2014

UNDERGRADUATE SMF

EQUITY RESEARCH REPORT

DIAGEO


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**Diageo plc (NYSE: DEO)**

## Company Summary

Diageo is a producer, marketer, distributor and seller of alcohol. Its portfolio of brands covers a range of types, including whiskey, vodka, rum, liqueur, tequila, gin, beer and local spirits. It produces roughly 6.5 billion liters from over 100 sites in 30 countries. It's portfolio of drinks includes iconic brands such as Johnnie Walker, Captain Morgan, Smirnoff, and Bailey's.

## Key Financial Metrics

| | | | |
|---|---|---|---|
| **Intrinsic Value** | $133.59 | **ROIC** | 14.54% |
| **Beta** | 0.76 | **ROA:** | 9.38% |
| **52 Week Range:** | 108.20 – 133.00 | **Price/Book:** | 7.25 |
| **Price/Earnings:** | 20.50 | **Profit Margin:** | 22.1% |
| **Dividend Yield:** | 2.75% | **Free Cash Flow Yield:** | 2.42% |
| **Market Cap:** | $77.2 billion | **Earnings Per Share:** | $5.68 |
| **ROE:** | 32.44% | **Shares Outstanding:** | 2,511,000 |

## Recommendation

| | | | |
|---|---|---|---|
| **Rating:** | Buy | **Exp. Annual Return:** | 9.5% |
| | | **Margin of Safety** | 15.4% |

## Rationale

Diageo is the top spirits company by global retail sales, with a large collection of #1 brands, including Johnnie Walker, Smirnoff, Captain Morgan, and Bailey's. The breadth of its portfolio allows Diageo to capture 27% of global volume share of premium spirits. Its recent investments in a number of local distilleries, such as Ypióca, USL, and Serengeti Breweries, have provided a foothold in key emerging markets. By developing and growing these local brands, Diageo hopes to eventually move middle-class buyers up to its more premium, global brands. While this strategy offers tremendous growth opportunity over the long-run, external factors such as government policy, economic performance, and currency fluctuations will likely make Diageo a steady performer rather than a runaway success.

## DEO vs. S&P 500 (5 years)


## Business Analysis

Diageo is a global producer, marketer, distributor and seller of alcohol, with a focus on premium spirits.

**Production:**

The company produces roughly 6.5 billion liters from over 100 sites in 30 countries. Its raw materials and supply agreements are sourced from around the world. Cream, which is used in its Irish Cream Liqueur, is sourced from Ireland, and the grapes used to make wine and Raki are sourced from the U.S., Argentina, and Turkey. The molasses, cereals, sugars, and flavors, which are used in its spirits and beers, are sourced from around the world. The global exposure of Diageo’s supply chain poses some risks to the company, as its materials can be impacted by changes on the local, national, and global level. In particular, the flavors, which are used extensively in its products, pose significant risks, as many of them can only be sourced from specific regions of the world, and a small negative change at the regional level could have an impact across Diageo’s global supply. The company’s PP&E (Manufacturing, Distilling, Brewing, Bottling, and Admin Facilities) is 92% owned and 4% leased in excess of 50 years, and is located primarily in Great Britain (43% of Net BV of PP&E), Ireland (16%), and the United States (12%).

**Marketing:**
Diageo’s marketing strategy uses a mix of traditional and digital media. Its marketing and distribution vary by country and depend on government policy. In general, it markets to have relevant brands at every price tier of every category, with an emphasis is on its luxury and more affordable brands. As a global company with globally-recognized brands, Diageo starts with a global marketing campaign, and then hires local advertising and media agencies to give the campaign local relevance. Based on market research, the three consumer insights Diageo is focusing on at the moment are multicultural customers, female customers, and the emerging global middle class.

**Distribution and Sales:**
Distribution and selling in the U.S. is subject to the 3-tiered system which separates suppliers, distributors and retailers. Diageo has successfully operated in this system by working closely with distributors and building a sales team of 3,000 people dedicated exclusively to selling Diageo products. Outside the United States, Diageo either owns and controls the route to market or uses joint ventures, associations and third-party distributors for distributions and sales. In general, the company emphasizes on-trade over off-trade, as it offers significantly higher margins.

