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Diageo Equity Research: A Spirit of Strength
– Focus on performance and valuation

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Abstract

This report provides a comprehensive analysis of Diageo plc's financial performance and valuation. It includes an in-depth performance analysis, examining Diageo's segment sales, profitability, and capital structure. The report further assesses Diageo's valuation through a Discounted Cash Flow (DCF) model and relative valuation metrics, offering insights into the company's intrinsic value. Additionally, to provide some context on Diageo, the report also includes a company overview section.

Keywords

Diageo, Alcoholic Beverages, Equity Research, Valuation

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This report is part of the “Diageo Equity Research: A Spirit of Strength” report (annexed), developed by Ana Patrícia Simões Lopes and Mihnea Stefan Enache and should be read as an integral part of it.

Table of Contents

Introduction

The joint equity research report on Diageo aims to deliver a comprehensive analysis of the company's financial performance, strategic positioning, and valuation, providing investors with a well-founded recommendation. Diageo's role as a global leader in the alcoholic drinks industry makes it a key player to evaluate, especially considering the post-pandemic normalisation and ongoing regional challenges.

The report combines an extensive analysis of Diageo's operations and market, its financial performance, and its valuation outlook based on fundamental and relative valuation techniques. Ultimately, the findings culminate in a HOLD recommendation, reflecting our estimated target price of £26.60 and expected total return of 7.51% by Diageo's FY25.

The present individual report focuses on the detailed review of the company's historical financial performance, assessing key metrics such as sales, margins, liquidity and profitability, and on the valuation section, which includes a discounted cash flow model supported by both a sensitivity and scenario analysis and a trading comparables approach as well. Additionally, to provide some context on the company, the report also includes the company overview section.

The remaining sections comprised in the joint report are covered by my partner, focusing on the industry analysis, risks and challenges and forecasts sections.

Company Overview

History

Figure 1: Diageo's logo
Source: Diageo’s website

Diageo plc was established in 1997 through the merger of Grand Metropolitan and Guinness, with its shares listed on the London Stock Exchange the same year. From its inception, Diageo focused on becoming a global player in premium alcoholic beverages by streamlining its operations and divesting non-core assets. This included the sale of Burger King and Pillsbury in 2000, which allowed the company to focus on a portfolio of spirits and beer.

The company has expanded geographically and diversified its offerings through targeted investments and acquisitions. In 2001, Diageo acquired Seagram’s spirits and wine business, increasing its presence in North America. This was followed by the 2014 purchase of United Spirits Limited, which raised its exposure to the Indian market. The company also invested in breweries and partnerships in Africa in 2017, reflecting a new entrance into emerging markets.

In 2016, Diageo entered the non-alcoholic category with the acquisition of Seedlip, a brand specialising in non-alcoholic spirits. The 2018 acquisition of Casamigos, a premium tequila brand, expanded its presence in the United States and Latin America. In recent years, Diageo concentrated on categories like gin and tequila, particularly in Europe, North America, and Asia-Pacific.

Figure 2: Selected brands
Source: Diageo’s website

Products and Business Model

Today, Diageo owns a diverse portfolio of over 200 brands covering multiple alcoholic beverage categories, including spirits, beer, and ready-to-drink (RTD) offerings, with some well-known names serving as key representatives in each segment (figure 2).

Figure 3: Scotch portfolio price ladder
Source: Diageo’s FY24 annual report

Many of these brands feature multiple editions or tiers that capture different price points and consumer preferences under the same brand umbrella. For example, Johnnie Walker, one of the world’s leading scotch brands, offers a range of products from its entry-level Red Label to premium editions like Blue Label and Green Label, targeting standard, premium, and luxury price segments (figure 3). Similarly, in the tequila category, Don Julio demonstrates a parallel strategy, offering products such as Don Julio Blanco for the standard segment, while higher-end editions like Don Julio 1942 and Don Julio Real cater to the super-premium category. This diversified pricing structure enables Diageo to remain competitive

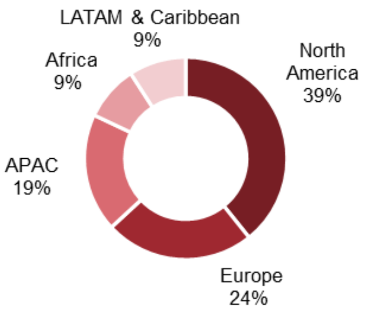


Figure 4: Diageo's FY24 net sales by region
Source: Diageo's annual report

Figure 5: Diageo's FY24 net sales by category
Source: Diageo's annual report

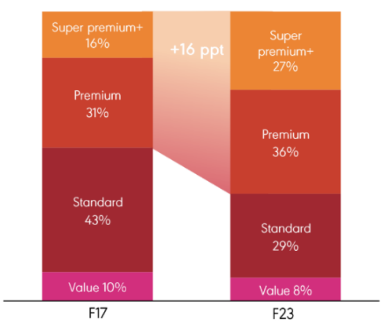


Figure 6: Sales breakdown by price tier, FY17 - FY23
Source: Diageo's 2024 CAGNY presentation

across consumer groups, from mainstream to affluent buyers, further supporting the company's premiumisation strategy.

Diageo's global portfolio is not only categorically diversified but also geographically well-balanced (figures 4 and 5). Operating in over 180 countries, Diageo has established a strong presence across both mature markets, such as North America and Europe, and emerging markets, including Asia-Pacific, Africa, and Latin America. This geographic reach reduces Diageo's exposure to risks in any single market while allowing the company to capitalise on growth opportunities in developing economies, where rising disposable incomes and evolving consumer trends favour premium and international spirits.

Strategy

Diageo's strategy is structured around three pillars: strengthening its brands and portfolio, responding to consumer trends, and executing with operational excellence. The main target that acts as the primary driver for many actions undertaken by the company is to achieve a 6% market share by 2030 in the Total Alcoholic Beverage (TBA) sector.

The first pillar, unleashing the power of brands and portfolio, focuses on maintaining Diageo's leadership in high-growth categories such as whisky and tequila by maximising growth opportunities while leveraging its heritage. At the same time, Diageo's strategy emphasizes winning with consumer-first local portfolios by building strong brands that are tailored to local markets. This strategy focuses on driving growth through local relevance, ensuring its portfolio aligns with regional preferences. Additionally, Diageo aims to continue Guinness' breakout growth by leveraging an asset-light model and fostering innovation.

The second pillar, related to the relative positioning towards consumer trends, highlights the way Diageo is responding to evolving preferences. Diageo continues to capitalise on the ongoing trend of premiumisation, aligning its portfolio with consumer preferences for higher-value products. This focus has translated into a significant shift in the company's sales breakdown by price tier, with premium categories accounting for around 63% in FY23, vs. the 47% slice in FY17 (figure 6). Increased demand for ready-to-drink (RTD) beverages and non-alcoholic options also reflects shifting consumer habits toward convenience, and moderation. Innovations such as Guinness 0.0 indicate Diageo's ability to adapt its portfolio to emerging opportunities. This focus on innovation is expected to drive incremental revenue growth, particularly in categories that appeal to younger, trend-driven consumer segments.

The third pillar, operational excellence, shows how Diageo balances growth with cost efficiency. The company delivered around £551 million in productivity savings in FY24 through supply chain optimisation, pricing strategies under its "Revenue Growth Management" (RGM) program, and disciplined resource allocation (figure 7). Looking forward, these initiatives are expected to sustain margin stability despite increasing costs from marketing and promotional activities. Additionally, Diageo's investments in production infrastructure and automation indicate a steady, moderate growth in Property, Plant, and Equipment (PPE) to support capacity expansion in high-growth markets, partially offset by the focus on premiumisation.

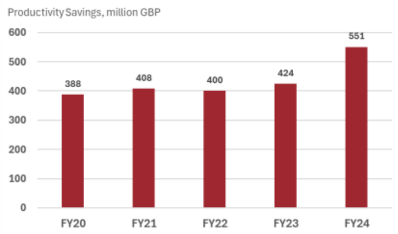


Figure 7: Productivity savings
Source: Diageo's annual report

Diageo's strategy is further underpinned by three key enablers: digital transformation, talent development, and sustainability. Digital tools, such as AI-driven marketing platforms and advanced supply chain systems, enable improved execution efficiency and cost management. Simultaneously, the "Spirit of Progress" program drives initiatives such as sustainable packaging and carbon reduction, reflecting a moderate, but necessary increase in sustainability-related operating expenses.

Governance

Diageo's governance structure is reflected by a Board of Directors composed of both executive and non-executive members, providing oversight and strategic guidance through specialised committees, which cover areas such as audit, remuneration, and sustainability. The Chair leads the Board, while executive management reports to the Board to ensure the alignment of corporate activities with shareholder interests.

The Executive Committee, headed by the CEO and supported by CFO Lavanya Chandrashekar (both of whom are also Board members), is additionally composed by five Chief Officers responsible for core functions, and four regional Presidents who oversee Diageo's operations in its key geographic areas.

A significant change occurred on the 28th of March 2023, when Debra Crew, previously COO, was announced to become the new CEO, following the retirement of former CEO, Ivan Menezes.

Shareholders Structure

Diageo’s shareholder base is composed of institutional investors, individual shareholders, and holders of American Depositary Shares (ADSs). As of the latest report, the company had a total of 325,119,456 ordinary shares, including those held through ADSs, and approximately 209 million shares held as treasury shares. The company is committed to delivering shareholder value through both dividends and share buybacks, aiming to increase its dividend paid annually, having the FY24 total recommended dividend of 79.28p per share experienced an increase of 5% vs. the prior year. Additionally, Diageo has a history of recurring share buyback programs, with the latest returning approximately £750 million of excess capital to its shareholders.

As of June 2024, Diageo had three substantial interests in its ordinary share capital, held by institutional investors: BlackRock with 5.89%, Capital Research and Management Company with 4.99%, and Massachusetts Financial Services Company with 4.99% (figure 8).

Shareholder	Number of ordinary shares	Percentage of issued ordinary share (excluding treasury shares)	Date of notification of interest
BlackRock Investment Management (UK) Limited (indirect holding)[1]	147,296,928	5.89%	3 December 2009
Capital Research and Management Company (indirect holding)	124,653,096	4.99%	28 April 2009
Massachusetts Financial Services Company (indirect holding)	111,560,606	4.99%	29 February 2024

Figure 8: Major shareholders
Source: Diageo’s FY24 annual report

Performance Analysis

Diageo’s financial and operational performance from 2017 to 2024 has been analysed to provide a comprehensive view of its long-term trends, avoiding distortions caused by the pandemic’s short-term impact. Over these years, Diageo has maintained strong profitability and efficient liquidity management, supported by its premiumisation strategy and effective capital allocation. However, its higher leverage and lower asset efficiency compared to its peers highlight key areas for improvement.

Segments’ Performance

North America

North America remains Diageo’s largest and most critical region, accounting for around 39% of the company’s net sales. However, recent performance has shown clear signs of deceleration following the post-pandemic boom. In fiscal 2024, both reported net sales growth and organic net sales growth turned negative, declining to approximately (2%) and (3%), respectively (figure 9). This represents a sharp reversal from the strong double-digit growth experienced in 2021 and 2022, when consumer demand surged as markets reopened in the post-pandemic boom.

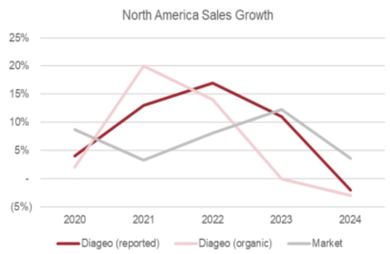


Figure 9: Diageo's North America historic growth compared to market
Source: Diageo’s annual reports and Statista

The slowdown in 2023 and 2024 can be primarily attributed to inventory normalisation, as Diageo adjusted stock levels that had been elevated during the post-pandemic surge. Additionally, slower category momentum in key segments like premium tequila has further impacted Diageo's growth trajectory.

When compared to the broader North American alcoholic drinks market, which has managed to sustain, on average, high single-digit growth despite economic pressures, Diageo's recent results indicate relative underperformance. This highlights challenges in regaining market share, particularly as competition intensifies in premium categories. Moreover, cautious consumer spending and inflationary pressures in the U.S. have further weighed on demand, amplifying the decline in Diageo's organic growth.

Europe

Europe remains an important region for Diageo, accounting for around 24% of total net sales, however, like the North America region, recent performance has shown signs of slowing after a period of strong growth. In 2024, reported net sales growth seems to have stabilised at around 12%, while organic growth continued to decline to 3% (figure 10).

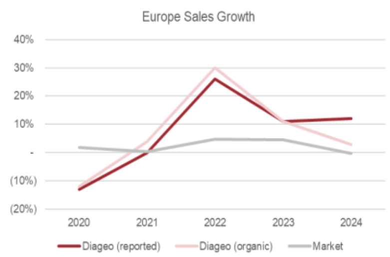


Figure 10: Diageo's Europe historic growth compared to market
Source: Diageo's annual reports and Statista

The slowdown reflects the normalization of consumer purchasing patterns, particularly in mature markets like the U.K. and Germany, where growth has been more restrained. However, Diageo has successfully leveraged innovations in alcohol-free and low-alcohol beverages, with products like Guinness 0.0 seeing strong uptake, driving the broader Guinness portfolio to deliver robust double-digit organic growth.

Compared to the broader European alcoholic drinks market, which has shown less volatility over the last 5 years, Diageo's reported performance remains resilient. The company's ability to capitalise on emerging trends, such as alcohol-free beverages, has allowed it to partially offset the softness in spirits demand.

Asia-Pacific

The Asia-Pacific region, accounting for around 19% of Diageo's total net sales, reported net sales growth of (1%), while organic growth slowed to 4%, reflecting, once again, a clear deceleration from the peak levels achieved in 2021 and 2022 (figure 11). This moderation comes amid macroeconomic pressures, particularly in South-East Asia and Australia, and the adverse impact of foreign exchange movements.

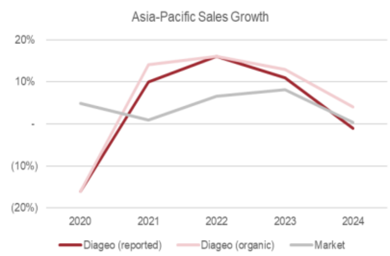


Figure 11: Diageo's Asia-Pacific historic growth compared to market
Source: Diageo's annual reports and Statista

Diageo's performance in the region has been recently driven by strong double-digit growth in Chinese white spirits (e.g., Shui Jing Fang) and premium Scotch whiskies in Greater China. India remains another key market, where Diageo continues to benefit from the premiumisation trend, with solid contributions from brands like Royal Challenge and The Singleton.

Through these strengths, Diageo's organic growth has overperformed the broader market, which maintained a modest positive growth throughout the period.

Latin America and the Caribbean

Diageo's performance in the Latin America and the Caribbean region has been notably challenged in recent years. In 2024, both reported net sales growth and organic net sales growth continued to decline sharply to (15%) and (21%), respectively (figure 12), marking a significant reversal from the high double-digit growth experienced in 2022 (46% and 43%), when consumer demand rebounded strongly post-pandemic.

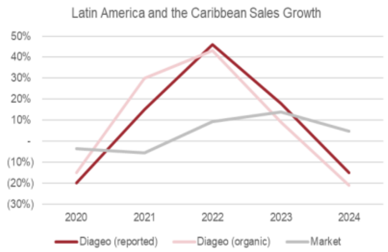


Figure 12: Diageo's Latin America and the Caribbean historic growth compared to market
Source: Diageo's annual reports and Statista

This decline in the last two years was primarily driven by a combination of inventory normalisation and a challenging competitive landscape. Elevated inventory levels carried over from the prior year were adjusted to align with weaker consumer demand, particularly in Brazil, Central America, and Mexico. Furthermore, consumer downtrading in key categories such as tequila and scotch added further pressure, particularly in Mexico, where demand for premium offerings like Don Julio and Johnnie Walker declined as consumers shifted to lower-cost local spirits.

Compared to the broader regional market, Diageo's performance indicates relative underperformance, particularly in premium categories where local competitors have gained ground.

Africa

Diageo's performance in Africa has been mixed in recent years, reflecting a challenging macroeconomic environment, persistent inflationary pressures, and currency devaluations. In 2024, reported net sales declined by approximately 13%, driven by the adverse impact of foreign exchange movements, particularly in Nigeria, where the Naira weakened significantly. In contrast, organic net sales grew by 12%, supported by price increases across the region (figure 13).

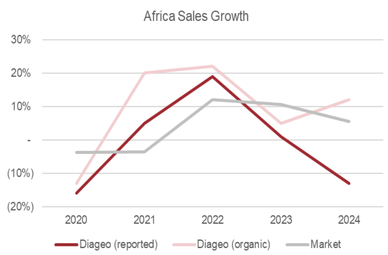


Figure 13: Diageo's Africa historic growth compared to market
Source: Diageo's annual reports and Statista

The growth in organic sales was primarily driven by strong performance in the beer category, which grew 19%, with key brands such as Malta Guinness, Guinness, and Senator delivering double-digit growth. However, this was partially offset by volume declines, particularly in spirits, where net sales declined 2%. The Johnnie Walker brand saw a significant decline in both volume and net sales, contributing to the softness in spirits across key markets like South Africa.

Compared to the broader market, Diageo's organic growth in Africa has been relatively strong, but the reported decline underscores the significant impact of currency volatility and economic headwinds.

