

Diageo plc (NYSE: DEO)

Sector: Beverages – Wineries & Distilleries (NAICS: 312140)

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$133.59	\$112.85	\$133.00	\$108.20	0.83	18.90	\$69.10 (Large Cap)	2.99%

Industry Trends

The wineries and distilleries industry is diverse on a global scale, as consumer tastes and preferences vary by region. As such, companies such as Diageo try to remain competitive on all types and price points of alcoholic beverages, creating a portfolio of relevant brands that can respond to changing market demand. Overall, the strategy is to capture customers with mid-range beverages fit to local tastes and then move them up to higher-end brands through premiumisation. The forecasted growth of the global middle class to 4.9 billion by 2030 and luxury buyers to 400 million by 2020 is the core thesis of this strategy, and drives the focus to areas like China, India, and Sub-Saharan Africa.

Investment Thesis

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.

Business 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. 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. Distribution and selling in the U.S. is subject to the 3-tiered system which separates suppliers, distributors and retailers. Outside the United States, Diageo either owns and controls the route to market or uses joint ventures, associations and third-party distributors.

DEO 5-year stock performance vs. S&P 500:



(Google Money)

Corporate Social Responsibility:

ESG Disclosure Rating	56.20 (Ind. Avg.: 38.43)
Environmental Disclosure Score	51.94 (Ind. Avg.: 36.55)
Emissions Disclosure Score	1.00 (Ind. Avg.: 1.08)
Social Disclosure Score	59.65 (Ind. Avg.: 41.98)
Governance Disclosure Score	62.50 (Ind. Avg.: 52.62)
Equal Opportunity Policy	1 (Ind. Avg.: 1)
Community Spending	27.65M (Ind. Avg.: 20.05M)
Total Energy Consumption	3.37 (Ind. Avg.: 4.07)

Source: Bloomberg, Value Line Investment Survey, Yahoo Finance

Competition:

- Diageo's four main competitors are: Pernod Ricard (PDRDF), Brown-Forman (BF.B), Bacardi Ltd. (Privately held), and Beam Suntory (BEAM).

Pros:

- The top seller of premium spirits by global volume
- A portfolio of #1 brands in a range of product categories
- A collection of strong local brands in emerging markets which will capture the growing middle-class and luxury buyers through its luxury, reserve portfolio

Cons:

- The industry is highly competitive, and there has been significant consolidation in recent years
- The industry is subject to shifting consumer tastes and preferences, and companies must invest heavily in marketing their brands to maintain relevance
- Diageo's performance will depend on numerous external factors, including government regulation, social issues, economic performance, currency fluctuations, taxes and tariffs, etc.

Value Estimate:

\$125 - \$153

(2017-2019)

Overall Rating:

Expected inflation	3%
Current EPS	\$5.68
Forecasted EPS Growth	11%
Credit Quality	A-
ROE	32.4%
ROA	9.4%
Price/Book	6.32
Debt/Equity	1.21
Debt/Capital	0.55
Current Ratio	1.54
Price/Cash Flow	26.18
10 yr. Risk Free Rate	2.375%
WACC	10%

Report Prepared By:

Andrew Novitski

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