**Competitive Advantage:**
The company’s competitive advantage comes from the unique characteristics of both its products and the company itself. Diageo’s focus on premium spirits provides a competitive advantage, because the differentiation and higher price points create greater brand loyalty, and customers are less likely to trade down or switch to a competing product because of price. Also, unlike products like beer or wine, purchases of premium spirits tend to be more planned and occur less on a whim. This allows for steadier, more predictable sales, even as rules and regulations change. For example, in Turkey purchases of alcohol were banned from 10pm to 6am. This had a much greater impact on sales of beer and wine, because those purchases tend to be more last-minute, and Diageo’s spirits sales were impacted far less. Given the wide range of rules and regulations around the world, and the complexities of laws and tariffs, as the largest provider of premium spirits, Diageo is best positioned to take advantage of this complex and restrictive environment. By creating a barrier to entry, these government regulations prevent competitors from entering the market, and offer even greater value to a company like Diageo as it continues to consolidate market share. The size and scope of the company also offers a competitive advantage in the way of information. As the company sells its products, it receives important information about consumer tastes, preferences, and price sensitivities. Using this information, Diageo can innovate and offer new brands, products, or price points to optimize profits. Management’s emphasis on looking at the performance of each product in each

particular market likely stems from this competitive advantage, and positions the company to continue to do well into the future, even in the face of a changing regulatory environment and consumer market.

**Growth:**
The bulk of Diageo's growth is expected to come from the emerging global middle class. Luxury consumption, in particular, is expected to add 400 million new customers by 2020. Diageo has emphasized its luxury portfolio to take advantage of this trend, and luxury sales currently make up 13% of Net Sales. The growing middle class in emerging markets is also important, as a part of Diageo's strategy is to capture customers with more affordable brands, and then encourage them to trade up into its luxury, reserve portfolio. In 2030, the global middle class is expected to increase to 4.9 billion people from 1.8 billion in 2009. The Chinese middle class is expected to make up 66% of this population and 59% of its total consumption. India and Sub-Saharan Africa will also be significant drivers of this growth, which is why Diageo has invested in local brands in these two regions, with a significant stake in India's USL and investments being made in Nigerian and East African suppliers and distributors.

## Industry Analysis

**Consumers**
On a global scale, consumers of Diageo's products vary widely in terms of culture, politics, and social norms. Economically, though, they tend to be middle to upper class. As stated earlier, Diageo's strategy is to target middle class consumers with more affordable brands, and get them to trade up to the luxury brands. Given the wide range of consumer tastes and preferences, Diageo does not try to push a particular brand in a region if consumers do not ultimately want it. Rather, the company chooses to invest in local, relevant brands which have strong market share and offer opportunities for growth. As consumers purchase these brands and become more familiar with Diageo's portfolio of products, the company determines which of its luxury brands consumers in a region prefer, and then markets these heavily to encourage customers to trade up. As an example of the diversity of Diageo's consumer base, in the Asia Pacific markets, Diageo has focused on super and ultra premium scotch, while in Africa consumers tend to prefer beer and a broader range of other alcohol choices, and in Russia and Eastern Europe, priority is given to super and ultra premium vodkas. In Latin America and the Caribbean, strategic priority is given to scotch, but the company is interested in broadening the range to include vodka, rum, liqueurs, and local spirits.

**Competition**
Diageo's top competitors in the premium spirits market include Pernod Ricard, Beam Suntory, Brown-Forman, and Bacardi. These competitors have many globally recognized brands, including Kahlua, Bacardi, Pinnacle, Grey Goose, and Absolut. They also tend to follow a similar strategy and business breakdown as Diageo. As an example, Pernod Ricard's business strategy is to innovate, encourage premiumisation among its customer base, and drive its premium portfolio. It also tries to create a culture of entrepreneurs and decentralize its operations in an effort to increase focus on company performance by product by region, and encourage people to sell the Pernod Ricard brand. At Bacardi, the business is broken down by region: North America, Latin America, Asia Pacific, Europe, and Middle East and Africa. The competition appears to be following business models similar to that of Diageo, with the overarching strategy to focus on performance at the local level while keeping in mind the global strategy of pushing premium brands. With the competition following the same strategy, Diageo's size and scope becomes that more important in providing a competitive advantage. With 27% share of global volume sales of premium spirits, more than Pernod Ricard and Bacardi combined (22%), the company has greater power in navigating the regulatory environments and negotiating with suppliers and distributors, and it also has better information about market trends, including consumer tastes, preferences, and price sensitivities. As these companies look to

capture the global middle class and luxury markets, power and information become that much more critical to success.