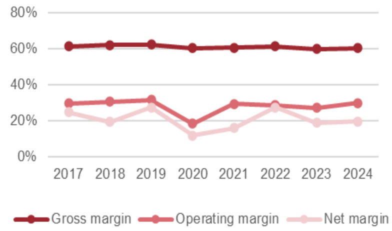


Figure 14: Diageo's historic margins
Source: Diageo's annual reports

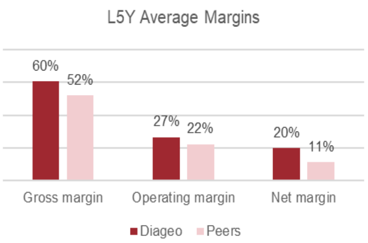


Figure 15: Diageo's last five years average margins compared to peers
Source: Diageo's annual reports and Bloomberg

Margins

Diageo has demonstrated steady profitability over the analysed period (figure 14), with gross margins remaining consistently stable at around 60%, even through less favourable cycles where the company was able to offset cost inflation with price and productivity increases. In contrast, operating and net margins experienced some fluctuations, particularly in 2020, when margins dropped due to the COVID-19 pandemic's impact on operations, and in the following years when a sharp rebound in profitability marked the subsequent post-pandemic boom.

Comparing Diageo's margins with peers over the last five years highlights the company's superior profitability (figure 15). Diageo's average gross margin of 60% significantly outpaces the peers' average of 52%. Operating and net margins also outperform at 27% and 20%, respectively, compared to peers' average of 22% and 11%. This outperformance can be attributed to the aforementioned resilience through the pandemic period and Diageo's focus on premiumisation and strategic investments in high-growth markets, like ready-to-drink, which have enabled it to capitalise on consumer trends more effectively.

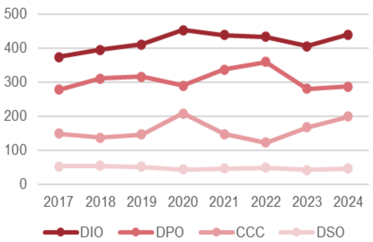


Figure 16: Diageo's historic cash conversion cycle breakdown
Source: Diageo's annual reports

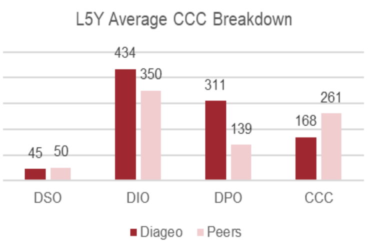


Figure 17: Diageo's last five years average cash conversion cycle breakdown compared to peers
Source: Diageo's annual reports and Bloomberg

Cash Conversion Cycle

Over the analysed period, Days Inventory Outstanding (DIO) has overall trended upward, growing from 373 days in 2017 to 440 in the last fiscal year, significantly higher than the peers' average of 350 days (figure 16 and 17). This elevated level partly reflects Diageo's strategic focus on maintaining a robust inventory of premium products to meet demand. However, the company has also addressed regional challenges, such as in the Latin America and the Caribbean region, where inventory levels have been deliberately reduced to align with a more conservative consumer environment.

Days Sales Outstanding (DSO) has remained relatively stable at an average of 45 days in the last five years, slightly below the peer group's 50 days, suggesting a more efficient management of receivables and disciplined credit terms. Conversely, Days Payable Outstanding (DPO) has seen some fluctuations.

Nonetheless is well above peers' average at 311 vs. 139 days, indicating a stronger negotiating position with suppliers.

As a result, Diageo's CCC, averaging 168 days compared to the peers' 261 days, highlights the company's superior cash flow management. The shorter CCC reflects its ability to minimise the time between inventory production and payment collection while managing supplier terms effectively.

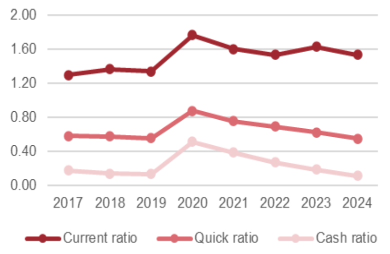


Figure 18: Diageo's historic liquidity ratios
Source: Diageo's annual reports

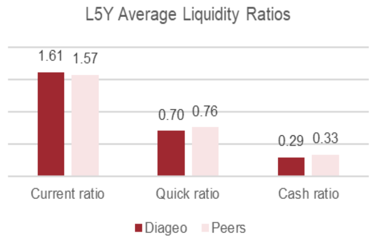


Figure 19: Diageo's last five years average liquidity ratios compared to peers
Source: Diageo's annual reports and Bloomberg

Liquidity

Diageo has exhibited stable liquidity ratios over the analysed period, maintaining its ability to cover short-term obligations. All three liquidity ratios (current, quick, and cash) experienced a noticeable peak in 2020 (figure 18), driven by a significant rise in bond proceeds, which jumped from £2,766 million to £5,188 million. This increase most likely reflects a strategic decision to strengthen liquidity during the uncertainty of the COVID-19 pandemic. The current ratio peaked at 1.77 in 2020 and has since been normalising, pointing to 1.53 in the last fiscal year. However, the quick and cash ratios have shown a gradual decline in recent years, reaching levels lower than those observed pre-COVID. This might indicate a return to more typical operating conditions and a strategic focus on deploying cash for growth and operational efficiency.

Compared to peers, Diageo's liquidity ratios are generally in line, with a slightly higher current ratio but slightly lower quick and cash ratios (figure 19).

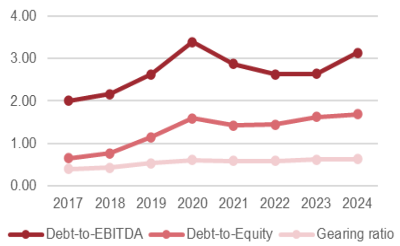


Figure 20: Diageo's historic capital structure ratios
Source: Diageo's annual reports

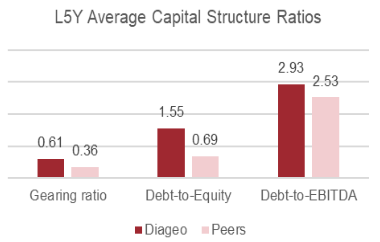


Figure 21: Diageo's last five years average capital structure ratios compared to peers
Source: Diageo's annual reports and Bloomberg

Capital Structure

Diageo's capital structure shows reliance on debt financing, with a noticeable increase in debt metrics in 2020 (figure 20). The Debt-to-EBITDA ratio peaked at 3.39 in 2020, primarily driven by the aforementioned significant rise in bond proceeds, which was aimed at strengthening liquidity during the COVID-19 pandemic. Following this period the ratio showed a regression to pre-pandemic levels, but the last fiscal year saw another jump, rising from 2.64 to 3.14, driven by a significant decline in depreciation and amortisation, which dropped from £1,066 to £392 million.

The Debt-to-Equity ratio has also remained elevated, averaging 1.55 over the last five years compared to the peer average of 0.69 (figure 21). This higher level reflects the company's reliance on debt to finance its operations and investments.

The gearing ratio, which measures the proportion of debt to enterprise value, has averaged 0.61, compared to the peer average of 0.36.

Overall, Diageo's capital structure ratios highlight a higher level of leverage relative to peers, partly attributable to the increased borrowing during the pandemic.

Free Cash Flow

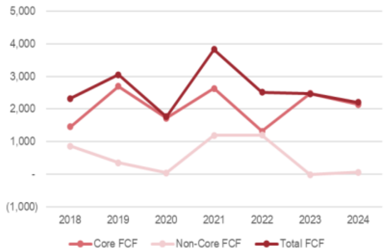


Figure 22: Diageo's historic free cash flows
Source: Diageo's annual reports

Diageo's free cash flow (FCF) has exhibited notable volatility over the historical period, primarily driven by external disruptions and operational factors (figure 22). In 2020, the pandemic significantly impacted core FCF, which fell to £1,724 million from £2,694 million in 2019. This decline was driven by a nearly 50% drop in the core result, reflecting a sharp reduction in sales, while core invested capital decreased, led by reductions in receivables and other working capital components.

In 2022, core FCF experienced another drop to £1,316 million during the post-COVID boom (vs. £2,629 in the previous year). This recovery was fuelled by a more than double increase in the core result, as sales surged alongside a significant rise in core invested capital. The latter increase was driven mainly by higher inventories and investments in PPE.

The non-core FCF has been particularly volatile throughout the historical period due to unstable non-operating items and fluctuations in other comprehensive income. For instance, non-core FCF peaked at £1,198 million in 2022 but turned negative in 2023, emphasising its inconsistency as a contributor to total FCF.

Profitability

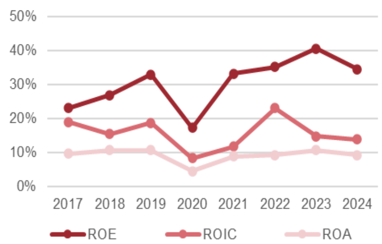


Figure 23: Diageo's historic profitability ratios
Source: Diageo's annual reports

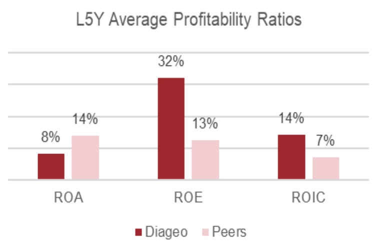


Figure 24: Diageo's last five years average profitability ratios compared to peers
Source: Diageo's annual reports and Bloomberg

Diageo's Return on Equity (ROE) and Return on Invested Capital (ROIC) ratios have shown notable fluctuations over the analysed period, reflecting the impact of major macroeconomic events (figure 23). All metrics experienced a significant drop in 2020, as earnings were heavily impacted by the pandemic. This was followed by a strong recovery through 2022, showing the company's ability to capitalise on post-pandemic market opportunities and efficiency in deploying its capital in high-margin opportunities. More recently, we have been seeing a return to pre-pandemic trends, with both ratios dropping significantly. Nonetheless, when compared to peers, Diageo has been clearly overperforming in the last five years, with both ratios doubling the peers' average (figure 24).

In contrast, the Return on Assets (ROA) experienced more stability over the analysed period, with a slight dip in 2020, but shows a last five years average lower than peers. This reflects a larger asset base, which can be linked to the company's premiumisation strategy requiring maintaining high maturing inventory levels, for aged spirits like whiskey and scotch, which represent over 80% of Diageo's total inventory.

Valuation

Cost of Capital

In order to value Diageo's future cash flows, an appropriate discount rate was calculated using the Weighted Average Cost of Capital (WACC) method. For this, assumptions were necessary to determine the following components:

Rf of 4.41%

Risk-free rate – For the risk-free rate, we assumed the 10-year UK government bond yield, currently at 4.41%, which reflects the long-term stable returns in the UK market.

MRP of 6.00%

Market risk premium – Based on data from Statista, we assumed a UK market risk premium of 6.00%.

Diageo-based cost of equity of 9.25%

Peers-based cost of equity of 8.85%

Cost of equity – The cost of equity for Diageo was calculated using two different approaches based both on Diageo's historical beta of 0.793, obtained through a regression of Diageo's 10-year returns against the FTSE 100 index, and on an average peers-based historical beta of 0.733, obtained by regressing each against the same index, in the correspondent currencies, over the same period. The next step was to unlever and re-lever both betas for a target D/E ratio of 74.46% derived from a peers' average, resulting in a Diageo-based equity beta of 0.806 and a peers-based equity beta of 0.739. Finally, using the Capital Asset Pricing Model, we arrived at costs of equity of 9.25% and 8.85%, respectively.

Cost of debt of 5.62%

Cost of debt – Diageo's cost of debt was determined based on a default spread of 1.21%, associated with its A- credit rating, added to the risk-free rate, which yielded a pre-tax cost of debt of 5.62%.

WACC	
WACC Historical DGE Beta	7.22%
WACC Historical Comps Beta	6.99%
Avg. WACC	**7.10%**

Figure 25: WACC
Source: Analysts' estimates

Weighted Average Cost of Capital – To balance the two views on Diageo's equity risk, we averaged the WACC based on Diageo's historical beta (7.22%) and the WACC based on peers' betas (6.99%), resulting in a final WACC of 7.10% (figure 25). This WACC includes a 20% tax rate, which is consistent with Diageo's average statutory tax rate over the last years, and acts as the discount rate for our Discounted Cash Flows analysis.

Discounted Cash Flows Model

DCF Valuation	
g	2.00%
WACC	7.10%
Enterprise Value	**76,690**
EV to Equity bridge	(17,578)
Equity Value	59,112
Number of Outstanding Shares	2,222
Estimated Price per Share	**26.60**
Expected Transactions with Shareholders in 2025	3,004
Per share	1.35
Total Value per Share	**27.95**
Current Price per Share	26.00
Upside / Downside	**7.51%**

Figure 26: DCF valuation
Source: Analysts' estimates

This valuation model estimates Diageo's price per share at £26.60, along with £1.35 expected transactions with shareholders by the end of 2025, reflecting an upside potential of 7.51% compared to the current market price. This corresponds to an equity value of £59 billion and an enterprise value of £77 billion (figure 26). The model assumes a perpetual growth rate aligned with long-term inflation targets of 2%, resulting in a terminal value of £42 billion.

From a value creation perspective, Diageo's projected long-term return on invested capital (ROIC), at 20.87%, exceeds the estimated WACC of 7.10%, underscoring the company's ability to create value for its shareholders.

Sensitivity Analysis

To understand the impact of key assumptions on our valuation, we conducted a sensitivity analysis focusing on Diageo's terminal growth rate (g) and the WACC. These two parameters are particularly influential, as the terminal growth rate drives the projected long-term growth of the company, while the WACC determines the present value of future cash flows by acting as the discount rate.

Range of prices		# observations
0	10	-
10	20	43
20	30	36
30	40	20
40	50	15
50	60	7
60	70	7
70	80	5
80	90	3
90	100	1
100		6
Below current price		67
Above current price		76

Figure 27: Sensitivity analysis heatmap
Source: Analysts' estimates

The analysis explored a range of terminal growth rates from 0.75% to 3.25% and WACC values from 4.00% to 10.00%. The results demonstrate a wide range of potential outcomes, with the implied share price varying from £13.30 under the most conservative assumptions (g = 0.75%, WACC = 10.00%) to £212.21 in the most optimistic scenario (g = 3.25%, WACC = 4.00%), underlining the importance of selecting realistic input assumptions when interpreting the model's outputs.

The main focus is on valuations around £10 and £30 per share, which aligns closely with the current market price. Nonetheless, out of the 143 observations generated by the sensitivity analysis, 67 suggest a valuation below the current share price, while 76 imply an upside (figure 27).

Scenario Analysis

Worst case scenario

Impacted elements from the Base Case	Modified value	Total Value per Share	Upside / Downside
MRP	6.50%	25.64	(1%)
yoy change of Net Sales for the forecasted period	2.00%	20.33	(22%)
risk free rate	5.41%	27.83	7%
Credit rating	BBB	29.40	13%
Worst outcome (all alternatives combined)		**16.97**	**(35%)**

Best case scenario

Impacted elements from the Base Case	Modified value	Total Value per Share	Upside / Downside
MRP	5.50%	38.97	50%
yoy change of Net Sales for the forecasted period	5.00%	34.97	35%
risk free rate	3.41%	33.74	30%
Credit rating	AA	28.12	8%
Best outcome (all alternatives combined)		**46.19**	**78%**

Figure 28: Scenario analysis
Source: Analysts' estimates

The scenario analysis highlights the potential range of outcomes for Diageo's valuation based on changes to key financial and macroeconomic assumptions. In both the best-case and worst-case scenarios, the chosen parameters were altered symmetrically, but their impact on valuation is notably asymmetric (figure 28).

Among the strongest drivers and more uncertain assumptions is the change in net sales growth. A reduction in growth under the worst-case scenario compresses valuation, reflecting a combination of weaker demand and challenges across Diageo's key markets. On the other hand, accelerated growth driven by tailwinds in the best-case scenario significantly lifts valuation.

The market risk premium and risk-free rate also play critical roles, primarily through their combined effect on the discount rate. Higher perceived risk and tighter monetary conditions in the worst-case scenario increase the cost of capital, compounding the negative impact of slower growth. In contrast, improved market sentiment and a lower cost of capital support a much more favourable valuation environment.

The asymmetry in valuation outcomes is noteworthy: while the downside potential in the worst case reaches (35%), the upside potential in the best case stands at 78%. This disparity underscores the significance of growth execution, with the best-case scenario highlighting the upside potential of Diageo's business model, particularly its exposure to premium segments and emerging markets, where growth opportunities remain substantial.

Trading Comparables

To further support our valuation, we performed a relative valuation analysis with a set of trading comparable peers from the spirits and beer sectors. Our peer group includes spirits-focused companies such as Pernod Ricard, Remy Cointreau, Davide Campari, and Brown-Forman, as well as beer players like AB InBev, Heineken, Carlsberg, Constellation Brands, and Molson Coors. These companies were chosen based on their similar market positioning, product portfolios, and growth potential.

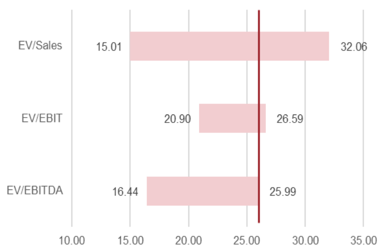


Figure 29: Trading comparables valuation football field
Source: Analysts' estimates and Bloomberg

This analysis focused on three commonly used valuation multiples in the consumer staples sector: EV/Sales, EV/EBIT, and EV/EBITDA (figure 29).

