

Diageo

H1 results in line, more cautious H2 outlook – we stay Neutral

Reiterate Rating: NEUTRAL | PO: 3,000 GBp | Price: 2,842 GBp

H1 results in line despite challenging backdrop

H1 organic sales -0.6% (volume -5.2%, price/mix +4.9%) and EBIT -5.4% were close to consensus (flat and -4.7%, respectively). LatAm (LAC) was the main drag (sales -23%), as anticipated, taking c3pp off group growth. North America slightly softer than expected, with Diageo's US spirits (-2%) lagging the industry, which slowed to low-single-digit growth toward the end of the year, we believe. Growth in Europe (sales +3.4%, ex Russia +6%) slowed a little more than expected too, while Africa and APAC remain solid. EBIT margin contracted 167bps, held back also by higher marketing spending (75bps drag). FX impact was worse than expected (-\$90m vs cons. -\$5m). That said, EPS came in 0.6% above consensus thanks to better share of associates (Moët Hennessy) and a lower tax rate. Good cash generation and significant cost savings (\$335m) in H1. Diageo is broadly half way through the \$1bn buyback, which will continue in H2.

... but more cautious H2 outlook

For H2, Diageo expects improved org. sales growth vs H1, with gradual improvement in North America (market backdrop likely to remain subdued), further destocking in LatAm (H2 sales -10-20%; destock should be completed by year-end) and continued growth in Europe, Africa and APAC. For FY24, management also expects a 23% tax rate (prev. 24%). In FY25 growth should "progress towards" the medium-term sales guidance range (5-7%), with EBIT growth in line with sales. Mid-term guidance confirmed.

We reduce EPS 2-5%

We trim our 2H24 organics, reflecting the new guidance. We now forecast +1.8% org. sales and -0.8% EBIT for H2 (prev. +4.1%/+5.5%), and for the full year +0.5% sales/-3.5% EBIT. We trim FY25 organics to +4.7%/+5.2% sales/EBIT. Exhibit 2 shows detail of our changes.

We stay Neutral: limited rerating potential on 6-12m view

We [downgraded Diageo](#) to Neutral (see report), as we expect growth in the US, which is key to sentiment and valuation, to remain lacklustre for the next 6-12 months, holding back rerating. Diageo on our new ests. trades on 19.2x 12m fwd PE, a c3% premium to EU staples. We lower our PO to 3,000p (ADR \$153) from 3,050p (ADR \$155), reflecting our lower ests.

Estimates (Jun) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted)	2.02	1.96	1.82	1.92	2.05
EPS Change (YoY)	NA	-2.7	-7.4%	5.4%	6.9%
Dividend / Share (USD)	0.95	0.99	1.04	1.09	1.14
ADR EPS (Adjusted - US\$)	8.08	7.86	7.28	7.67	8.20
ADR Dividend / Share (US\$)	3.79	3.95	4.15	4.36	4.57
Valuation (Jun)					
P/E	17.1x	18.4x	19.8x	18.8x	17.6x
Dividend Yield	2.63	2.74	2.88	3.02	3.17
EV / EBITDA*	13.9x	14.8x	15.5x	15.1x	14.3x
Free Cash Flow Yield*	4.41%	2.66%	3.41%	4.10%	4.36%

* For full definitions of *IQmethod*SM measures, see page 8.

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Refer to important disclosures on page 9 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

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30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	3,050.00p	3,000.00p
2024E EPS	1.87	1.82
2025E EPS	1.99	1.92
2026E EPS	2.15	2.05
2024E EBITDA (m)	6,944.1	6,675.4
2025E EBITDA (m)	7,229.2	6,834.3
2026E EBITDA (m)	7,645.6	7,217.1

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Stock Data

Price (Common / ADR)	2,842 GBp / 144.52 USD
Price Objective	3,000 GBp / 153.00 USD
Date Established	30-Jan-2024 / 30-Jan-2024
Investment Opinion	A-2-7 / A-2-7
52-Week Range	2,676 GBp-3,780 GBp
Market Value (mn)	63,476 GBP
Shares Outstanding (mn)	2,233.9 / 558.5
Average Daily Value (mn)	97.60 USD
Free Float	99.9%
BofA Ticker / Exchange	DGEAF / LSE
BofA Ticker / Exchange	DEO / NYS
Bloomberg / Reuters	DGE LN / DGE.L
ROE (2024E)	40.0%
Net Dbt to Eqty (Jun-2023A)	162.1%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Diageo