## Risk

A company as large, global, and complex as Diageo certainly faces a range of risks, though many of them are one-off's and short-term in nature. When analyzing the long-term prospects of the company, we instead focused on those which could permanently impair the business and hurt its ability to do business over the long-term. The company has always faced currency risk, litigation, contamination or destruction of product, and breakdowns in contract negotiations. Diageo has the resources and expertise to hedge and manage these risks, and we do not believe they threaten the core of the company's business model. There are a few risks that we believe could impact the long-term prospects of the business

**Volatility in the Emerging Markets**

There is a risk that, as Diageo looks to benefit from the growth opportunities in the emerging markets, the company will experience volatile sales and operating profits driven by volatile market conditions. This volatility will likely be economic in nature, but could also be political or social. We have already seen an impact from China's extravagance laws hurt alcohol sales in Asia, as they attempt to curb corporate corruption. While this has had a short-term negative impact on Diageo, it does not affect the long-term drivers of growth, namely the emerging middle class, and so is not viewed as a long-term risk. These short-term spikes and declines could pose long-term threats to Diageo should the company fail to act strategically on them (e.g., the company continues devoting resources to corporate clientele instead of channeling it to other, more opportunistic markets, such as the upper-middle class). As we monitor Diageo, and look at short-term volatility, we will assess their impacts on the long-term outlook of the company, both direct (impacts long-term opportunities) and indirect (pulls resources, capital, and focus away from the best long-term opportunities).

**Negative Political, Social, or Economic Developments**

*Political*

While there is a risk that Diageo could face negative political developments and increased regulations or taxes, the fact remains that taxes and tariffs on alcohol offer governments significant sources of revenues, and they are not likely to enact policies which hurt or eliminate this income stream.

*Sociopolitical*

In the future, negative social perceptions of alcohol use could put pressure on governments to enact policies which hurt Diageo's sales. However, the company involves itself heavily in the discussion on what constitutes responsible use of alcohol. This is certainly good in terms of corporate social responsibility, but it also allows the company to shape the discussion and make sure it is driven only by science-based evidence and reasoning. By creating initiatives and programs about responsible alcohol use and alcohol safety, the company is essentially running its own public relations campaign and mitigating the risks posed by negative social developments.

*Economic*

Negative economic developments are more outside of the company's control. A global economic downturn would certainly hurt Diageo's performance, as it would to most other companies. However, its global exposure offers significant diversification, as poor economic performance in one region can be offset by gains in another, which stabilizes sales and makes business more predictable than if Diageo operated in only one region. For example, Diageo recently faced poor performance in Southern Europe and Ireland, but this was offset by modest growth in GB, Benelux, France and Nordics, resulting in flat sales in Western Europe.

**Consolidation of Customer Base**

There is certainly a risk that Diageo's customer base could consolidate, in the on trade as well as the off trade. The on trade (bars and restaurants) is less consolidated, which helps to partly explain why margins are higher in this market. The off trade has become consolidated much more quickly in recent years, with 4 national grocers in Great Britain making up 40% of total home consumption of spirits by volume in 2009. As Diageo's client base consolidates money, resources, and negotiating power, it may become difficult for Diageo to negotiate higher margins. However, as the company pursues higher-end, premium drinks, it mitigates some of this risk by appealing to a smaller customer base with deeper pockets, as opposed to a general population which is both larger and more price sensitive.

## Investment Thesis

Our buy recommendation on Diageo is based on the following:

- Competitive position of Diageo in the market
- Positive long-term trends in the market
- Strength of Diageo's global strategy

**Competitive position of Diageo in the market**

As the top global spirits company in a competitive environment that has already become fairly consolidated, Diageo seems well positioned to continue as the market leader into the future. At 27% share of global volume in premium spirits, more than the combined share of Pernod Ricard (12%) and Bacardi (10%), Diageo's leading position offers it certain advantages. In addition to increased brand exposure, financial resources, and negotiating power, having such a high volume share of the premium spirits market offers a significant amount of information. As Diageo makes sales, it collects important data about consumer tastes, preferences, price sensitivities, and buying behaviors. Taking this information into account with other constraints, such as taxes, regulations, and tariffs, the company can adjust its prices and product offerings accordingly. It can also detect more long-term trends using this market information, predicting and acting upon broader and farther-reaching regional shifts. Especially important is the company's decision to invest its global resources in local brands around the world, which provides it with market information and a rapidly expanding distribution network. The company then leverages this information and reach to push its global portfolio of premium brands. A company's size and strength is not itself a competitive advantage, but Diageo's ability to act effectively on, and take advantage of, its global reach is what makes this factor so critical to the company's success.