EV/Sales: This metric suggested an implied share price ranging from £15.01 to £32.06, representing a median upside of 11.01%.
EV/EBIT: This metric suggested an implied share price ranging from £20.90 to £26.59, representing a median upside of (14.76%).
EV/EBITDA: This metric suggested an implied share price ranging from £16.44 to £25.99, representing a median upside of (16.99%).

However, like with any valuation analysis, there are limitations to directly comparing Diageo to other competitors. Variations in, i.e., product mix,

Company	EV/Sales	EV/EBIT	EV/EBITDA
Diageo	4.40x	15.50x	13.90x
Spirits			
Pernod Ricard	3.60x	13.50x	11.80x
Remy Cointreau	3.30x	13.40x	11.40x
Davide Campari	3.10x	15.90x	13.20x
Brown-Forman	5.40x	18.60x	17.40x
Beers			
AB InBev	3.30x	12.90x	9.50x
Heineken	2.00x	14.40x	9.30x
Carlsberg	1.70x	11.40x	8.30x
Constellation Brands	5.30x	15.60x	13.90x
Molson Coors	1.60x	10.40x	7.50x

Figure 30: Diageo and peers' multiples
Source: Bloomberg

geographical focus, and exposure to emerging market growth can all have an impact on comparability. For instance, within the spirits group, Brown-Forman clearly trades at significantly higher multiples compared to the remaining peers, and even Diageo (figure 30). This is possibly due to its heavy focus on whiskey, particularly premium brands like Jack Daniel's, which benefits from high margins and strong pricing power. The same analysis can be done within the beers group, looking at Constellation Brands, also trading at higher multiples compared to its peers. In this case, we believe the higher valuation comes from its increasing exposure to the fast-growing ready-to-drink segment, differentiating it from competitors like AB InBev and Heineken which are more reliant on traditional beer categories. These examples underscore how product focus, geographic strategy and other variations can drive valuation differences and highlight the need for careful analysis when interpreting valuation results.

Annex: Full Report

DIAGEO PLC

COMPANY REPORT

ALCOHOLIC BEVERAGES

17 DECEMBER 2024

ANA PATRÍCIA LOPES | MIHNEA ENACHE

52862@novasbe.pt | 60028@novasbe.pt

A Spirit of Strength

Resilient through uncertain times, ready to restore momentum

- We recommend investors to a HOLD position on Diageo plc, given our target price of £26.60, that along with the expected transactions between the company and shareholders, is expected to show a 7.51% return by the end of the company's FY25.
- While the company has demonstrated resilience through periods of disruption, maintaining stable margins, it has yet to fully regain momentum.
- Strong demand seen in the immediate post-pandemic years has tapered off, particularly in premium spirits categories like tequila and scotch. Elevated inventories, especially in the Latin America and the Caribbean region, and changing consumer dynamics remain headwinds in the near term.
- While regions like Asia-Pacific continue to show growth potential, supported by premiumisation trends in markets like India and China, mature markets such as Europe and North America have faced slower recovery due to macroeconomic pressures, competition, and moderation in consumption.
- Diageo's focus on innovation, cost controls, and capital allocation supports long-term value creation. However, a more sustained recovery in regional performance and stronger market share gain will be required to justify a more bullish position.

Company description

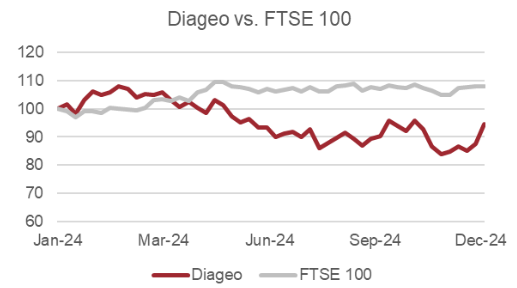
Founded in 1997 and headquartered in London, Diageo is a global leader in premium drinks with over 200 brands across the spirits, beers, cider and wine categories. Operating 132 production sites globally and with a headcount of over 30,000, Diageo sells its products in c.180 countries.

Recommendation:	**HOLD**
Price Target FY25:	**£26.60**
Price (as of 17-Dec-24)	**£26.00**

Reuters: DGE.L, Bloomberg: DGE:LN

52-week range (£)	22.75-30.56
Market Cap (£bn)	57.77
Outstanding Shares (m)	2,222
YTD Return (%)	-8.96%

Source: Bloomberg



Source: Bloomberg

(Values in £ millions)	2024	2025F	2026F
Sales	22,150	23,683	24,337
EBITDA	5,158	5,436	5,658
EBITDA margin	23%	23%	23%
Comprehensive Result	2,851	3,584	3,787
FCF	2,206	4,615	4,289
EV/Sales (x)	3.46	3.24	3.15
EV/EBITDA (x)	14.9	14.1	13.6
ROIC	14%	15%	16%

Source: Company information and analysts' estimates

Table of Contents

Company Overview

History

Figure 1: Diageo's logo
Source: Diageo’s website

Diageo plc was established in 1997 through the merger of Grand Metropolitan and Guinness, with its shares listed on the London Stock Exchange the same year. From its inception, Diageo focused on becoming a global player in premium alcoholic beverages by streamlining its operations and divesting non-core assets. This included the sale of Burger King and Pillsbury in 2000, which allowed the company to focus on a portfolio of spirits and beer.

The company has expanded geographically and diversified its offerings through targeted investments and acquisitions. In 2001, Diageo acquired Seagram’s spirits and wine business, increasing its presence in North America. This was followed by the 2014 purchase of United Spirits Limited, which raised its exposure to the Indian market. The company also invested in breweries and partnerships in Africa in 2017, reflecting a new entrance into emerging markets.

In 2016, Diageo entered the non-alcoholic category with the acquisition of Seedlip, a brand specialising in non-alcoholic spirits. The 2018 acquisition of Casamigos, a premium tequila brand, expanded its presence in the United States and Latin America. In recent years, Diageo concentrated on categories like gin and tequila, particularly in Europe, North America, and Asia-Pacific.

Figure 2: Selected brands
Source: Diageo’s website

Products and Business Model

Today, Diageo owns a diverse portfolio of over 200 brands covering multiple alcoholic beverage categories, including spirits, beer, and ready-to-drink (RTD) offerings, with some well-known names serving as key representatives in each segment (figure 2).

Figure 3: Scotch portfolio price ladder
Source: Diageo’s FY24 annual report

Many of these brands feature multiple editions or tiers that capture different price points and consumer preferences under the same brand umbrella. For example, Johnnie Walker, one of the world’s leading scotch brands, offers a range of products from its entry-level Red Label to premium editions like Blue Label and Green Label, targeting standard, premium, and luxury price segments (figure 3). Similarly, in the tequila category, Don Julio demonstrates a parallel strategy, offering products such as Don Julio Blanco for the standard segment, while higher-end editions like Don Julio 1942 and Don Julio Real cater to the super-premium category. This diversified pricing structure enables Diageo to remain

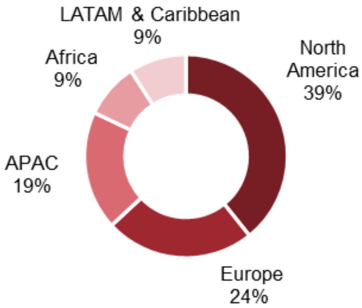


Figure 4: Diageo's FY24 net sales by region
Source: Diageo's annual report

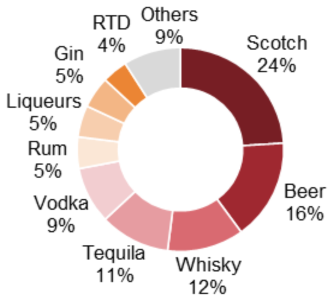


Figure 5: Diageo's FY24 net sales by category
Source: Diageo's annual report

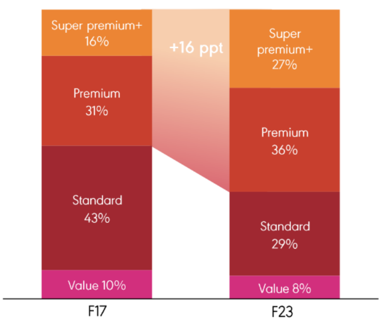


Figure 6: Sales breakdown by price tier, FY17 - FY23
Source: Diageo's 2024 CAGNY presentation

competitive across consumer groups, from mainstream to affluent buyers, further supporting the company's premiumisation strategy.

Diageo's global portfolio is not only categorically diversified but also geographically well-balanced (figures 4 and 5). Operating in over 180 countries, Diageo has established a strong presence across both mature markets, such as North America and Europe, and emerging markets, including Asia-Pacific, Africa, and Latin America. This geographic reach reduces Diageo's exposure to risks in any single market while allowing the company to capitalise on growth opportunities in developing economies, where rising disposable incomes and evolving consumer trends favour premium and international spirits.

Strategy

Diageo's strategy is structured around three pillars: strengthening its brands and portfolio, responding to consumer trends, and executing with operational excellence. The main target that acts as the primary driver for many actions undertaken by the company is to achieve a 6% market share by 2030 in the Total Alcoholic Beverage (TBA) sector.

The first pillar, unleashing the power of brands and portfolio, focuses on maintaining Diageo's leadership in high-growth categories such as whisky and tequila by maximising growth opportunities while leveraging its heritage. At the same time, Diageo's strategy emphasizes winning with consumer-first local portfolios by building strong brands that are tailored to local markets. This strategy focuses on driving growth through local relevance, ensuring its portfolio aligns with regional preferences. Additionally, Diageo aims to continue Guinness' breakout growth by leveraging an asset-light model and fostering innovation.

The second pillar, related to the relative positioning towards consumer trends, highlights the way Diageo is responding to evolving preferences. Diageo continues to capitalise on the ongoing trend of premiumisation, aligning its portfolio with consumer preferences for higher-value products. This focus has translated into a significant shift in the company's sales breakdown by price tier, with premium categories accounting for around 63% in FY23, vs. the 47% slice in FY17 (figure 6). Increased demand for ready-to-drink (RTD) beverages and non-alcoholic options also reflects shifting consumer habits toward convenience, and moderation. Innovations such as Guinness 0.0 indicate Diageo's ability to adapt its portfolio to emerging opportunities. This focus on innovation is expected to drive incremental revenue growth, particularly in categories that appeal to younger, trend-driven consumer segments.

The third pillar, operational excellence, shows how Diageo balances growth with cost efficiency. The company delivered around £551 million in productivity savings in FY24 through supply chain optimisation, pricing strategies under its "Revenue Growth Management" (RGM) program, and disciplined resource allocation (figure 7). Looking forward, these initiatives are expected to sustain margin stability despite increasing costs from marketing and promotional activities. Additionally, Diageo's investments in production infrastructure and automation indicate a steady, moderate growth in Property, Plant, and Equipment (PPE) to support capacity expansion in high-growth markets, partially offset by the focus on premiumisation.

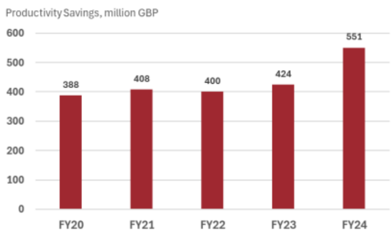


Figure 7: Productivity savings
Source: Diageo's annual report

Diageo's strategy is further underpinned by three key enablers: digital transformation, talent development, and sustainability. Digital tools, such as AI-driven marketing platforms and advanced supply chain systems, enable improved execution efficiency and cost management. Simultaneously, the "Spirit of Progress" program drives initiatives such as sustainable packaging and carbon reduction, reflecting a moderate, but necessary increase in sustainability-related operating expenses.

Governance

Diageo's governance structure is reflected by a Board of Directors composed of both executive and non-executive members, providing oversight and strategic guidance through specialised committees, which cover areas such as audit, remuneration, and sustainability. The Chair leads the Board, while executive management reports to the Board to ensure the alignment of corporate activities with shareholder interests.

The Executive Committee, headed by the CEO and supported by CFO Lavanya Chandrashekar (both of whom are also Board members), is additionally composed by five Chief Officers responsible for core functions, and four regional Presidents who oversee Diageo's operations in its key geographic areas.

A significant change occurred on the 28th of March 2023, when Debra Crew, previously COO, was announced to become the new CEO, following the retirement of former CEO, Ivan Menezes.

Shareholders Structure

Diageo's shareholder base is composed of institutional investors, individual shareholders, and holders of American Depositary Shares (ADSs). As of the latest report, the company had a total of 325,119,456 ordinary shares, including those held through ADSs, and approximately 209 million shares held as treasury shares.

The company is committed to delivering shareholder value through both dividends and share buybacks, aiming to increase its dividend paid annually, having the FY24 total recommended dividend of 79.28p per share experienced an increase of 5% vs. the prior year. Additionally, Diageo has a history of recurring share buyback programs, with the latest returning approximately £750 million of excess capital to its shareholders.

As of June 2024, Diageo had three substantial interests in its ordinary share capital, held by institutional investors: BlackRock with 5.89%, Capital Research and Management Company with 4.99%, and Massachusetts Financial Services Company with 4.99% (figure 8).

Shareholder	Number of ordinary shares	Percentage of issued ordinary share (excluding treasury shares)	Date of notification of interest
BlackRock Investment Management (UK) Limited (indirect holding)[1]	147,296,928	5.89%	3 December 2009
Capital Research and Management Company (indirect holding)	124,653,096	4.99%	28 April 2009
Massachusetts Financial Services Company (indirect holding)	111,560,606	4.99%	29 February 2024

Figure 8: Major shareholders
Source: Diageo's FY24 annual report

Industry Analysis

Industry Overview

The global alcoholic drinks market is a significant sector within the consumer goods industry, demonstrating steady growth and resilience despite economic fluctuations. Total revenues in 2023 reached £807 billion, with an expected compound annual growth rate (CAGR) of 1.19% between 2023 and 2028, bringing revenues to £857 billion by the end of the forecast period. Spirits are currently the largest revenue contributor, accounting for approximately 41% of total revenues in 2023, followed by beer at 33% (figure 9).

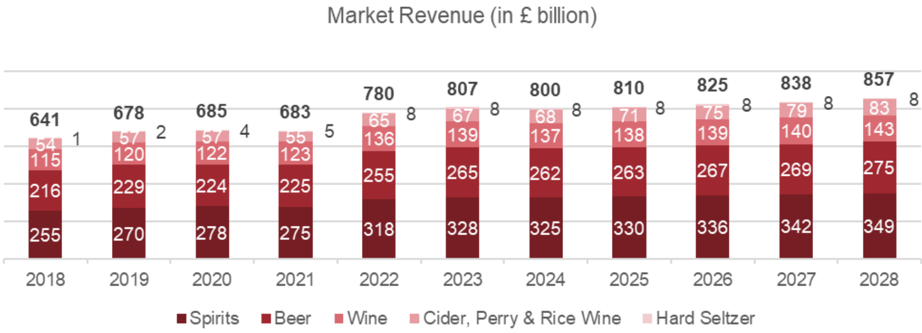


Figure 9: Global Alcoholic Drinks revenue by category
Source: Statista

Key growth drivers include shifting consumer preferences toward premium products and a growing focus on healthier alternatives. Premiumisation has been relevant, with super-premium and luxury categories in spirits significantly outpacing growth in other price tiers. Simultaneously, innovations in low-alcohol and alcohol-free beverages are addressing evolving consumer demands.

Emerging markets such as Asia-Pacific and Africa are showing volume and revenue growth, supported by rising disposable incomes and urbanisation. These regions are expected to experience robust growth across most categories. In contrast, mature markets like Europe and North America, though slower-growing, remain pivotal for high-margin premium products.

Sustainability and digital innovation are reshaping the industry landscape. Companies are adopting sustainable production methods and eco-friendly packaging to align with consumer values. Additionally, while e-commerce remains a small portion of overall sales, its rapid expansion underscores the growing role of digital platforms in driving industry dynamics.

Market Segmentation

The global alcoholic drinks market remains diverse and segmented across key categories, with spirits and beer dominating total market revenues, accounting for the largest share of the industry (figure 10).

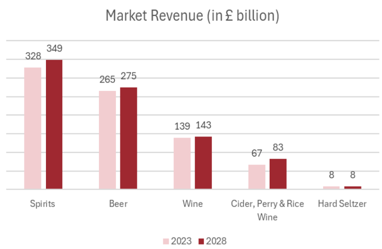


Figure 10: Market revenue by product
Source: Statista

Spirits

Accounting for approximately 41% of total revenues, spirits are the largest revenue contributor in the Alcoholic Drinks market. The segment is expected to grow from £328 billion in 2023 to £349 billion by 2028, driven by the super-premium segment demand in North America, China, and Europe.

Beer

Despite a slow 2023-28 CAGR of 0.74%, beer will remain a dominant category, growing from £265 billion in 2023 to £275 billion by 2028. Africa and Asia-Pacific are expected to drive this growth, counteracting declines in mature markets.

Wine

Wine revenues are forecasted to rise from £139 billion to £143 billion by 2028, reflecting a 0.51% CAGR. Growth will be concentrated in premium and sparkling wine segments, particularly in Europe and the U.S.

