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)

Value Estimate:
$125 - $153
(2017-2019)

Overall Rating: Four Stars
- 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
10/18/2014

Source: Bloomberg, Value Line Investment Survey, Yahoo Finance