**Positive long-term trends in the market**

Much of Diageo's long-term strategy is based on trends in the global market for its products. Two important trends are the growth of the global middle class in the emerging markets and increased luxury consumption on a global scale. According to the OECD Observer, the "global middle class" is expected to increase to 4.9 billion people in 2030 from 1.8 billion in 2009. Of this, Asia is expected to represent 66% of the population and 59% of its consumption. Specifically, China, India and Sub-Saharan Africa are the more critical regions to target when trying to capture this source of growth. Diageo's strategic investments in all 3 of these regions is seen as a good strategic move in light of this trend. The market for luxury consumption is also anticipating significant growth within the next decade, with about 400 million customers to be added by 2020. Diageo is looking to capitalize on this trend by focusing on its luxury portfolio, which currently accounts for 13% of net sales.

**Strength of Diageo's Global Strategy**

As touched on earlier, Diageo's global strategy appears to be robust, both in terms of its goals and execution. The decision to focus on premiumisation and push the luxury portfolio takes advantage of two long-term, global market trends which offer significant potential. Diageo's goal to drive people toward better brands at higher price points also helps it differentiate itself and avoid having to compete on price. While the market appears to offer potential, and Diageo seems to have positioned its goals to best capitalize on this potential, its execution toward these goals is what makes its strategy strong, and one of the reasons for investing in the company. Specifically, the company's decision to invest in local brands with attractive growth potential and use the increased exposure, market information and distribution to drive sales of its global luxury brands seems like a good strategic decision. As management has stressed, Diageo is careful to not buy scale for the sake of scale, but to truly invest in local brands and capitalize this by deploying its luxury brands in specific regions as opportunity presents itself. In the short-term, the emerging markets and local brands might not offer the same sales or margins, but they do offer the greatest potential. Higher sales and margins in regions like North America will help normalize Diageo's performance more or less, while other regions, such as Latin America, Asia and India, will provide the growth opportunity, and together they should add shareholder value over the long run.

## Valuation

Using the discounted cash flow model, we valued DEO at $133.59 per share, and believe the purchase price of $113.09 comes at about a 15% discount. Note: All amounts are quoted in GBP, except for Implied Price per Share and Purchase Price per Share.

*Historical Regional Performance – Net Sales Growth and Operating Margins*
Because Diageo's business is driven more by region-specific performance than product-specific performance or aggregate sales, we looked at historical net sales growth and operating margins for each of the five regions (Exhibit A).

*Forecasted Regional Performance – Net Sales and Operating Profits*
Using historical net sales growth and operating margins for each region, when then projected regional performance for the next 7 years (Exhibit B). Operating margins were projected using a historical average. Although regions like North America, Western Europe, and Africa, Eastern Europe & Turkey had increasing operating margins in recent years, and the projected operating margins seem to be underestimating performance, in the interest of maintaining a simple and conservative model, these margins were left unadjusted. Net sales growth was also projected using a historical average for each region, but an option was included to adjust projected growth rates up or down depending on how skewed historical numbers were for a particular region. In Asia Pacific, growth was improved by 4% over a 2% historical growth rate, to project 6% growth over the next 7 years. In 2014, Diageo saw a 14.3% decline in sales in this region due to China's extravagance laws curbing corruption and excessive corporate spending. As the company adjusts to these changes and focuses on China's emerging middle class, we expect sales to increase steadily into the future and feel a 6% growth rate is a conservative estimate of Diageo's performance in this region. In Western Europe, the historical growth rate of -4% was adjusted up by 3% to give a projected growth rate of -1% over the next 7 years. Although Diageo has seen a moderate decline in sales in this region over the past few years, due primarily to economic issues, sales are stabilizing. Again, in the interest of being conservative, we assumed sales would remain relatively stable into the future. All other growth rates were historical, unadjusted averages. Using these rates, we projected Net Sales and Operating Profits through 2021 for each of the 5 regions.

*Forecasted Unlevered Free Cash Flow*

Both Net Sales and Operating Profits were then aggregated in our DCF model and used to calculate the company's free cash flow through 2021. Taxes were calculated at a 20% effective annual tax rate. To be conservative, Depreciation, Amortization & Impairment, Increase in Net Working Capital, and Capital Expenditures were projected using a historical average from 2012 through 2014. For Net Sales & Growth and Unlevered FCF % Growth, compounded annual growth rates were calculated to make sure the sales and FCF figures were reasonable. The Unlevered FCFs were then discounted at a 10% rate. This rate does not represent the company's WACC but rather the opportunity cost of other investments in the markets.