Cider, Perry, and Rice Wine

The fastest-growing category, cider, perry, and rice wine is expected to achieve a CAGR of 4.29%, with revenues increasing from £67 billion in 2023 to £83 billion by 2028, supported by niche consumption in Europe and Asia-Pacific.

Hard Seltzer

Being the only segment showing a slight decrease of (0.78%) CAGR from the analysed period, Hard Seltzer will maintain revenues at around £8 billion throughout 2028.

Key Industry Trends and Drivers

Premiumisation

Premiumisation continues to drive growth in the alcoholic beverage sector, particularly within spirits. Super-premium and luxury categories are projected to account for 42% of spirits market value by 2028. Diageo is well-aligned with this trend, with premium-plus brands contributing 63% of net sales growth in FY23. Brands like Johnnie Walker and Don Julio demonstrated strong double-digit growth, supported by pricing power and brand equity. While traction in developing markets like India and China is still building, rising incomes present significant future growth opportunities. Premiumisation supports Diageo's higher gross margins compared to value-oriented peers.

Health-Conscious and Low-ABV Consumption

The non-alcoholic and low-ABV market, driven by health trends, is expected to grow at a 7.3% CAGR through 2028. Diageo's offerings, such as Seedlip and Guinness 0.0, reflect its commitment to evolving consumer preferences. Guinness 0.0 achieved notable success in FY24, particularly in Europe, where health-conscious trends are strongest. However, the segment's lower margins and small revenue contribution mean its value lies in long-term growth potential.

Geographic Expansion and Market Localisation

The Asia-Pacific market remains a key growth driver for the alcoholic drinks market. Diageo achieved 4% organic net sales growth in FY24 in this region, led by premium expansion in India and China. Locally relevant brands like McDowell's in India and the success of Johnnie Walker Blue Label in China highlight Diageo's strategy to localise and premiumise. Despite ongoing investments and below-average margins, the region offers significant long-term potential.

E-commerce and Digital Transformation

E-commerce, growing at a 14.1% CAGR, remains a fast-emerging channel, with Diageo's e-commerce sales up 18% in FY24. Investments in digital platforms, such as the Consumer Choice Framework, enhance consumer insights and direct-to-consumer capabilities. While e-commerce currently contributes less than 3% to revenue, it represents a key opportunity for incremental margin improvements.

Sustainability and Corporate Responsibility

Diageo's "Society 2030: Spirit of Progress" targets include achieving net-zero carbon emissions and improving water efficiency by 50% by 2030. In FY24, greenhouse gas emissions were reduced by 23.8%, and water efficiency improved by 15.6% versus FY20 levels. While sustainability initiatives increase costs by an estimated 2% annually through 2028, they enhance brand equity and align Diageo with long-term regulatory and consumer expectations.

Competitive Landscape and Advantage

The global alcoholic beverages market is highly fragmented, with significant variations in competition across product categories and regions. Large multinational corporations dominate premium and super-premium segments, while regional and local players maintain strong positions in standard and value tiers. Diageo competes against key global players such as Pernod Ricard, Anheuser-Busch InBev (AB InBev), Heineken and Brown-Forman.

Pernod Ricard: Diageo's closest competitor in spirits, accounted for 1.5% of the global TBA market in 2023. While Pernod Ricard excels in cognac (Martell) and vodka (Absolut), it has faced slower growth in Scotch whiskey and tequila compared to Diageo. Pernod Ricard's Scotch portfolio, led by Chivas Regal, reported a 4% sales increase in 2023, lagging behind Diageo's 6% growth in Scotch net sales.

AB InBev and Heineken dominate the global beer market, with respective shares of 28% and 12% by volume in 2023. In comparison, Diageo's beer portfolio, led by Guinness, holds a much smaller market share but focuses on the high-margin premium beer segment, where it has outperformed competitors in key markets like Europe and Africa.

Brown-Forman, the leader in American whiskey, represents a significant competitor in North America, particularly with Jack Daniel's. Despite Brown-

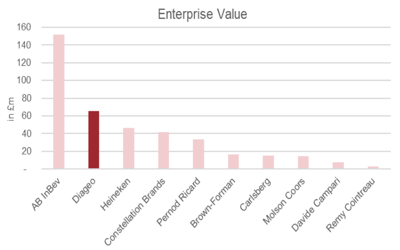


Figure 11: Diageo and peers' enterprise value
Source: Bloomberg

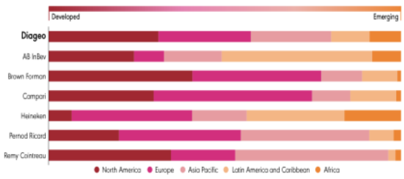


Figure 12: 2022 RSV breakdown by region
Source: Diageo's 2024 CAGNY presentation

Forman's focus on the U.S., Diageo's tequila portfolio (Don Julio, Casamigos) has outpaced Jack Daniel's growth in the region, contributing to a 2% gain in Diageo's market share in the U.S. spirits category from 2020 to 2024.

Overall, Diageo's competitive advantage stems from its scale, product diversification, and geographic reach, positioning it as a global leader in the alcoholic beverages market. With an enterprise value second only to AB InBev (figure 11), Diageo's strong financial foundation enables it to invest in premiumisation, innovation, and brand building at a scale that few competitors can match. This advantage is further amplified by its balanced presence across developed and emerging markets (figure 12). Diageo's diversified regional footprint allows it to capture growth opportunities in high-margin developed markets like North America and Europe, while simultaneously expanding its presence in emerging markets such as Asia-Pacific and Africa. This dual-market strategy mitigates regional risks and ensures steady revenue streams, reinforcing Diageo's resilience and long-term growth potential.

Porter's Five Forces

Threat of New Entrants: Barriers to entry in premium spirits and beer remain high due to brand equity and production costs. Diageo's extensive portfolio and global scale provide significant insulation from new entrants.

Bargaining Power of Buyers: Retailers exert moderate power, particularly in mature markets where price sensitivity is high. However, Diageo's premium positioning limits exposure to price competition.

Bargaining Power of Suppliers: Raw material costs, particularly for agave and barley, create moderate supplier power. Diageo's vertically integrated production for certain brands mitigates this risk.

Threat of Substitutes: Health-conscious trends and competition from non-alcoholic beverages pose risks. Diageo's investments in low and non-alcoholic segments help hedge against this threat.

Industry Rivalry: The industry is highly competitive, with strong global players and significant regional competitors. Diageo's focus on premiumisation and geographic diversification strengthens its position relative to its peers.

SWOT Analysis

Strengths

Market Leadership in Premium Spirits: Diageo is the global leader in premium and super-premium spirits, with iconic brands like Johnnie Walker and Don Julio. These brands contributed 63% of net sales growth in fiscal 2024, capitalising on the ongoing premiumisation trend. This leadership supports strong gross margins (62% in 2024), above the industry average.

Geographic Diversification: Diageo operates in over 180 countries, with no single region contributing more than 39% of net sales. This diversification mitigates regional economic risks, as seen in its ability to offset North America's modest 1% growth in FY24 with a 7% increase in Asia-Pacific and 12% in Africa.

Weaknesses

Limited Penetration in Non-Alcoholic Beverages: Non-alcoholic products contributed less than 2% of Diageo's total net sales in FY24, compared to 8% for Heineken. While products like Guinness 0.0 have achieved success in Europe, Diageo has underperformed in non-alcoholic beer and spirits globally, limiting its ability to capture the growing health-conscious consumer base.

Margin Pressure from Input Costs and ESG Investments: Rising costs for raw materials (e.g., agave, up 20% since 2022) and sustainability-related expenditures have reduced margins by 1.2 percentage points in FY24. These pressures are projected to continue through 2028, potentially offsetting gains from premiumisation.

Opportunities

Expansion in Emerging Markets: Asia-Pacific and Africa are projected to grow at CAGRs of 4.3% and 3.6%, respectively, through 2028. Diageo's localised offerings, such as McDowell's in India and Serengeti in Africa, provide opportunities to capture both volume and premiumisation-driven growth

E-Commerce Growth: E-commerce revenues for alcoholic beverages are projected to grow at a CAGR of 14.1% through 2028. Diageo's e-commerce sales grew by 18% in fiscal 2024, significantly outpacing the market. Scaling this channel offers incremental growth, particularly for premium products in North America and Europe.

Threats

Intensifying Competition: Pernod Ricard, AB InBev, and Heineken are aggressively expanding in high-growth categories such as tequila, non-alcoholic beverages, and premium beer. Pernod Ricard's acquisitions in tequila directly challenge Diageo's dominance in the U.S.

Regulatory and Taxation Risks: Increasing excise duties (7% globally in FY24) and tightening advertising restrictions in key markets like India and Africa disproportionately impact Diageo's price-sensitive product categories, limiting affordability and demand elasticity.

Actionable Insights

1. Strengthening Non-Alcoholic Offerings to Capture Health-Conscious Consumers

Diageo can address its weakness in non-alcoholic beverages by increasing investment in marketing and distribution for Guinness 0.0 and Seedlip. Expanding partnerships with e-commerce platforms will enable targeted promotions in high-demand regions such as Europe and North America, aligning with opportunities in e-commerce and consumer trends.

2. Enhancing Localised Strategies in Emerging Markets

To mitigate regulatory risks and capitalise on growth opportunities in Asia-Pacific and Africa, Diageo should focus on affordability strategies for mid-tier products and increase localised production. Tailoring products to regional preferences (e.g., Indian whisky and African beer) will help maintain competitive positioning while balancing volume and margin growth.

3. Leveraging E-Commerce to Counter Competition in Premium Categories

Diageo should scale its digital marketing and e-commerce capabilities to sustain its leadership in premium spirits. By using AI-driven personalisation and direct-to-consumer strategies, it can enhance customer engagement and brand loyalty, mitigating competitive pressures from Pernod Ricard and others.

Risks and Challenges

Macroeconomic Risks

Macroeconomic factors, including inflation, currency fluctuations, and economic slowdowns, pose significant challenges for Diageo's global operations. With 44% of Diageo's revenues coming from emerging markets such as Africa, Asia-Pacific, and Latin America, the company is exposed to high volatility in exchange rates and inflation. For instance, in FY24, currency devaluations in Nigeria and Ghana led to a 5% decline in operating profit in Africa when adjusted for constant exchange rates.

Rising input costs, driven by inflation in raw materials like agave (tequila), barley (beer), and glass (bottles), have further pressured margins. Between 2022 and 2024, Diageo's raw material costs increased by 8%, necessitating price adjustments that risk weakening demand elasticity, particularly in price-sensitive regions.

Economic slowdowns in markets such as Europe and North America, where growth is projected at a modest 2.5% CAGR through 2028, also limit opportunities for volume growth. However, Diageo's premiumisation strategy offsets these risks to an extent, with premium-plus products demonstrating resilient demand even during economic downturns.

Regulatory and ESG Risks

The alcoholic beverages industry is subject to stringent regulatory environments, including advertising restrictions, excise duties, and sustainability requirements. In FY24, Diageo faced a 7% increase in excise duties globally, particularly in India and Africa, where regulatory policies disproportionately impact affordability and demand.

In addition, ESG considerations are becoming central to operational strategies. Diageo's "Society 2030: Spirit of Progress" initiative aims to achieve net-zero carbon emissions and improve water efficiency by 50% by 2030. While these commitments align with consumer expectations, they also come with increased capital expenditures, which are estimated to reduce operating margins by 2% annually through 2028.

Comparatively, competitors such as Pernod Ricard and AB InBev are also investing heavily in sustainability, creating a competitive landscape where ESG performance directly influences brand equity and investor interest. Diageo's progress in reducing greenhouse gas emissions (23.8% since 2020) positions it favourably, though sustained investment is required to meet its ambitious 2030 targets.

Competitive and Market Risks

The intensifying competition in premium spirits, beer, and non-alcoholic beverages represents a significant challenge for Diageo. Key competitors, such as Pernod Ricard, Brown-Forman, AB InBev, and Heineken, are aggressively expanding in high-growth categories and regions.

In the tequila market, Diageo has a leading position with Don Julio and Casamigos, which collectively grew 21% in FY24. However, Pernod Ricard's strategic acquisitions in this category, such as Código 1530, underscore a competitive threat to Diageo's dominance. Similarly, in Scotch whiskey, while Diageo holds the largest global share, emerging competitors are expanding their premium offerings, pressuring Diageo's pricing power in regions like Europe and Asia-Pacific.

In non-alcoholic beverages, Heineken and AB InBev have captured the majority share in beer alternatives, leaving Diageo to focus on niche products like Seedlip and Guinness 0.0. Despite doubling its sales of Guinness 0.0 in Europe in 2024, Diageo's non-alcoholic offerings contribute less than 2% to net sales, indicating limited immediate financial impact compared to peers.

Operational Risks

Diageo's global supply chain exposes it to risks such as raw material shortages, logistics disruptions, and increasing production costs. For example, agave prices have surged by over 20% since 2022, impacting the profitability of tequila, which contributes 11% of Diageo's net sales. Additionally, energy cost increases in Europe and logistical challenges in Africa have led to temporary production inefficiencies, which reduced gross margins by 1.2 p.p. in FY24.

While Diageo has mitigated some of these risks through vertical integration and localised sourcing, its reliance on external suppliers for key materials like barley and packaging remains a vulnerability. Competitors such as AB InBev, with more extensive supply chain integration, have demonstrated greater resilience in managing cost pressures.

Consumer Trends and Substitution Risks

Evolving consumer preferences, particularly health-conscious behaviour and the rise of non-alcoholic alternatives, represent both an opportunity and a risk. In Europe and North America, alcohol consumption per capita has declined by 1.6% annually since 2020, with younger generations increasingly opting for low-ABV and non-alcoholic beverages.

Diageo's investments in non-alcoholic products like Guinness 0.0 and Seedlip address this trend, but their limited contribution to revenues highlights the company's reliance on traditional alcohol categories. Meanwhile, competitors like Heineken and AB InBev have achieved greater market penetration in non-alcoholic beer, which accounts for 3.5% of total beer volumes globally, compared to less than 1% for Diageo's non-alcoholic offerings.

Region-Specific Challenges

Diageo faces unique risks in key growth regions such as Asia-Pacific, Africa, and Latin America.

In Asia-Pacific, Diageo's growth (4% organic net sales in fiscal 2024) is strong, but its market share remains relatively small compared to local leaders like Kweichow Moutai in China and regional whisky brands in India. Regulatory barriers and cultural preferences for local spirits limit Diageo's ability to scale rapidly in these markets.

In Africa, where beer dominates consumption, affordability challenges and currency devaluations have constrained volume growth. Diageo's price increases in the region helped offset these challenges but also contributed to volume declines of 2% in fiscal 2024.

In Latin America, inventory challenges in Mexico and weak economic conditions in Brazil led to a 9% decline in Diageo's regional net sales in fiscal 2024. Competitors like AB InBev have demonstrated greater stability in these markets due to stronger local distribution networks.

Performance Analysis

Diageo's financial and operational performance from 2017 to 2024 has been analysed to provide a comprehensive view of its long-term trends, avoiding distortions caused by the pandemic's short-term impact. Over these years, Diageo has maintained strong profitability and efficient liquidity management, supported by its premiumisation strategy and effective capital allocation. However, its higher leverage and lower asset efficiency compared to its peers highlight key areas for improvement.

Segments' Performance

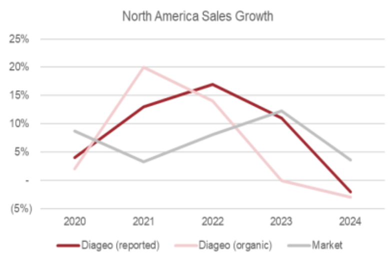


Figure 13: Diageo's North America historic growth compared to market
Source: Diageo's annual reports and Statista

North America

North America remains Diageo's largest and most critical region, accounting for around 39% of the company's net sales. However, recent performance has shown clear signs of deceleration following the post-pandemic boom. In fiscal 2024, both reported net sales growth and organic net sales growth turned negative, declining to approximately (2%) and (3%), respectively (figure 13). This represents a sharp reversal from the strong double-digit growth experienced in 2021 and 2022, when consumer demand surged as markets reopened in the post-pandemic boom.

The slowdown in 2023 and 2024 can be primarily attributed to inventory normalisation, as Diageo adjusted stock levels that had been elevated during the post-pandemic surge. Additionally, slower category momentum in key segments like premium tequila has further impacted Diageo's growth trajectory.

When compared to the broader North American alcoholic drinks market, which has managed to sustain, on average, high single-digit growth despite economic pressures, Diageo's recent results indicate relative underperformance. This highlights challenges in regaining market share, particularly as competition intensifies in premium categories. Moreover, cautious consumer spending and inflationary pressures in the U.S. have further weighed on demand, amplifying the decline in Diageo's organic growth.

Europe

Europe remains an important region for Diageo, accounting for around 24% of total net sales, however, like the North America region, recent performance has shown signs of slowing after a period of strong growth. In 2024, reported net sales growth seems to have stabilised at around 12%, while organic growth continued to decline to 3% (figure 14).