Key Income Statement Data (Jun)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	20,516	20,555	20,408	21,214	22,316
EBITDA Adjusted	7,438	6,996	6,675	6,834	7,217
Depreciation & Amortization	(1,064)	(1,297)	(789)	(763)	(803)
EBIT Adjusted	6,374	5,699	5,887	6,071	6,415
Net Interest & Other Income	(1,121)	(1,114)	(1,176)	(939)	(1,009)
Tax Expense / Benefit	(1,398)	(1,163)	(1,234)	(1,327)	(1,399)
Net Income (Adjusted)	4,681	4,448	4,061	4,224	4,440
Average Fully Diluted Shares Outstanding	2,325	2,271	2,237	2,207	2,171

Key Cash Flow Statement Data

Net Income (Reported)	4,280	4,445	3,758	4,104	4,320
Depreciation & Amortization	1,064	1,297	789	763	803
Change in Working Capital	(241)	(1,414)	(437)	(145)	(231)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	110	(692)	122	(136)	(127)
Cash Flow from Operations	5,213	3,636	4,232	4,586	4,764
Capital Expenditure	(1,434)	(1,401)	(1,331)	(1,334)	(1,361)
(Acquisition) / Disposal of Investments	(252)	32.5	(36.0)	0	(97.6)
Other CFI	(96.0)	(68.0)	(159)	0	0
Cash Flow from Investing	(1,782)	(1,436)	(1,526)	(1,334)	(1,459)
Share Issue / (Repurchase)	(3,041)	(1,805)	(995)	(988)	(1,988)
Cost of Dividends Paid	(2,584)	(2,206)	(2,128)	(2,123)	(2,092)
Increase (decrease) debt	NA	1,406	552	970	850
Other CFF	NA	(264)	0	0	0
Cash Flow from Financing	(4,531)	(2,868)	(2,571)	(2,141)	(3,229)
Total Cash Flow (CFO + CFI + CFF)	(1,100)	(669)	135	1,111	76.0
FX and other changes to cash	NA	(283)	(95.0)	0	0
Change in Cash	NA	(952)	40.2	1,111	76.0
Change in Net Debt	NA	2,358	512	(141)	774
Net Debt	16,620	18,978	19,490	19,349	20,123

Key Balance Sheet Data

Property, Plant & Equipment	7,190	7,935	8,423	8,786	9,139
Goodwill	3,663	3,651	3,651	3,651	3,551
Other Intangibles	10,738	10,855	10,909	10,666	10,222
Other Non-Current Assets	6,942	6,820	6,862	7,388	8,256
Trade Receivables	3,729	3,719	3,673	3,797	3,972
Cash & Equivalents	2,765	1,813	1,853	2,964	3,040
Other Current Assets	9,156	10,090	10,524	10,814	11,236
Total Assets	44,183	44,883	45,895	48,066	49,417
Long-Term Debt	17,543	18,649	19,201	20,171	21,021
Other Non-Current Liabilities	4,914	4,932	4,883	4,996	5,160
Short-Term Debt	1,842	2,142	2,142	2,142	2,142
Other Current Liabilities	8,373	7,451	7,401	7,675	8,050
Total Liabilities	32,672	33,174	33,627	34,985	36,374
Total Equity	11,511	11,709	12,268	13,082	13,043
Total Equity & Liabilities	44,183	44,883	45,895	48,066	49,417

Business Performance*

Return On Capital Employed	17.2%	13.7%	13.1%	13.0%	13.2%
Return On Equity	57.1%	45.8%	40.0%	39.3%	40.3%
Operating Margin	31.1%	30.7%	28.8%	28.6%	28.7%
Free Cash Flow (MM)	3,683	2,167	2,743	3,252	3,403

Quality of Earnings*

Cash Realization Ratio	1.11x	0.82x	1.04x	1.09x	1.07x
Asset Replacement Ratio	1.35x	1.08x	1.69x	1.75x	1.70x
Tax Rate	24.1%	20.6%	23.7%	23.5%	23.5%
Net Debt/Equity	144%	162%	159%	148%	154%
Interest Cover	11.5x	8.00x	6.81x	7.14x	7.22x

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Distillers

Company Description

Diageo is the world's leading spirits company. It owns/controls the world's No.1 premium Scotch whisky and has vodka, gin, liqueur, Canadian whiskey and Tequila brands, with leading global brands like Smirnoff, Johnnie Walker, Tanqueray, Baileys and others. It also owns Guinness beer and has a 34% stake in Moët Hennessy, which is controlled by LVMH. The company was formed in 1997, following the merger of GrandMet and Guinness.