*Terminal Value*

After obtaining the present value of free cash flows, we calculated the terminal value. This was done by multiplying 2021 unlevered free cash flow (£3,118) by a terminal growth rate of 3.5% and dividing by the discount rate (10%) and this terminal growth rate. The terminal growth rate was based on the assumption that long-term inflation will be about 2% and that Diageo will be able to growth revenues at 1.5% annually.

*Enterprise Value, Implied Equity Value, and Implied Price per Share*

This was then added to the sum of PV FCF to calculate Enterprise Value. We added cash and subtracted debt and noncontrolling interest to obtain an Implied Equity Value of £51.56 billion or (at a conversion rate of 1.62 USD/GBP) $83.528 billion (Exhibit D). With about 625 million shares outstanding, this gives us an implied price per share of $133.59, or a 15% discount at the purchase price of $133.09 per share.

## Conclusion

Diageo is a stable company that is moderately undervalued at this time, with a margin of safety at around 15%. We are confident that, given its competitive positioning in the market and its strong global strategy, Diageo will continue to perform well into the future and provide steady growth in shareholder value.

# Exhibits

## Exhibit A – All amounts in GBP

| Historical Net sales and Operating profit/(loss) by Region | North America | Western Europe | Africa, Eastern Europe & Turkey | Latin America & Caribbean | Asia Pacific |
|---|---|---|---|---|---|
| 2014 | | | | | |
| Net sales | 3,444 | 2,169 | 2,075 | 1,144 | 1,347 |
| % Growth | -7.5% | -1.5% | -8.8% | -21.3% | -14.3% |
| Operating profit/(loss) | 1,425 | 619 | 531 | 314 | 7 |
| % Margin | 41.4% | 28.5% | 25.6% | 27.4% | 0.5% |
| 2013 | | | | | |
| Net Sales | 3,723 | 2,203 | 2,276 | 1,453 | 1,572 |
| % Growth | 5.0% | -5.5% | 11.1% | 17.6% | 11.7% |
| Operating profit/(loss) | 1,478 | 619 | 648 | 468 | 380 |
| % Margin | 39.7% | 28.1% | 28.5% | 32.2% | 24.2% |
| 2012 | | | | | |
| Net Sales | 3,547 | 2,331 | 2,048 | 1,236 | 1,407 |
| % Growth | 5.4% | -4.2% | 25.9% | 16.3% | 2.2% |
| Operating profit/(loss) | 1,341 | 755 | 567 | 366 | 299 |
| % Margin | 37.8% | 32.4% | 27.7% | 29.6% | 21.3% |
| 2011 | | | | | |
| Net Sales | 3,366 | 2,433 | 1,627 | 1,063 | 1,377 |
| % Growth | - | - | - | - | - |
| Operating profit/(loss) | 1,242 | 663 | 320 | 314 | 236 |
| % Margin | 36.9% | 27.3% | 19.7% | 29.5% | 17.1% |

## Exhibit B – All amounts in GBP

| Forecasted Net Sales | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| **North America** | **3,614.89** | **3,794.26** | **3,982.53** | **4,180.14** | **4,387.55** | **4,605.26** | **4,833.77** |
| Growth Improvement / (Impairment) | 0% | | | | | | |
| % Growth | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| **Western Europe** | **2,143.14** | **2,117.58** | **2,092.33** | **2,067.39** | **2,042.74** | **2,018.38** | **1,994.31** |
| Growth Improvement / (Impairment) | 3% | | | | | | |
| % Growth | -1% | -1% | -1% | -1% | -1% | -1% | -1% |
| **Africa, Eastern Europe & Turkey** | **2,306.01** | **2,562.73** | **2,848.03** | **3,165.10** | **3,517.46** | **3,909.06** | **4,344.24** |
| Growth Improvement / (Impairment) | 0% | | | | | | |
| % Growth | 11% | 11% | 11% | 11% | 11% | 11% | 11% |
| **Latin America & Caribbean** | **1,330.18** | **1,546.67** | **1,798.38** | **2,091.06** | **2,431.38** | **2,827.07** | **3,287.17** |
| Growth Improvement / (Impairment) | 0% | | | | | | |
| % Growth | 16% | 16% | 16% | 16% | 16% | 16% | 16% |
| **Asia Pacific** | **1,430.23** | **1,518.60** | **1,612.42** | **1,712.05** | **1,817.83** | **1,930.15** | **2,049.41** |
| Growth Improvement / (Impairment) | 4% | | | | | | |
| % Growth | 6% | 6% | 6% | 6% | 6% | 6% | 6% |
| **Total Net Sales** | **10,824.44** | **11,539.83** | **12,333.70** | **13,215.73** | **14,196.96** | **15,289.92** | **16,508.91** |