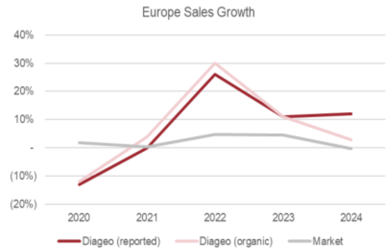


Figure 14: Diageo's Europe historic growth compared to market
Source: Diageo's annual reports and Statista

The slowdown reflects the normalization of consumer purchasing patterns, particularly in mature markets like the U.K. and Germany, where growth has been more restrained. However, Diageo has successfully leveraged innovations in alcohol-free and low-alcohol beverages, with products like Guinness 0.0 seeing strong uptake, driving the broader Guinness portfolio to deliver robust double-digit organic growth.

Compared to the broader European alcoholic drinks market, which has shown less volatility over the last 5 years, Diageo's reported performance remains resilient. The company's ability to capitalise on emerging trends, such as alcohol-free beverages, has allowed it to partially offset the softness in spirits demand.

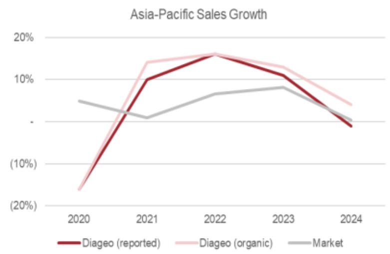


Figure 15: Diageo's Asia-Pacific historic growth compared to market
Source: Diageo's annual reports and Statista

Asia-Pacific

The Asia-Pacific region, accounting for around 19% of Diageo's total net sales, reported net sales growth of (1%), while organic growth slowed to 4%, reflecting, once again, a clear deceleration from the peak levels achieved in 2021 and 2022 (figure 15). This moderation comes amid macroeconomic pressures, particularly in South-East Asia and Australia, and the adverse impact of foreign exchange movements.

Diageo's performance in the region has been recently driven by strong double-digit growth in Chinese white spirits (e.g., Shui Jing Fang) and premium Scotch whiskies in Greater China. India remains another key market, where Diageo continues to benefit from the premiumisation trend, with solid contributions from brands like Royal Challenge and The Singleton.

Through these strengths, Diageo's organic growth has overperformed the broader market, which maintained a modest positive growth throughout the period.

Latin America and the Caribbean

Diageo's performance in the Latin America and the Caribbean region has been notably challenged in recent years. In 2024, both reported net sales growth and organic net sales growth continued to decline sharply to (15%) and (21%), respectively (figure 16), marking a significant reversal from the high double-digit growth experienced in 2022 (46% and 43%), when consumer demand rebounded strongly post-pandemic.

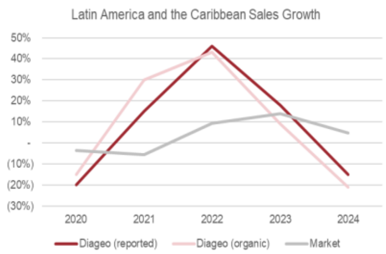


Figure 16: Diageo's Latin America and the Caribbean historic growth compared to market
Source: Diageo's annual reports and Statista

This decline in the last two years was primarily driven by a combination of inventory normalisation and a challenging competitive landscape. Elevated inventory levels carried over from the prior year were adjusted to align with weaker consumer demand, particularly in Brazil, Central America, and Mexico. Furthermore, consumer downtrading in key categories such as tequila and scotch added further pressure, particularly in Mexico, where demand for premium offerings like Don Julio and Johnnie Walker declined as consumers shifted to lower-cost local spirits.

Compared to the broader regional market, Diageo's performance indicates relative underperformance, particularly in premium categories where local competitors have gained ground.

Africa

Diageo's performance in Africa has been mixed in recent years, reflecting a challenging macroeconomic environment, persistent inflationary pressures, and currency devaluations. In 2024, reported net sales declined by approximately 13%, driven by the adverse impact of foreign exchange movements, particularly in Nigeria, where the Naira weakened significantly. In contrast, organic net sales grew by 12%, supported by price increases across the region (figure 17).

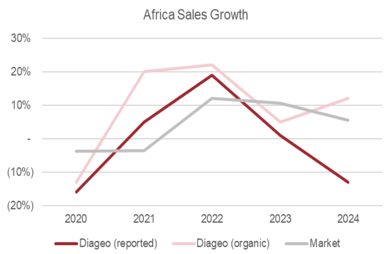


Figure 17: Diageo's Africa historic growth compared to market
Source: Diageo's annual reports and Statista

The growth in organic sales was primarily driven by strong performance in the beer category, which grew 19%, with key brands such as Malta Guinness, Guinness, and Senator delivering double-digit growth. However, this was partially offset by volume declines, particularly in spirits, where net sales declined 2%. The Johnnie Walker brand saw a significant decline in both volume and net sales, contributing to the softness in spirits across key markets like South Africa.

Compared to the broader market, Diageo's organic growth in Africa has been relatively strong, but the reported decline underscores the significant impact of currency volatility and economic headwinds.

Margins

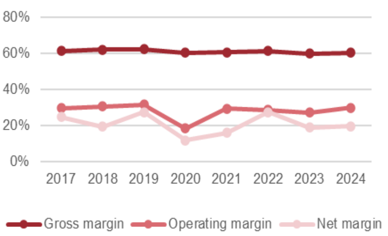


Figure 18: Diageo's historic margins
Source: Diageo's annual reports

Diageo has demonstrated steady profitability over the analysed period (figure 18), with gross margins remaining consistently stable at around 60%, even through less favourable cycles where the company was able to offset cost inflation with price and productivity increases. In contrast, operating and net margins experienced some fluctuations, particularly in 2020, when margins dropped due to the COVID-19 pandemic's impact on operations, and in the following years when a sharp rebound in profitability marked the subsequent post-pandemic boom.

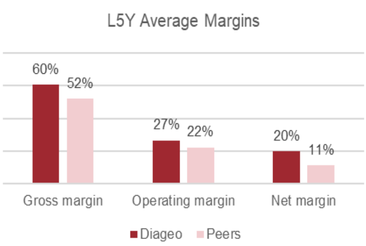


Figure 19: Diageo's last five years average margins compared to peers
Source: Diageo's annual reports and Bloomberg

Comparing Diageo's margins with peers over the last five years highlights the company's superior profitability (figure 19). Diageo's average gross margin of 60% significantly outpaces the peers' average of 52%. Operating and net margins also outperform at 27% and 20%, respectively, compared to peers' average of 22% and 11%. This outperformance can be attributed to the aforementioned resilience through the pandemic period and Diageo's focus on premiumisation and strategic investments in high-growth markets, like ready-to-drink, which have enabled it to capitalise on consumer trends more effectively.

Cash Conversion Cycle

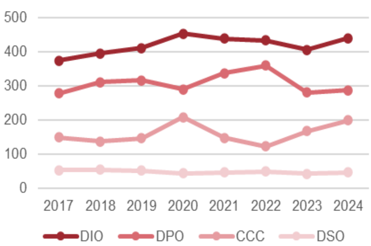


Figure 20: Diageo's historic cash conversion cycle breakdown
Source: Diageo's annual reports

Over the analysed period, Days Inventory Outstanding (DIO) has overall trended upward, growing from 373 days in 2017 to 440 in the last fiscal year, significantly higher than the peers' average of 350 days (figure 20 and 21). This elevated level partly reflects Diageo's strategic focus on maintaining a robust inventory of premium products to meet demand. However, the company has also addressed regional challenges, such as in the Latin America and the Caribbean region,

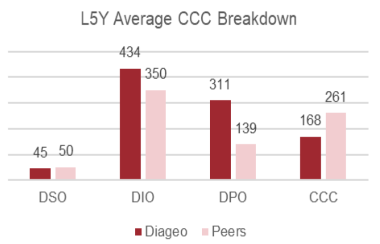


Figure 21: Diageo's last five years average cash conversion cycle breakdown compared to peers
Source: Diageo's annual reports and Bloomberg

where inventory levels have been deliberately reduced to align with a more conservative consumer environment.

Days Sales Outstanding (DSO) has remained relatively stable at an average of 45 days in the last five years, slightly below the peer group's 50 days, suggesting a more efficient management of receivables and disciplined credit terms. Conversely, Days Payable Outstanding (DPO) has seen some fluctuations. Nonetheless is well above peers' average at 311 vs. 139 days, indicating a stronger negotiating position with suppliers.

As a result, Diageo's CCC, averaging 168 days compared to the peers' 261 days, highlights the company's superior cash flow management. The shorter CCC reflects its ability to minimise the time between inventory production and payment collection while managing supplier terms effectively.

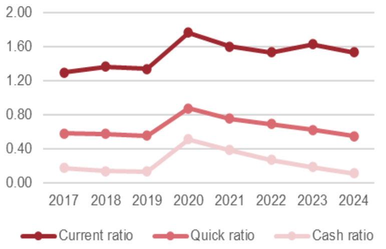


Figure 22: Diageo's historic liquidity ratios
Source: Diageo's annual reports

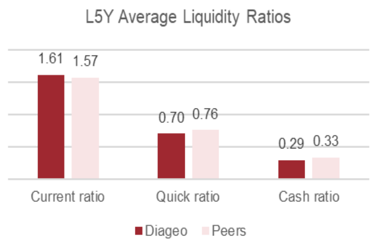


Figure 23: Diageo's last five years average liquidity ratios compared to peers
Source: Diageo's annual reports and Bloomberg

Liquidity

Diageo has exhibited stable liquidity ratios over the analysed period, maintaining its ability to cover short-term obligations. All three liquidity ratios (current, quick, and cash) experienced a noticeable peak in 2020 (figure 22), driven by a significant rise in bond proceeds, which jumped from £2,766 million to £5,188 million. This increase most likely reflects a strategic decision to strengthen liquidity during the uncertainty of the COVID-19 pandemic. The current ratio peaked at 1.77 in 2020 and has since been normalising, pointing to 1.53 in the last fiscal year. However, the quick and cash ratios have shown a gradual decline in recent years, reaching levels lower than those observed pre-COVID. This might indicate a return to more typical operating conditions and a strategic focus on deploying cash for growth and operational efficiency.

Compared to peers, Diageo's liquidity ratios are generally in line, with a slightly higher current ratio but slightly lower quick and cash ratios (figure 23).

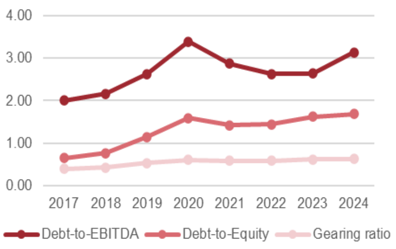


Figure 24: Diageo's historic capital structure ratios
Source: Diageo's annual reports

Capital Structure

Diageo's capital structure shows reliance on debt financing, with a noticeable increase in debt metrics in 2020 (figure 24). The Debt-to-EBITDA ratio peaked at 3.39 in 2020, primarily driven by the aforementioned significant rise in bond proceeds, which was aimed at strengthening liquidity during the COVID-19 pandemic. Following this period the ratio showed a regression to pre-pandemic levels, but the last fiscal year saw another jump, rising from 2.64 to 3.14, driven by a significant decline in depreciation and amortisation, which dropped from £1,066 to £392 million.

The Debt-to-Equity ratio has also remained elevated, averaging 1.55 over the last five years compared to the peer average of 0.69 (figure 25). This higher level reflects the company's reliance on debt to finance its operations and investments. The gearing ratio, which measures the proportion of debt to enterprise value, has averaged 0.61, compared to the peer average of 0.36.

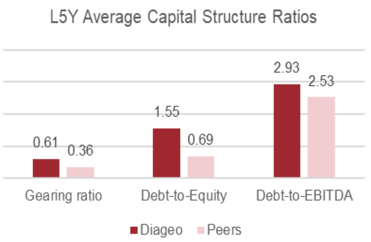


Figure 25:Diageo's last five years average capital structure ratios compared to peers
Source: Diageo's annual reports and Bloomberg

Overall, Diageo's capital structure ratios highlight a higher level of leverage relative to peers, partly attributable to the increased borrowing during the pandemic.

Free Cash Flow

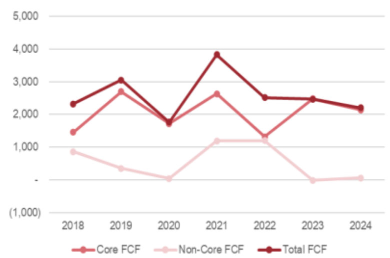


Figure 26: Diageo's historic free cash flows
Source: Diageo's annual reports

Diageo's free cash flow (FCF) has exhibited notable volatility over the historical period, primarily driven by external disruptions and operational factors (figure 26). In 2020, the pandemic significantly impacted core FCF, which fell to £1,724 million from £2,694 million in 2019. This decline was driven by a nearly 50% drop in the core result, reflecting a sharp reduction in sales, while core invested capital decreased, led by reductions in receivables and other working capital components.

In 2022, core FCF experienced another drop to £1,316 million during the post-COVID boom (vs. £2,629 in the previous year). This recovery was fuelled by a more than double increase in the core result, as sales surged alongside a significant rise in core invested capital. The latter increase was driven mainly by higher inventories and investments in PPE.

The non-core FCF has been particularly volatile throughout the historical period due to unstable non-operating items and fluctuations in other comprehensive income. For instance, non-core FCF peaked at £1,198 million in 2022 but turned negative in 2023, emphasising its inconsistency as a contributor to total FCF.

Profitability

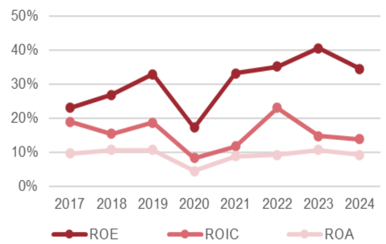


Figure 27: Diageo's historic profitability ratios
Source: Diageo's annual reports

Diageo's Return on Equity (ROE) and Return on Invested Capital (ROIC) ratios have shown notable fluctuations over the analysed period, reflecting the impact of major macroeconomic events (figure 27). All metrics experienced a significant drop in 2020, as earnings were heavily impacted by the pandemic. This was followed by a strong recovery through 2022, showing the company's ability to capitalise on post-pandemic market opportunities and efficiency in deploying its capital in high-margin opportunities. More recently, we have been seeing a return to pre-pandemic trends, with both ratios dropping significantly. Nonetheless, when compared to peers, Diageo has been clearly overperforming in the last five years, with both ratios doubling the peers' average (figure 28).

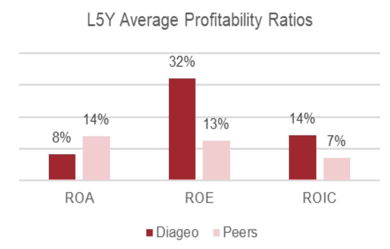


Figure 28: Diageo's last five years average profitability ratios compared to peers
Source: Diageo's annual reports and Bloomberg

In contrast, the Return on Assets (ROA) experienced more stability over the analysed period, with a slight dip in 2020, but shows a last five years average lower than peers. This reflects a larger asset base, which can be linked to the company's premiumisation strategy requiring maintaining high maturing inventory levels, for aged spirits like whiskey and scotch, which represent over 80% of Diageo's total inventory.

Forecasts

Balance Sheet

We forecasted the balance sheet based on stable historical ratios, average periods, observed growth rates and even manual modelling, ensuring internal consistency with revenue forecasts and Diageo's strategies. Core and non-core items are differentiated based on their relevance to the primary production and distribution activities, and the assumptions focus on incremental changes rather than structural shifts.

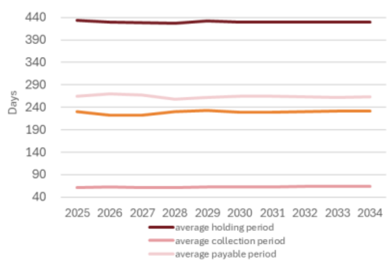


Figure 29: Evolution of Cash Conversion Cycle and its components
Source: Analysts' estimates

Operating Cash is maintained at 4% of net sales annually, reflecting Diageo's historically efficient cash conversion cycle and robust liquidity position.

Inventories are projected based on the Average Holding Period, which is forecasted as the average of the last 5 due to the anticipated stabilisation of the supply chain and maturity of operations (figure 29)

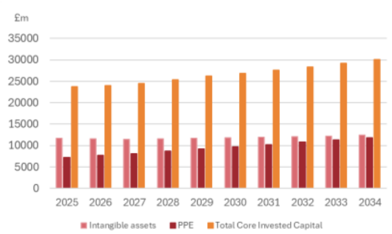


Figure 30: Evolution of PPE and Intangibles compared to Total Core Invested Capital
Source: Analysts' estimates

Intangible Assets have a segmented forecast based on its components, which is further projected based on the anticipated YoY growth rate, forecasted as the CAGR from the previous 7 years for all the captions (figure 30), due to brand consolidation and digitalisation initiatives.

Property, Plant, and Equipment (PPE) is based on the same breakdown approach, due to the lack of data related to the production facilities. All the elements are projected based on the YoY growth rate, which is forecasted as the CAGR from the previous 3 or 5 years, minus 1 p.p. for Land and Buildings, Plant and Equipment, Fixtures and Fittings and Under Construction (figure 30), due to divestments in non-key production geographies and specialisation

Receivables are projected based on the Average Collection Period, which is forecasted as the average of the last 5 years due to anticipated stabilisation of the supply chain and maturity of operations, but with a 2% growth factor due to the need for concessions in order to achieve the target market share by 2030 (figure 29)

Payables are projected based on the Average Collection Period, which is forecasted as the average of the last 5 years (figure 29), reflecting long-term stabilization of operations.

