96	\$22,575.89	\$23,930.44	\$25,366.27
COGS	\$6,400.44	\$6,343.91	\$6,736.43	\$5,816.77	\$6,723.91	\$7,539.77	\$8,218.34	\$8,793.63	\$9,321.25	\$9,880.52
% of Sales	42%	41%	40%	35%	38%	39%	39%	39%	39%	39%
Accounts Receivable	\$2,766.76	\$3,414.17	\$2,765.58	\$2,649.13	\$2,510.09	\$3,339.05	\$3,639.56	\$3,894.33	\$4,127.99	\$4,375.67
% of Sales	18%	22%	16%	16%	14%	17%	17%	17%	17%	17%
Inventory	\$6,219.37	\$6,621.05	\$6,964.21	\$7,131.88	\$8,350.87	\$8,319.78	\$9,068.56	\$9,703.36	\$10,285.56	\$10,902.69
% of COGS	97%	104%	103%	123%	124%	110%	110%	110%	110%	110%
Prepaid Expenses	\$206.53	\$207.28	\$257.09	\$193.99	\$207.22	\$252.24	\$274.94	\$294.19	\$311.84	\$330.55
% of COGS	3.23%	3.27%	3.82%	3.33%	3.08%	3.35%	3.35%	3.35%	3.35%	3.35%
Other Current Assets	\$0.00	\$31.69	\$82.73	\$0.00	\$0.00	\$26.72	\$29.13	\$31.17	\$33.04	\$35.02
% of Sales	0.00%	0.20%	0.49%	0.00%	0.00%	0.14%	0.14%	0.14%	0.14%	0.14%
Current Assets	\$9,192.67	\$10,274.19	\$10,069.60	\$9,975.00	\$11,068.18	\$11,937.79	\$13,012.19	\$13,923.05	\$14,758.43	\$15,643.93
Accounts Payable	\$1,773.07	\$1,998.86	\$2,155.95	\$1,647.05	\$2,782.24	\$2,426.43	\$2,644.81	\$2,829.95	\$2,999.74	\$3,179.73
% of COGS	27.70%	31.51%	32.00%	28.32%	41.38%	32.18%	32.18%	32.18%	32.18%	32.18%
Accrued Expenses	\$3,268.16	\$3,595.04	\$3,698.47	\$3,442.38	\$4,196.85	\$4,286.06	\$4,671.80	\$4,998.83	\$5,298.76	\$5,616.68
% of COGS	51.06%	56.67%	54.90%	59.18%	62.42%	56.85%	56.85%	56.85%	56.85%	56.85%
Taxes Payable	\$381.89	\$320.82	\$320.82	\$303.96	\$201.69	\$363.92	\$396.67	\$424.44	\$449.91	\$476.90
% of Sales	2.50%	2.07%	1.89%	1.82%	1.13%	1.88%	1.88%	1.88%	1.88%	1.88%
Current Liabilities	\$5,423.12	\$5,914.72	\$6,175.24	\$5,393.39	\$7,180.78	\$7,076.41	\$7,713.29	\$8,253.22	\$8,748.41	\$9,273.32
NWC	\$3,769.55	\$4,359.47	\$3,894.36	\$4,581.60	\$3,887.40	\$4,861.38	\$5,298.90	\$5,669.83	\$6,010.02	\$6,370.62
Δ in NWC		\$589.91	(\$465.10)	\$687.24	(\$694.20)	\$973.98	\$437.52	\$370.92	\$340.19	\$360.60



时光有其意 天涯共团圆
 尊尼获加蓝牌 世纪华章特别版

 Johnnie Walker Blue Label Forbidden City Edition

Scotch in China: positioned for premiumisation

Greater China has the largest and fastest-growing super premium and above spirits segment in the world¹ – and our portfolio of super premium and luxury Scotch whiskies is helping us meet Chinese consumers’ desire to ‘drink better, not more’.²

Our super premium and luxury Scotch portfolio includes Johnnie Walker, which is Greater China’s biggest Scotch brand by volume and retail sales value.³ It also includes fast-growing brands such as Mortlach and Talisker, and The Singleton, which is Greater China’s largest single malt brand by volume.⁴

The growth of Johnnie Walker Blue Label over the last four years shows how we are harnessing the trend of premiumisation through the combination of an outstanding liquid, powerful brand building and innovation driven by insights into local culture.

This year, the brand launched a series of eye-catching innovations, including the Forbidden City Edition and a limited edition Chinese New Year bottle celebrating the Year of the Ox – both of which sold out quickly. These innovations combine Chinese consumers’ deep pride in their culture with their demand for unique products that suit gifting and business entertainment occasions. They also trigger a desire to explore and learn about Scotch whisky. We are helping to grow that consumer interest, working with key customers and consumers on product education and mentoring events. For example, we have held 13 Whisky Summits across China and reached over 15,000 people through our Diageo Whisky Academy since 2017.

1, 2, 3, 4. IWSR, 2020



USD to Euro Spot Exchange Rate Fluctuation Over Past Decade

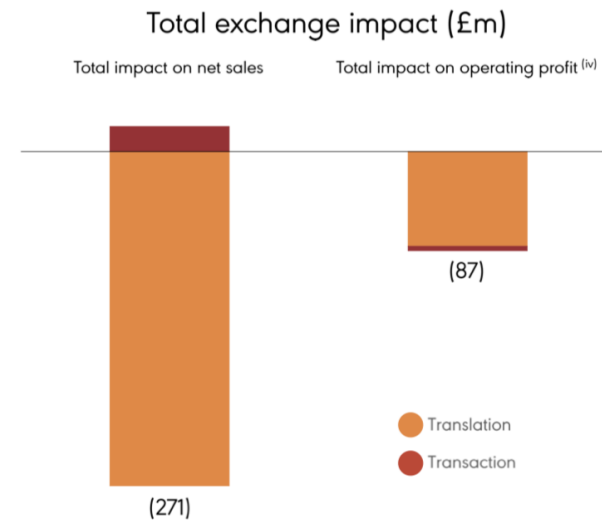


Translation Driving Adverse Impact from Foreign Exchange

Exchange rates

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

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



“We have made a strong start to fiscal 22. While we expect near-term volatility to remain, including potential impacts from Covid-19, global supply chain constraints and rising cost inflation, I am confident in our ability to successfully navigate these disruptions through the remainder of the year. Over the medium-term, from fiscal 23 to fiscal 25, we continue to expect organic net sales to consistently grow within a range of 5% to 7% and organic operating profit to grow sustainably within a range of 6% to 9%.”

- Chief Executive, Ivan Mendez

ISSUER INDUSTRY DISTRIBUTION CHART