| Forecasted Operating Profits | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| **North America** | **1,398.74** | **1,468.14** | **1,540.99** | **1,617.45** | **1,697.71** | **1,781.95** | **1,870.37** |
| % Margin | 39% | 39% | 39% | 39% | 39% | 39% | 39% |
| **Western Europe** | **629.93** | **622.42** | **615.00** | **607.66** | **600.42** | **593.26** | **586.18** |
| % Margin | 29% | 29% | 29% | 29% | 29% | 29% | 29% |
| **Africa, Eastern Europe & Turkey** | **560.70** | **623.12** | **692.49** | **769.58** | **855.26** | **950.47** | **1,056.29** |
| % Margin | 24% | 24% | 24% | 24% | 24% | 24% | 24% |
| **Latin America & Caribbean** | **383.97** | **446.46** | **519.12** | **603.61** | **701.84** | **816.07** | **948.88** |
| % Margin | 29% | 29% | 29% | 29% | 29% | 29% | 29% |
| **Asia Pacific** | **185.50** | **196.96** | **209.13** | **222.05** | **235.77** | **250.34** | **265.80** |
| % Margin | 13% | 13% | 13% | 13% | 13% | 13% | 13% |
| **Total Operating Profits** | **3,158.83** | **3,357.10** | **3,576.72** | **3,820.35** | **4,091.00** | **4,392.08** | **4,727.52** |

## Exhibit C – All amounts in GBP

| Diageo PLC - Cash Flow Projections | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY 2013 | FY 2014 | FY 2015E | FY 2016E | FY 2017E | FY 2018E | FY 2019E | FY 2020E | FY 2021E | CAGR |
| **Net sales** | **£11,303** | **£10,258** | **£10,824** | **£11,540** | **£12,334** | **£13,216** | **£14,197** | **£15,290** | **£16,509** | |
| % Growth | 6.2% | -9.2% | 5.5% | 6.6% | 6.9% | 7.2% | 7.4% | 7.7% | 8.0% | 7.29% |
| Operating profit | 3,380 | 2,707 | 3,159 | 3,357 | 3,577 | 3,820 | 4,091 | 4,392 | 4,728 | |
| % Margin | 30% | 26% | 29% | 29% | 29% | 29% | 29% | 29% | 29% | |
| Less: Taxes | 676 | 541 | 632 | 671 | 715 | 764 | 818 | 878 | 946 | |
| **EBIAT** | **2,704** | **2,166** | **2,527** | **2,686** | **2,861** | **3,056** | **3,273** | **3,514** | **3,782** | |
| Plus: Depreciation, Amortization & Impairment | 398 | 629 | 478 | 478 | 478 | 478 | 478 | 478 | 478 | |
| Less: Increase in Net Working Capital | 552 | 597 | 557 | 557 | 557 | 557 | 557 | 557 | 557 | |
| Less: Capital Expenditures | 636 | 642 | 585 | 585 | 585 | 585 | 585 | 585 | 585 | |
| **Unlevered FCF** | **1,914** | **1,556** | **1,863** | **2,022** | **2,198** | **2,393** | **2,609** | **2,850** | **3,118** | |
| % Growth | | | 20% | 9% | 9% | 9% | 9% | 9% | 9% | 8.96% |
| | | | | | | | | | | |
| Discount Period | | | 0.5 | 1.5 | 2.5 | 3.5 | 4.5 | 5.5 | 6.5 | |
| **PV FCF** | | | **1,777** | **1,753** | **1,732** | **1,714** | **1,699** | **1,687** | **1,678** | |

**Exhibit D – All amounts in GBP, unless otherwise noted**

| Intrinsic Value Calculation | |
|---|---|
| Sum of PV FCF | 12,040 |
| Terminal Value | 49,654 |
| **Enterprise Value** | **61,694** |
| Plus: Cash | 622 |
| Less: Debt | 9,988 |
| Less: P/S | 0 |
| Less: Noncontrolling Interest | 767 |
| **Implied Equity Value** | **$51,561** |
| Stated in USD | $83,528 |
| Shares Outstanding | 625.26 |
| **Implied Price Per Share (USD)** | **$133.59** |
| Purchase Price Per Share (USD) | $113.09 |
| **Discount** | **84.65%** |