Tax Related Liabilities are projected based on the average of the last 5 years' % of Revenue

Non-Core Assets and Liabilities are forecasted based on historical averages, due to their constant patterns over time.

Excess Cash is forecasted to be zero for the reference period, under the assumption that everything will be reinvested actively in new opportunities and operational consolidation.

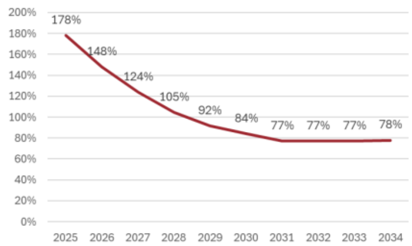


Figure 29: Evolution of D/E ratio over the forecasted period
Source: Analysts' estimates

Borrowings are projected based forecasted YoY change, which is manually forecasted to deleverage the company gradually and bring it closer to the target D/E of 77% (vs 204% in FY24) (figure 31).

Finally, **equity** is deducted from the Total Invested Capital and Net Financing Liabilities for each forecasted year

Income Statement

Revenues

Diageo's net sales estimates were segmented into its five reported regions: North America, Europe, Asia-Pacific, Latin America and the Caribbean, and Africa. To better capture revenue growth patterns, a top-down strategy was used, with Diageo's future market share and pricing trends estimated in each region.

To forecast Diageo's volumes, we began by collecting the alcoholic beverage market volumes, both historical and forecasted, for each region, along with Diageo's historical market share. For market growth beyond the available forecasted years, we assumed the same trends from the previous five years.

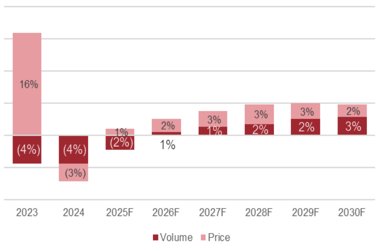


Figure 32: North America's sales growth 2023-2030F
Source: Diageo's annual reports and analysts' estimates

North America (figure 32) **–** Accounting for 39% of Diageo's FY24 sales, the North America region is the most critical to the group. Following the post-pandemic boom, the region is currently experiencing a downturn, with volumes and market share decreasing by approximately -4 – -5% over the past two years. However, this decline appears to be largely cyclical, and the conditions for recovery are expected to align soon. Additionally, the region is experiencing growth in tequila, driven by Don Julio, which increased momentum in the second half of 2024, growing fifteen times faster than the total US spirits industry and experiencing +19% organic volume growth in Diageo's last fiscal year. As such, we expect Diageo's market share to make a full recovery by 2026, picking up momentum from there on, with volumes showing a +1.8% CAGR from 2025 to 2030. As for average price per litre, considering Diageo's premiumisation strategy, we expect price to go up slightly in the next years, and then move with inflation in the longer term.

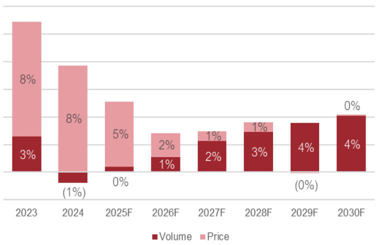


Figure 33: Europe's sales growth 2023-2030F
Source: Diageo's annual reports and analysts' estimates

Europe (figure 33) **–** In Europe, despite the post-pandemic downturn, Diageo has been delivering a resilient performance and achieving share gains. The region's volume decline in FY24 was primarily influenced by the lapping of final inventory sales in Russia, with marginal decreases in other areas driven by softness in spirits. However, strong growth in Guinness, including a doubling of net sales for Guinness 0.0, has been a key driver of performance. Additionally, Casamigos expanded its footprint to 30 countries in Europe, recording double-digit sales growth. Considering these factors, we anticipate ongoing share gains and a return to positive volume growth, projecting a +2.8% CAGR from 2025 to 2030. Average pricing is expected to slow down in the next few years and move with inflation from 2029 onwards.

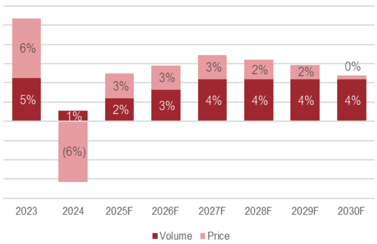


Figure 34: Asia-Pacific's sales growth 2023-2030F
Source: Diageo's annual reports and analysts' estimates

Asia-Pacific (figure 34) **–** The Asia-Pacific region continues to demonstrate strong growth potential for Diageo, particularly in key markets like India and China. Diageo has been increasing its participation in developing markets such as India, where it has successfully expanded Scotch penetration, recruiting 10 million new consumers. Moreover, consumer preferences in the country have been rapidly shifting towards premiumisation, further boosting growth. As such, Diageo is well positioned for continued market share growth, projected at +1% annually through 2027, stabilising at +4%, leading volume to experience a +4.2% CAGR between 2025 and 2030. Considering the continued premiumisation trend in the region, we expect average prices to increase slightly above inflation rates through 2027.

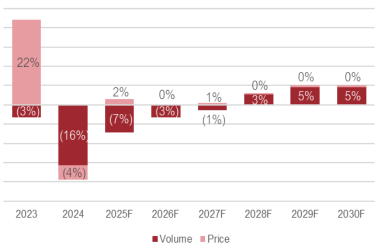


Figure 35: Latin America and the Caribbean sales growth 2023-2030F
Source: Diageo's annual reports and analysts' estimates

Latin America and the Caribbean (figure 35) **–** In the Latin America and the Caribbean region, Diageo has been facing significant challenges, especially in

Mexico, its second biggest market in the region, where competitive pressures in key categories such as tequila and scotch have been leading to substantial market share losses in the past two years. These declines are attributed to economic constraints driving consumer downtrading. However, Diageo's strategic focus on improving visibility into the distribution channels across the region aims to stabilise performance. As such, we assume the market share loss will gradually revert, with volumes reaching pre-pandemic levels and showing a +1.4% CAGR between 2025 and 2030. The average price per litre was estimated by correlating with projected inflation.

Africa (figure 36) **–** In the Africa region, we have seen a lot of volatility, both in volume and average pricing, mainly attributed to macroeconomic headwinds. Nonetheless, Diageo has been experiencing strong revenue growth in beer, the region's largest segment, and is increasingly focused on bringing consumers into spirit categories. As such, we forecast moderated growth for the area, with market share movements stabilising and volume showing a +2.5% CAGR between 2025 and 2030. However, due to macroeconomic conditions, we do not expect much premiumisation, and thus the average price per litre was estimated by correlating with projected inflation.

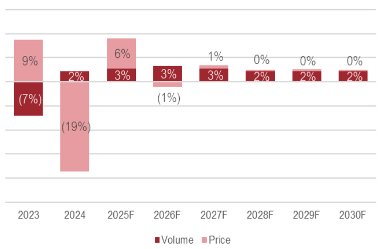


Figure 36: Africa's sales growth 2023-2030F
Source: Diageo's annual reports and analysts' estimates

Core Result

Overall, we expect Diageo's total net sales to be around £23.2 billion by 2034 vs. £16.1 billion in 2024, showing a +3.7% CAGR. As a mature and stable company, operating expenses are expected to remain tightly managed, even with Diageo's emphasis on marketing spending, and margins relatively steady, as they have been even through less favourable cycles, with an EBT of approximately £8.2 billion (35% margin) and a core result of £6.1 billion (26% margin) vs. £4.8 billion and £3.1 billion in 2024, respectively (figure 37).

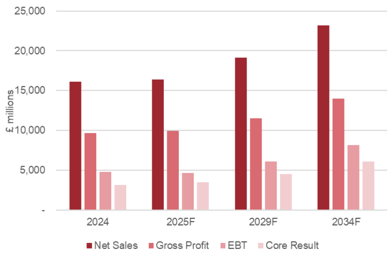


Figure 37: Core result selected forecast
Source: Diageo's annual reports and analysts' estimates

Non-Core Result

Although the non-core result has historically shown significant volatility, mainly due to non-operating items which refer to gains and losses on the sale of businesses and other assets, we adopted a conservative approach based on historical averages, resulting in a stable increase over the forecasted period, growing from £0.5 billion in 2024 to £1.1 billion in 2034.

Financing Result

The financing result is forecasted to gradually improve over the next ten years as Diageo moves toward its target capital structure. The target debt-to-equity ratio was derived from a peers' average and is set at 74.5%. The cost of debt is assumed to remain constant at 5.62%, reflecting stable interest rates over the forecast period.

In 2024, the financing result showed a loss of $765 million, but as the company progressively reduces its leverage and approaches the target capital structure, the financing result is expected to improve, reaching a loss of $614 million by 2034, representing a (2.2%) CAGR.

Comprehensive Result

Over the forecasted period, Diageo's comprehensive result is expected to experience a +8.8% CAGR, reaching approximately £6.7 billion in 2034 compared with £2.9 billion in 2024.

Free Cash Flow

Diageo's free cash flow is projected to follow a steady growth trajectory after a post-pandemic normalisation, with fewer anticipated disruptions compared to the historical period (figure 38). Core FCF is expected to grow at a +9.3% CAGR, reaching £5,202 million by 2034, assuming stable core results supported by continued sales growth.

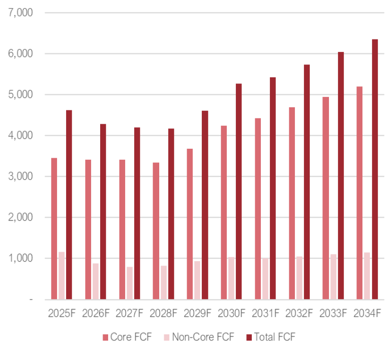


Figure 38: Free cash flow forecasts

Source: Analysts' estimates

The non-core FCF, which historically showed significant volatility due to unstable non-operating items and other comprehensive income, is expected to maintain a more consistent contribution to total cash flow, reflecting fewer exceptional items and improved predictability in non-operating activities.

Total FCF is projected to achieve an +11.2% CAGR, reaching £6,351 million by 2034, reflecting both operational growth and improved cash flow generation. Unlike the historical period, no significant external disruptions are assumed, enabling a smoother upward trend.

On the financing side, financing FCF is forecasted to steadily decline over the period, primarily driven by the gradual reduction in debt levels.

Valuation

Cost of Capital

In order to value Diageo's future cash flows, an appropriate discount rate was calculated using the Weighted Average Cost of Capital (WACC) method. For this, assumptions were necessary to determine the following components:

Risk-free rate – For the risk-free rate, we assumed the 10-year UK government bond yield, currently at 4.41%, which reflects the long-term stable returns in the UK market.

Rf of 4.41%

Market risk premium – Based on data from Statista, we assumed a UK market risk premium of 6.00%.

MRP of 6.00%

Cost of equity – The cost of equity for Diageo was calculated using two different approaches based both on Diageo's historical beta of 0.793, obtained through a regression of Diageo's 10-year returns against the FTSE 100 index, and on an average peers-based historical beta of 0.733, obtained by regressing each against the same index, in the correspondent currencies, over the same period. The next step was to unlever and re-lever both betas for a target D/E ratio of 74.46% derived from a peers' average, resulting in a Diageo-based equity beta of 0.806 and a peers-based equity beta of 0.739. Finally, using the Capital Asset Pricing Model, we arrived at costs of equity of 9.25% and 8.85%, respectively.

Diageo-based cost of equity of 9.25%

Peers-based cost of equity of 8.85%

Cost of debt – Diageo's cost of debt was determined based on a default spread of 1.21%, associated with its A- credit rating, added to the risk-free rate, which yielded a pre-tax cost of debt of 5.62%.

Cost of debt of 5.62%

WACC	
WACC Historical DGE Beta	7.22%
WACC Historical Comps Beta	6.99%
Avg. WACC	**7.10%**

Figure 39: WACC
Source: Analysts' estimates

Weighted Average Cost of Capital – To balance the two views on Diageo's equity risk, we averaged the WACC based on Diageo's historical beta (7.22%) and the WACC based on peers' betas (6.99%), resulting in a final WACC of 7.10% (figure 39). This WACC includes a 20% tax rate, which is consistent with Diageo's average statutory tax rate over the last years, and acts as the discount rate for our Discounted Cash Flows analysis.

Discounted Cash Flows Model

This valuation model estimates Diageo's price per share at £26.60, along with £1.35 expected transactions with shareholders by the end of 2025, reflecting an upside potential of 7.51% compared to the current market price. This corresponds to an equity value of £59 billion and an enterprise value of £77

DCF Valuation	
g	2.00%
WACC	7.10%
Enterprise Value	**76,690**
EV to Equity bridge	(17,578)
Equity Value	59,112
Number of Outstanding Shares	2,222
Estimated Price per Share	**26.60**
Expected Transactions with Shareholders in 2025	3,004
Per share	1.35
Total Value per Share	**27.95**
Current Price per Share	26.00
Upside / Downside	**7.51%**

Figure 40: DCF valuation
Source: Analysts' estimates

billion (figure 40). The model assumes a perpetual growth rate aligned with long-term inflation targets of 2%, resulting in a terminal value of £42 billion.

From a value creation perspective, Diageo's projected long-term return on invested capital (ROIC), at 20.87%, exceeds the estimated WACC of 7.10%, underscoring the company's ability to create value for its shareholders.

Sensitivity Analysis

To understand the impact of key assumptions on our valuation, we conducted a sensitivity analysis focusing on Diageo's terminal growth rate (g) and the WACC. These two parameters are particularly influential, as the terminal growth rate drives the projected long-term growth of the company, while the WACC determines the present value of future cash flows by acting as the discount rate.

The analysis explored a range of terminal growth rates from 0.75% to 3.25% and WACC values from 4.00% to 10.00%. The results demonstrate a wide range of potential outcomes, with the implied share price varying from £13.30 under the most conservative assumptions (g = 0.75%, WACC = 10.00%) to £212.21 in the most optimistic scenario (g = 3.25%, WACC = 4.00%), underlining the importance of selecting realistic input assumptions when interpreting the model's outputs.

Range of prices		# observations
0	10	-
10	20	43
20	30	36
30	40	20
40	50	15
50	60	7
60	70	7
70	80	5
80	90	3
90	100	1
100		6
Below current price		67
Above current price		76

Figure 41: Sensitivity analysis heatmap
Source: Analysts' estimates

The main focus is on valuations around £10 and £30 per share, which aligns closely with the current market price. Nonetheless, out of the 143 observations generated by the sensitivity analysis, 67 suggest a valuation below the current share price, while 76 imply an upside (figure 41).

Scenario Analysis

The scenario analysis highlights the potential range of outcomes for Diageo's valuation based on changes to key financial and macroeconomic assumptions. In both the best-case and worst-case scenarios, the chosen parameters were altered symmetrically, but their impact on valuation is notably asymmetric (figure 42).

Among the strongest drivers and more uncertain assumptions is the change in net sales growth. A reduction in growth under the worst-case scenario compresses valuation, reflecting a combination of weaker demand and challenges across Diageo's key markets. On the other hand, accelerated growth driven by tailwinds in the best-case scenario significantly lifts valuation.

Worst case scenario

Impacted elements from the Base Case	Modified value	Total Value per Share	Upside / Downside
MRP	6.50%	25.64	(1%)
yoy change of Net Sales for the forecasted period	2.00%	20.33	(22%)
risk free rate	5.41%	27.83	7%
Credit rating	BBB	29.40	13%
Worst outcome (all alternatives combined)		**16.97**	**(35%)**

Best case scenario

Impacted elements from the Base Case	Modified value	Total Value per Share	Upside / Downside
MRP	5.50%	38.97	50%
yoy change of Net Sales for the forecasted period	5.00%	34.97	35%
risk free rate	3.41%	33.74	30%
Credit rating	AA	28.12	8%
Best outcome (all alternatives combined)		**46.19**	**78%**

Figure 42: Scenario analysis
Source: Analysts' estimates

The market risk premium and risk-free rate also play critical roles, primarily through their combined effect on the discount rate. Higher perceived risk and tighter monetary conditions in the worst-case scenario increase the cost of capital, compounding the negative impact of slower growth. In contrast, improved market sentiment and a lower cost of capital support a much more favourable valuation environment.

The asymmetry in valuation outcomes is noteworthy: while the downside potential in the worst case reaches (35%), the upside potential in the best case stands at 78%. This disparity underscores the significance of growth execution, with the best-case scenario highlighting the upside potential of Diageo's business model, particularly its exposure to premium segments and emerging markets, where growth opportunities remain substantial.

Trading Comparables

To further support our valuation, we performed a relative valuation analysis with a set of trading comparable peers from the spirits and beer sectors. Our peer group includes spirits-focused companies such as Pernod Ricard, Remy Cointreau, Davide Campari, and Brown-Forman, as well as beer players like AB InBev, Heineken, Carlsberg, Constellation Brands, and Molson Coors. These companies were chosen based on their similar market positioning, product portfolios, and growth potential.

This analysis focused on three commonly used valuation multiples in the consumer staples sector: EV/Sales, EV/EBIT, and EV/EBITDA (figure 43).

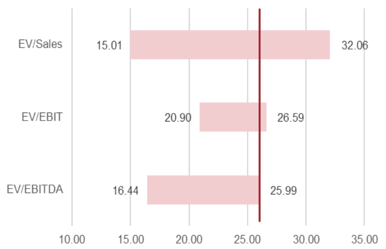


Figure 43: Trading comparables valuation football field
Source: Analysts' estimates and Bloomberg

EV/Sales: This metric suggested an implied share price ranging from £15.01 to £32.06, representing a median upside of 11.01%.

EV/EBIT: This metric suggested an implied share price ranging from £20.90 to £26.59, representing a median upside of (14.76%).

EV/EBITDA: This metric suggested an implied share price ranging from £16.44 to £25.99, representing a median upside of (16.99%).

Company	EV/Sales	EV/EBIT	EV/EBITDA
Diageo	4.40x	15.50x	13.90x
Spirits			
Pernod Ricard	3.60x	13.50x	11.80x
Remy Cointreau	3.30x	13.40x	11.40x
Davide Campari	3.10x	15.90x	13.20x
Brown-Forman	5.40x	18.60x	17.40x
Beers			
AB InBev	3.30x	12.90x	9.50x
Heineken	2.00x	14.40x	9.30x
Carlsberg	1.70x	11.40x	8.30x
Constellation Brands	5.30x	15.60x	13.90x
Molson Coors	1.60x	10.40x	7.50x

Figure 44: Diageo and peers' multiples
Source: Bloomberg

However, like with any valuation analysis, there are limitations to directly comparing Diageo to other competitors. Variations in, i.e., product mix, geographical focus, and exposure to emerging market growth can all have an impact on comparability. For instance, within the spirits group, Brown-Forman clearly trades at significantly higher multiples compared to the remaining peers, and even Diageo (figure 44). This is possibly due to its heavy focus on whiskey, particularly premium brands like Jack Daniel's, which benefits from high margins and strong pricing power. The same analysis can be done within the beers group, looking at Constellation Brands, also trading at higher multiples compared to its peers. In this case, we believe the higher valuation comes from its increasing exposure to the fast-growing ready-to-drink segment, differentiating it from competitors like AB InBev and Heineken which are more reliant on traditional beer categories. These examples underscore how product focus, geographic strategy and other variations can drive valuation differences and highlight the need for careful analysis when interpreting valuation results.

Appendix

Financial Statements

Reformulated Income Statement (in £m)	2017	2018	2019	2020	2021	2022	2023	2024
Core Result per Operating Segments								
North America								
Net Sales	4,161	4,116	4,460	4,623	5,209	6,095	6,758	6,281
% total sales	*35%*	*34%*	*35%*	*39%*	*41%*	*39%*	*39%*	*39%*
EBT	1,899	1,882	1,948	2,088	2,237	2,453	2,592	2,414
% EBT margin	*46%*	*46%*	*44%*	*45%*	*43%*	*40%*	*38%*	*38%*
Statutory Taxes	375	358	370	397	425	466	531	603
Tax Adjustments	(1)	(10)	8	160	92	131	73	(10)
Core Result	1,525	1,534	1,570	1,531	1,720	1,856	1,987	1,820
Core margin	*37%*	*37%*	*35%*	*33%*	*33%*	*30%*	*29%*	*29%*
Europe								
Net Sales	2,824	2,932	2,939	2,567	2,558	3,212	3,569	3,816
% total sales	*23%*	*24%*	*23%*	*22%*	*20%*	*21%*	*21%*	*24%*
EBT	903	1,028	996	695	620	871	1,097	998
% EBT margin	*32%*	*35%*	*34%*	*27%*	*24%*	*27%*	*31%*	*26%*
Statutory Taxes	178	195	189	132	118	165	225	250
Tax Adjustments	(1)	(6)	4	53	25	47	31	(4)
Core Result	725	838	803	510	477	659	841	753
Core margin	*26%*	*29%*	*27%*	*20%*	*19%*	*21%*	*24%*	*20%*
Asia Pacific								
Net Sales	2,419	2,503	2,688	2,270	2,488	2,884	3,200	3,032
% total sales	*20%*	*21%*	*21%*	*19%*	*20%*	*19%*	*19%*	*19%*
EBT	478	568	668	(697)	608	470	432	1,142
% EBT margin	*20%*	*23%*	*25%*	*(31%)*	*24%*	*16%*	*14%*	*38%*
Statutory Taxes	94	108	127	(132)	116	89	89	286
Tax Adjustments	(0)	(3)	3	(53)	25	25	12	(5)
Core Result	384	463	538	(511)	468	356	331	861
Core margin	*16%*	*19%*	*20%*	*(23%)*	*19%*	*12%*	*10%*	*28%*
Latin America and Caribbean								
Net Sales	1,044	1,069	1,130	908	1,046	1,525	1,799	1,461
% total sales	*9%*	*9%*	*9%*	*8%*	*8%*	*10%*	*11%*	*9%*
EBT	250	308	365	242	303	538	661	399
% EBT margin	*24%*	*29%*	*32%*	*27%*	*29%*	*35%*	*37%*	*27%*
Statutory Taxes	49	59	69	46	58	102	136	100
Tax Adjustments	(0)	(2)	2	19	12	29	19	(2)
Core Result	201	251	294	177	233	407	507	301
Core margin	*19%*	*23%*	*26%*	*20%*	*22%*	*27%*	*28%*	*21%*
Africa								
Net Sales	1,556	1,491	1,597	1,346	1,412	1,682	1,699	1,412
% total sales	*13%*	*12%*	*12%*	*11%*	*11%*	*11%*	*10%*	*9%*
EBT	218	63	275	(44)	171	315	176	104
% EBT margin	*14%*	*4%*	*17%*	*(3%)*	*12%*	*19%*	*10%*	*7%*
Statutory Taxes	43	12	52	(8)	32	60	36	26
Tax Adjustments	(0)	(0)	1	(3)	7	17	5	(0)
Core Result	175	51	222	(32)	131	238	135	78
Core margin	*11%*	*3%*	*14%*	*(2%)*	*9%*	*14%*	*8%*	*6%*
Corporate								
Corporate and Other Net Sales	46	52	53	38	20	54	88	98
% total sales	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*1%*	*1%*
EBT	(189)	(158)	(210)	(147)	(208)	(238)	(326)	(291)
% EBT margin	*(411%)*	*(304%)*	*(396%)*	*(387%)*	*(1,040%)*	*(441%)*	*(370%)*	*(298%)*
Statutory Taxes	(37)	(30)	(40)	(28)	(40)	(45)	(67)	(73)
Tax Adjustments	0	1	(1)	(11)	(9)	(13)	(9)	1
Core Result	(152)	(129)	(169)	(108)	(160)	(180)	(250)	(219)
Core margin	*(330%)*	*(248%)*	*(319%)*	*(284%)*	*(800%)*	*(333%)*	*(284%)*	*(224%)*
Comprehensive Income								
Core Other Comprehensive Income	129	(652)	287	(158)	(821)	923	(293)	(376)
Total Core Result	2,987	2,357	3,544	1,409	2,048	4,258	3,258	3,219
Non-Core Result								
Non-Operating Items	20	-	144	(23)	14	(17)	328	(56)
% total sales	*0%*	*-*	*1%*	*(0%)*	*0%*	*(0%)*	*2%*	*(0%)*
Share of after tax results of associates and joint ventures	309	309	312	282	334	417	370	329
% total sales	*3%*	*3%*	*2%*	*2%*	*3%*	*3%*	*2%*	*2%*
Finance income	235	243	442	366	278	497	340	318
% total sales	*2%*	*2%*	*3%*	*3%*	*2%*	*3%*	*2%*	*2%*
EBT	564	552	898	625	626	897	1,038	591
Statutory Taxes	111	105	171	119	119	170	213	148
Tax Adjustments	31	(95)	76	37	50	(20)	(132)	(37)
Discontinued Operations	(55)	-	-	-	-	-	-	-
Non-Core Other Comprensive Income	522	376	-	(6)	(44)	559	(509)	(10)
Non-Core Result	889	918	651	463	413	1,306	448	470
Financing Result								
Finance charges	(564)	(503)	(705)	(719)	(651)	(919)	(934)	(1,021)
% total debt	*(6%)*	*(5%)*	*(6%)*	*(4%)*	*(4%)*	*(6%)*	*(6%)*	*(6%)*
Financing Result Before Taxes	(564)	(503)	(705)	(719)	(651)	(919)	(934)	(1,021)
% total sales	*(5%)*	*(4%)*	*(5%)*	*(6%)*	*(5%)*	*(6%)*	*(5%)*	*(6%)*
Statutory Taxes	(111)	(96)	(134)	(137)	(124)	(175)	(191)	(255)
Financing Result	(453)	(407)	(571)	(582)	(527)	(744)	(743)	(765)
Comprehensive Result	3,423	2,868	3,624	1,290	1,934	4,819	2,964	2,924

Reformulated Balance Sheet (in £m)	2017	2018	2019	2020	2021	2022	2023	2024
Core Invested Capital								
Core Assets								
Operating Cash	482	487	515	470	509	618	685	644
% yoy change		1%	6%	(9%)	8%	21%	11%	(6%)
Inventories	4,788	5,015	5,472	5,772	6,045	7,094	7,661	7,720
% yoy change		5%	9%	5%	5%	17%	8%	1%
Intangible Assets	12,566	12,572	12,557	11,300	10,764	11,902	11,512	11,766
% yoy change		0%	(0%)	(10%)	(5%)	11%	(3%)	2%
PPE	4,014	4,089	4,455	4,926	4,849	5,848	6,142	6,758
% yoy change		2%	9%	11%	(2%)	21%	5%	10%
Receivables	2,342	2,464	2,550	1,887	2,220	2,781	2,563	2,573
% yoy change		5%	3%	(26%)	18%	25%	(8%)	0%
Biological assets	21	23	34	51	66	94	156	158
% yoy change		10%	48%	50%	29%	42%	66%	1%
Post-employment benefit assets	281	935	1,060	1,111	1,018	1,553	960	910
% yoy change		233%	13%	5%	(8%)	53%	(38%)	(5%)
Tax related assets	134	187	221	309	245	263	373	355
% yoy change		40%	18%	40%	(21%)	7%	42%	(5%)
Total Core Assets	24,628	25,772	26,864	25,826	25,716	30,153	30,052	30,885
% yoy change		5%	4%	(4%)	(0%)	17%	(0%)	3%
Core Liabilities								
Payables	(3,009)	(3,359)	(3,487)	(3,081)	(3,894)	(5,126)	(4,593)	(4,323)
% yoy change		12%	4%	(12%)	26%	32%	(10%)	(6%)
Post-employment benefit liabilities	(772)	(872)	(846)	(749)	(574)	(402)	(373)	(341)
% yoy change		13%	(3%)	(11%)	(23%)	(30%)	(7%)	(9%)
Tax related liabilities	(2,406)	(2,230)	(2,410)	(2,218)	(2,091)	(2,571)	(2,318)	(2,449)
% yoy change		(7%)	8%	(8%)	(6%)	23%	(10%)	6%
Total Core Invested Capital	18,441	19,311	20,121	19,778	19,157	22,054	22,768	23,773
Non-Core Invested Capital								
Non-Core Assets								
Investments in associates and joint ventures	2,824	3,009	3,173	3,557	3,308	3,652	3,829	3,997
% yoy change		7%	5%	12%	(7%)	10%	5%	4%
Other investments	31	46	49	41	40	37	57	75
% yoy change		48%	7%	(16%)	(2%)	(8%)	54%	31%
Other financial asstes	348	217	531	761	448	596	741	578
% yoy change		(38%)	145%	43%	(41%)	33%	24%	(22%)
Other receivables	289	246	172	241	166	171	176	202
% yoy change		(15%)	(30%)	40%	(31%)	3%	3%	15%
Assets held for sale	-	24	65	-	-	222	-	103
% yoy change		-	171%	(100%)	-	-	(100%)	-
Total Non-Core Assets	3,492	3,542	3,990	4,600	3,962	4,678	4,803	4,954
% yoy change		1%	13%	15%	(14%)	18%	3%	3%
Non-Core Liabilities								
Liabilities held for sale	-	-	(32)	-	-	(61)	-	(38)
% yoy change		-	-	(100%)	-	-	(100%)	-
Other payables	(503)	(675)	(787)	(595)	(944)	(980)	(800)	(638)
% yoy change		34%	17%	(24%)	59%	4%	(18%)	(20%)
Provisions	(415)	(397)	(416)	(476)	(412)	(417)	(362)	(315)
% yoy change		(4%)	5%	14%	(13%)	1%	(13%)	(13%)
Other financial liabilities	(598)	(442)	(431)	(782)	(641)	(1,147)	(1,106)	(1,023)
% yoy change		(26%)	(2%)	81%	(18%)	79%	(4%)	(8%)
Total Non-Core Invested Capital	1,976	2,028	2,324	2,747	1,965	2,073	2,535	2,940
Financing Assets								
Excess Cash	709	387	417	2,853	2,240	1,667	754	254
% yoy change		(45%)	8%	584%	(21%)	(26%)	(55%)	(66%)
Borrowings	(9,042)	(9,902)	(12,555)	(16,785)	(14,727)	(16,020)	(16,502)	(17,077)
% yoy change		10%	27%	34%	(12%)	9%	3%	3%
Share buyback liability	-	-	(26)	-	(91)	(117)	-	-
% yoy change		-	-	(100%)	-	29%	(100%)	-
Interest receivables (payables)	(56)	(90)	(102)	(123)	(89)	(125)	(225)	(260)
% yoy change		61%	13%	21%	(28%)	40%	80%	15%
Dividend payables	-	(21)	(23)	(30)	(24)	(18)	(38)	(43)
% yoy change		-	10%	30%	(20%)	(25%)	111%	13%
Non-controlling interests	(1,715)	(1,765)	(1,795)	(1,668)	(1,534)	(1,716)	(1,470)	(1,619)
% yoy change		3%	2%	(7%)	(8%)	12%	(14%)	10%
Total Financing Assets	(10,104)	(11,391)	(14,084)	(15,753)	(14,225)	(16,329)	(17,481)	(18,745)
% yoy change		13%	24%	12%	(10%)	15%	7%	7%
Equity								
Equity attributable to equity shareholders of the parent company	10,313	9,948	8,361	6,772	6,897	7,798	7,822	7,968
% yoy change								

Forecasted Revenue (in £m)	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Group										
Net sales	16,417	16,870	17,518	18,311	19,158	20,016	20,743	21,532	22,344	23,190
% yoy change	2%	3%	4%	5%	5%	4%	4%	4%	4%	4%
Adjusted volume (litre million)	2,076	2,110	2,163	2,229	2,308	2,393	2,478	2,565	2,657	2,751
% yoy change	0%	2%	3%	3%	4%	4%	4%	4%	4%	4%
Average price (per litre)	8.00	8.10	8.22	8.35	8.45	8.53	8.55	8.58	8.61	8.65
% yoy change	3%	1%	2%	2%	1%	1%	0%	0%	0%	0%
North America										
Net sales	6,202	6,360	6,601	6,919	7,270	7,622	7,842	8,105	8,368	8,642
% total sales	38%	38%	38%	38%	38%	38%	38%	38%	37%	37%
% yoy change	(1%)	3%	4%	5%	5%	5%	3%	3%	3%	3%
Adjusted volume (litre million)	441	443	449	457	468	481	495	508	523	537
% yoy change	(2%)	1%	1%	2%	2%	3%	3%	3%	3%	3%
Market volume (litre million)	43,100	42,900	42,800	42,700	42,700	42,615	42,529	42,444	42,359	42,275
% Diageo share	1.0%	1.0%	1.0%	1.1%	1.1%	1.1%	1.2%	1.2%	1.2%	1.3%
% yoy change	(2%)	1%	2%	2%	3%	3%	3%	3%	3%	3%
Average price (per litre)	14.07	14.35	14.71	15.15	15.53	15.84	15.85	15.94	16.01	16.09
% yoy change	1%	2%	3%	3%	3%	2%	0%	1%	0%	0%
% inflation rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Europe										
Net sales	4,012	4,127	4,251	4,406	4,558	4,748	4,944	5,148	5,361	5,582
% total sales	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
% yoy change	5%	3%	3%	4%	3%	4%	4%	4%	4%	4%
Adjusted volume (litre million)	464	469	479	493	510	531	553	575	598	623
% yoy change	0%	1%	2%	3%	4%	4%	4%	4%	4%	4%
Market volume	62,110	61,320	60,640	60,060	59,570	59,093	58,621	58,152	57,687	57,225
% Diageo share	0.7%	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%	1.1%
% yoy change	2%	2%	3%	4%	4%	5%	5%	5%	5%	5%
Average price (per litre)	8.66	8.81	8.87	8.94	8.93	8.94	8.94	8.95	8.96	8.96
% yoy change	5%	2%	1%	1%	(0%)	0%	0%	0%	0%	0%
% inflation rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Asia Pacific										
Net sales	3,185	3,371	3,607	3,841	4,069	4,264	4,480	4,704	4,940	5,188
% total sales	19%	20%	21%	21%	21%	21%	22%	22%	22%	22%
% yoy change	5%	6%	7%	6%	6%	5%	5%	5%	5%	5%
Adjusted volume (litre million)	690	713	744	777	811	846	883	922	963	1,005
% yoy change	2%	3%	4%	4%	4%	4%	4%	4%	4%	4%
Market volume	98,200	98,000	97,900	97,800	97,700	97,602	97,505	97,407	97,310	97,212
% Diageo share	0.7%	0.7%	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%
% yoy change	2%	3%	4%	4%	4%	4%	4%	4%	4%	4%
Average price (per litre)	4.61	4.73	4.85	4.94	5.02	5.04	5.07	5.10	5.13	5.16
% yoy change	3%	3%	3%	2%	2%	0%	1%	1%	1%	1%
% inflation rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Latin America and Caribbean										
Net sales	1,377	1,334	1,323	1,364	1,433	1,506	1,552	1,599	1,648	1,699
% total sales	8%	8%	8%	7%	7%	8%	7%	7%	7%	7%
% yoy change	(6%)	(3%)	(1%)	3%	5%	5%	3%	3%	3%	3%
Adjusted volume (litre million)	185	179	176	181	189	198	203	209	214	220
% yoy change	(7%)	(3%)	(1%)	3%	5%	5%	3%	3%	3%	3%
Market volume	38,805	39,103	39,372	39,623	39,845	40,084	40,325	40,567	40,810	41,055
% Diageo share	0.5%	0.5%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
% yoy change	(8%)	(4%)	(2%)	2%	4%	4%	2%	2%	2%	2%
Average price (per litre)	7.46	7.47	7.51	7.54	7.57	7.60	7.64	7.67	7.70	7.74
% yoy change	2%	0%	1%	0%	0%	0%	0%	0%	0%	0%
% inflation rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Africa										
Net sales	1,541	1,575	1,629	1,669	1,712	1,755	1,799	1,844	1,891	1,938
% total sales	9%	9%	9%	9%	9%	9%	9%	9%	8%	8%
% yoy change	9%	2%	3%	2%	3%	3%	3%	3%	3%	3%
Adjusted volume (litre million)	297	307	315	322	329	336	344	351	359	367
% yoy change	3%	3%	3%	2%	2%	2%	2%	2%	2%	2%
Market volume	48,770	48,910	49,030	49,150	49,250	49,349	49,447	49,546	49,645	49,744
% Diageo share	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
% yoy change	2%	3%	2%	2%	2%	2%	2%	2%	2%	2%
Average price (per litre)	5.19	5.14	5.17	5.18	5.20	5.22	5.24	5.25	5.27	5.29
% yoy change	6%	(1%)	1%	0%	0%	0%	0%	0%	0%	0%
% inflation rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Corporate and Other Net Sales										
Net sales	100	102	106	111	116	121	126	131	136	141
% total sales	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
% yoy change	2%	3%	4%	5%	5%	4%	4%	4%	4%	4%

Forecasted Income Statement (in £m)	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Core Result										
Sales	23,683	24,337	25,272	26,415	27,637	28,876	29,923	31,062	32,233	33,454
Excise Duties	(7,266)	(7,467)	(7,753)	(8,104)	(8,479)	(8,859)	(9,181)	(9,530)	(9,889)	(10,264)
Net Sales	16,417	16,870	17,518	18,311	19,158	20,016	20,743	21,532	22,344	23,190
Cost of sales	(6,500)	(6,733)	(6,968)	(7,281)	(7,628)	(7,963)	(8,253)	(8,569)	(8,890)	(9,227)
Gross Profit	9,916	10,137	10,550	11,031	11,530	12,053	12,490	12,963	13,454	13,963
% gross margin	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*
Marketing	(2,990)	(3,050)	(3,111)	(3,174)	(3,237)	(3,302)	(3,368)	(3,436)	(3,505)	(3,575)
Staff costs	(1,785)	(1,733)	(1,683)	(1,635)	(1,587)	(1,541)	(1,497)	(1,454)	(1,412)	(1,371)
Depreciation, amortisation and impairment	(750)	(790)	(826)	(878)	(933)	(993)	(1,053)	(1,116)	(1,185)	(1,265)
Other operating income (costs)	295	305	297	323	336	348	364	377	390	406
EBT	4,686	4,868	5,227	5,667	6,109	6,564	6,935	7,335	7,742	8,158
% EBT margin	*29%*	*29%*	*30%*	*31%*	*32%*	*33%*	*33%*	*34%*	*35%*	*35%*
	5,436	5,658								
Statutory Taxes	(939)	(975)	(1,047)	(1,135)	(1,224)	(1,315)	(1,389)	(1,469)	(1,551)	(1,634)
Tax Adjustments	(113)	(118)	(127)	(137)	(148)	(159)	(168)	(178)	(187)	(197)
Other comprehensive income	(163)	(167)	(174)	(181)	(190)	(198)	(205)	(213)	(221)	(230)
Core Result	3,471	3,608	3,880	4,213	4,548	4,892	5,173	5,474	5,783	6,096
% core margin	*21%*	*21%*	*22%*	*23%*	*24%*	*24%*	*25%*	*25%*	*26%*	*26%*
Non-Core Result										
Non-Operating Items	55	56	58	61	64	67	69	72	74	77
Share of after tax results of associates and joint ventures	378	388	403	421	441	461	477	495	514	534
Finance income	393	404	419	438	458	479	496	515	535	555
EBT	825	848	880	920	963	1,006	1,042	1,082	1,123	1,166
Statutory Taxes	(165)	(170)	(176)	(184)	(193)	(202)	(209)	(217)	(225)	(233)
Tax Adjustments	11	11	12	12	13	13	14	14	15	15
Discontinued Operations	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	156	160	167	174	182	190	197	205	213	221
Non-Core Result	827	850	882	922	965	1,008	1,045	1,084	1,125	1,168
Financing Result										
Finance charges	(893)	(839)	(797)	(765)	(742)	(724)	(709)	(727)	(747)	(768)
Financing Result Before Taxes	(893)	(839)	(797)	(765)	(742)	(724)	(709)	(727)	(747)	(768)
Statutory Taxes	179	168	160	153	149	145	142	146	150	154
Financing Result	(714)	(671)	(637)	(612)	(594)	(579)	(567)	(581)	(597)	(614)
Comprehensive Result										
Comprehensive Result	3,584	3,787	4,125	4,524	4,919	5,321	5,650	5,978	6,311	6,650
% yoy change	*26%*	*6%*	*9%*	*10%*	*9%*	*8%*	*6%*	*6%*	*6%*	*5%*

Forecasted Balance Sheet	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Core Invested Capital										
Core Assets										
Operating Cash	657	675	701	732	766	801	830	861	894	928
% of Net Sales	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*
Inventories	7,627	7,769	8,038	8,382	8,860	9,224	9,543	9,905	10,283	10,684
average holding period (days)	*434*	*430*	*428*	*427*	*432*	*430*	*430*	*430*	*430*	*430*
Intangible Assets	11,669	11,568	11,469	11,540	11,736	11,818	11,944	12,060	12,236	12,485
% yoy change	*(1%)*	*(1%)*	*(1%)*	*1%*	*2%*	*1%*	*1%*	*1%*	*1%*	*2%*
PPE	7,202	7,675	8,158	8,715	9,221	9,743	10,265	10,791	11,294	11,788
% yoy change	*7%*	*7%*	*6%*	*7%*	*6%*	*6%*	*5%*	*5%*	*5%*	*4%*
Receivables	2,761	2,864	2,957	3,050	3,256	3,443	3,584	3,734	3,896	4,081
average collection period (days)	*61*	*62*	*62*	*61*	*62*	*63*	*63*	*63*	*64*	*64*
Biological assets	175	192	209	227	244	261	278	295	312	329
average annual absolute growth										
Post-employment benefit assets	1,141	1,004	1,018	1,054	1,025	1,033	1,038	1,032	1,034	1,035
% yoy change	*25%*	*(12%)*	*1%*	*4%*	*(3%)*	*1%*	*0%*	*(1%)*	*0%*	*0%*
Tax related assets	349	342	359	388	403	417	431	449	468	485
% of Revenue	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
Total Core Assets	**31,581**	**32,089**	**32,909**	**34,088**	**35,512**	**36,740**	**37,913**	**39,128**	**40,417**	**41,814**
% yoy change	*2%*	*2%*	*3%*	*4%*	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*
Core Liabilities										
Payables	(4,663)	(4,877)	(5,019)	(5,066)	(5,364)	(5,670)	(5,872)	(6,070)	(6,278)	(6,536)
average payable period (days)	*265*	*270*	*268*	*258*	*261*	*264*	*264*	*263*	*262*	*263*
Post-employment benefit liabilities	(372)	(362)	(358)	(364)	(361)	(361)	(362)	(362)	(362)	(362)
% yoy change	*9%*	*(3%)*	*(1%)*	*2%*	*(1%)*	*(0%)*	*0%*	*(0%)*	*0%*	*0%*
Tax related liabilities	(2,763)	(2,871)	(3,082)	(3,342)	(3,603)	(3,871)	(4,090)	(4,325)	(4,565)	(4,810)
% of EBT	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*
Total Core Invested Capital	**23,783**	**23,979**	**24,450**	**25,316**	**26,185**	**26,838**	**27,589**	**28,372**	**29,212**	**30,106**
% yoy change	*0%*	*1%*	*2%*	*4%*	*3%*	*2%*	*3%*	*3%*	*3%*	*3%*
Non-Core Invested Capital										
Non-Core Assets										
Investments in associates and joint ventures	4,017	4,145	4,256	4,346	4,461	4,572	4,683	4,801	4,920	5,041
% yoy change	*1%*	*3%*	*3%*	*2%*	*3%*	*2%*	*2%*	*3%*	*2%*	*2%*
Other investments	56	63	65	61	63	63	62	63	63	62
% yoy change	*(25%)*	*11%*	*3%*	*(5%)*	*3%*	*0%*	*(1%)*	*1%*	*(0%)*	*(0%)*
Other financial asstes	638	653	623	638	638	633	636	636	635	636
% yoy change	*10%*	*2%*	*(5%)*	*2%*	*(0%)*	*(1%)*	*1%*	*(0%)*	*(0%)*	*0%*
Other receivables	183	187	190	187	188	188	188	188	188	188
% yoy change	*(9%)*	*2%*	*2%*	*(2%)*	*1%*	*0%*	*(0%)*	*0%*	*0%*	*(0%)*
Assets held for sale	-	-	-	-	-	-	-	-	-	-
% yoy change	*(100%)*	-	-	-	-	-	-	-	-	-
Total Non-Core Assets	**4,895**	**5,047**	**5,134**	**5,232**	**5,350**	**5,456**	**5,569**	**5,687**	**5,805**	**5,927**
Non-Core Liabilities										
Liabilities held for sale	-	-	-	-	-	-	-	-	-	-
% yoy change	*(100%)*	-	-	-	-	-	-	-	-	-
Other payables	(791)	(831)	(808)	(774)	(768)	(794)	(795)	(788)	(784)	(786)
% yoy change	*24%*	*5%*	*(3%)*	*(4%)*	*(1%)*	*3%*	*0%*	*(1%)*	*(1%)*	*0%*
Provisions	(396)	(381)	(374)	(366)	(366)	(377)	(373)	(371)	(371)	(372)
% yoy change	*26%*	*(4%)*	*(2%)*	*(2%)*	*0%*	*3%*	*(1%)*	*(0%)*	*(0%)*	*0%*
Other financial liabilities	(1,094)	(1,250)	(1,278)	(1,325)	(1,413)	(1,507)	(1,578)	(1,664)	(1,762)	(1,861)
% yoy change	*7%*	*14%*	*2%*	*4%*	*7%*	*7%*	*5%*	*5%*	*6%*	*6%*
Total Non-Core Invested Capital	**2,613**	**2,585**	**2,674**	**2,768**	**2,802**	**2,779**	**2,823**	**2,864**	**2,889**	**2,908**
% yoy change	*(11%)*	*(1%)*	*3%*	*4%*	*1%*	*(1%)*	*2%*	*1%*	*1%*	*1%*
Financing Assets (Liabilities)										
Excess Cash	-	-	-	-	-	-	-	-	-	-
% yoy change										
Borrowings	(15,882)	(14,929)	(14,182)	(13,615)	(13,207)	(12,876)	(12,619)	(12,934)	(13,284)	(13,669)
% yoy change	*(7%)*	*(6%)*	*(5%)*	*(4%)*	*(3%)*	*(3%)*	*(2%)*	*3%*	*3%*	*3%*
Share buyback liability	-	-	-	-	-	-	-	-	-	-
% yoy change	-	-	-	-	-	-	-	-	-	-
Interest receivables (payables)	(304)	(355)	(416)	(486)	(569)	(666)	(779)	(911)	(1,066)	(1,247)
% yoy change	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*
Dividend payables	(50)	(59)	(69)	(80)	(94)	(110)	(129)	(150)	(176)	(206)
% yoy change	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*
Non-controlling interests	(1,612)	(1,606)	(1,599)	(1,592)	(1,586)	(1,580)	(1,573)	(1,567)	(1,560)	(1,554)
% yoy change	*(0%)*	*(0%)*	*(0%)*	*(0%)*	*(0%)*	*(0%)*	*(0%)*	*(0%)*	*(0%)*	*(0%)*
Total Financing Assets (Liabilities)	**(17,848)**	**(16,948)**	**(16,266)**	**(15,774)**	**(15,456)**	**(15,232)**	**(15,100)**	**(15,563)**	**(16,086)**	**(16,676)**
% yoy change	*6%*	*0%*	*(6%)*	*(6%)*	*(5%)*	*(4%)*	*(3%)*	*(2%)*	*0%*	*2%*
D/E	178%	148%	124%	105%	92%	84%	77%	77%	77%	78%
Equity										
Equity attributable to equity shareholders of the parent company	8,548	9,616	10,858	12,310	13,531	14,385	15,313	15,673	16,015	16,339
% yoy change	*7%*	*12%*	*13%*	*13%*	*10%*	*6%*	*6%*	*2%*	*2%*	*2%*

Free Cash Flow Map (in £m)	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Core FCF																		
Core result		2,327	3,504	1,381	2,009	4,213	3,192	3,146	3,471	3,608	3,880	4,213	4,548	4,892	5,173	5,474	5,783	6,096
Change in core invested capital		(870)	(810)	343	621	(2,897)	(713)	(1,005)	(11)	(196)	(471)	(866)	(869)	(653)	(751)	(783)	(841)	(894)
Core FCF		**1,458**	**2,694**	**1,724**	**2,629**	**1,316**	**2,478**	**2,141**	**3,461**	**3,412**	**3,409**	**3,348**	**3,679**	**4,239**	**4,422**	**4,692**	**4,942**	**5,202**
Non-Core FCF																		
Non-core result		918	651	463	413	1,306	448	470	827	850	882	922	965	1,008	1,045	1,084	1,125	1,168
Change in non-core invested capital		(52)	(296)	(423)	782	(108)	(462)	(405)	328	27	(88)	(94)	(34)	23	(44)	(41)	(25)	(19)
Non-Core FCF		**866**	**355**	**40**	**1,195**	**1,198**	**(14)**	**65**	**1,154**	**877**	**794**	**828**	**931**	**1,032**	**1,000**	**1,043**	**1,100**	**1,149**
Total FCF		**2,324**	**3,049**	**1,764**	**3,824**	**2,514**	**2,464**	**2,206**	**4,615**	**4,289**	**4,203**	**4,175**	**4,610**	**5,270**	**5,422**	**5,735**	**6,042**	**6,351**
Financing																		
Financing result		(407)	(571)	(582)	(527)	(744)	(743)	(765)	(714)	(671)	(637)	(612)	(594)	(579)	(567)	(581)	(597)	(614)
Change in debt		1,287	2,693	1,669	(1,528)	2,104	1,151	1,264	(897)	(899)	(683)	(491)	(319)	(224)	(132)	463	523	590
Transactions with shareholders		(3,203)	(5,171)	(2,851)	(1,769)	(3,873)	(2,873)	(2,705)	(3,004)	(2,719)	(2,883)	(3,072)	(3,698)	(4,467)	(4,723)	(5,617)	(5,968)	(6,327)
Financing FCF		**(2,324)**	**(3,049)**	**(1,764)**	**(3,824)**	**(2,514)**	**(2,464)**	**(2,206)**	**(4,615)**	**(4,289)**	**(4,203)**	**(4,175)**	**(4,610)**	**(5,270)**	**(5,422)**	**(5,735)**	**(6,042)**	**(6,351)**

Discounted Cash Flow Analysis	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	TV
Core Business											
Core FCF	3,461	3,412	3,409	3,348	3,679	4,239	4,422	4,692	4,942	5,202	
ROIC	14.60%	15.17%	16.18%	17.23%	17.96%	18.68%	19.27%	19.84%	20.38%	20.87%	
g	61.64%	-1.41%	-0.09%	-1.79%	9.90%	15.21%	4.32%	6.11%	5.33%	5.27%	
Discounted Core FCF	3,461	3,186	2,972	2,725	2,796	3,007	2,929	2,902	2,854	2,805	29,628
Non-Core Business											
Non-Core FCF	1,154	877	794	828	931	1,032	1,000	1,043	1,100	1,149	12,133
Total FCF	4,615	4,289	4,203	4,175	4,610	5,270	5,422	5,735	6,042	6,351	

DCF Valuation	
g	2.00%
WACC	7.10%
Enterprise Value	**76,690**
EV to Equity bridge	(17,578)
Equity Value	59,112
Number of Outstanding Shares	2,222
Estimated Price per Share	**26.60**
Expected Transactions with Shareholders in 2025	3,004
Per share	1.35
Total Value per Share	**27.95**
Current Price per Share	26.00
Upside / Downside	**7.51%**

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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