Investment Rationale

After a difficult 2023, we believe the worst is behind. However, we believe that continued lacklustre growth in the US - key to sentiment and to valuation - will hold back a rerating. With limited scope for earnings upgrades and for rerating (as Diageo is trading at a slight premium to EU staples on PE), we see modest upside to the shares on a 12 months' view.

Stock Data

Shares / ADR	4.00
Price to Book Value	7.7x

Half-yearly Earnings Estimates

	2023	2024
H1	1.16A	1.08A
H2	0.80A	0.74E

Key Changes

(US\$)	Previous	Current
Price Obj.	155.00	153.00
2024E EPS	7.46	7.28
2025E EPS	7.96	7.67
2026E EPS	8.62	8.20

1H24 results in summary

The following table summarizes Diageo's 1H24 results.

Exhibit 1: Diageo 1H24 results vs expectations

1H results were broadly in line with consensus

	1H23	2H23	FY23	1H24A	1H24E	Cons	Var (%)
Revenues	11,120	9,435	20,555	10,962	10,968	10,936	0.2%
Operating profit	3,770	2,543	6,313	3,510	3,580	3,572	-1.7%
North America	1,690	1,532	3,222	1,725	1,634		
Europe & Turkiye	820	492	1,312	797	889		
Africa	215	74	289	130	168		
LatAm & Caribbean	538	245	783	316	359		
APAC	704	400	1,104	689	730		
Corporate	-197	-200	-397	-147	-199		
Net finance charges	-345	-367	-712	-431	-410	-422	2.0%
Share of associates	202	241	443	253	175	197	28.6%
Taxes (ex exceptionals)	-850	-539	-1,389	-779	-803	-803	-3.0%
Tax rate (%)	23.4%	22.3%	23.0%	23.4%	24.0%	24.0%	-0.6p
Minorities adjusted	-131	-76	-207	-130	-136	-131	-0.5%
Net profit adj	2,646	1,802	4,448	2,423	2,407	2,275	6.5%
EPS adj. (basic)	116.4	79.9	196.5	108.1	107.7	107.4	0.6%
Number of shares (FD)	2,281	2,261	2,271	2,247	2,242	2,244	0.1%
Dividend (USD)	36.8	62.0	98.8	40.5	38.7	27.3	48.1%
Net Debt	-18,203	-19,582	-19,582	-20,483	-20,354	-17,588	
FX on Op Profit	-295	-223	-518	-90	-55	-6	
Organic sales growth (%)							
North America	2.9%	-2.6%	0.2%	-1.5%	-1.1%	-0.7%	-0.8p
Europe & Turkiye	9.8%	13.2%	11.3%	3.4%	6.7%	5.2%	-1.8p
Africa	6.0%	4.5%	5.3%	9.3%	6.8%	6.6%	2.7p
LatAm & Caribbean	20.1%	-3.7%	9.4%	-23.5%	-20.0%	-23%	-0.5p
APAC	16.9%	8.2%	12.9%	5.9%	5.7%	5.8%	0.1p
Group	9.4%	3.2%	6.5%	-0.6%	0.5%	0.0%	-0.6p
Org EBIT growth (%)							
North America	-2.1%	-2.7%	-2.4%	-1.2%	-3.8%	-2.8%	1.6p
Europe & Turkiye	19.4%	-0.7%	10.8%	-4.2%	4.3%	3.2%	-7.4p
Africa	11.8%	11.9%	11.8%	9.4%	10.0%	5.6%	3.8p
LatAm & Caribbean	20.0%	-3.6%	12%	-41%	-38%	-37%	-4.2p
APAC	27.1%	33.5%	29%	3%	7.7%	5.5%	-2.3p
Group	9.7%	3.2%	7.0%	-5.4%	-4.2%	-4.7%	-0.7p
Organic margin expansion (bps)	9	-1	15	-167	-160	-159	

Source: Company reports, BofA Global Research estimates, Company compiled consensus

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Changes to estimates

The following tables summarize the changes we have made to our estimates, following 1H24 results.

Exhibit 2: Diageo - Changes to BofA estimates

We reduce EPS 2-5%, mainly driven by “organic”

	FY24E			FY25E			FY26E		
	New ests.	Old ests.	Change	New ests.	Old ests.	Change	New ests.	Old ests.	Change
Revenues	20,408	20,616	-1.0%	21,214	21,709	-2.3%	22,316	22,843	-2.3%
Operating profit	5,887	6,174	-4.7%	6,071	6,448	-5.8%	6,415	6,824	-6.0%
North America	3,220	3,137	2.6%	3,190	3,137	1.7%	3,279	3,225	1.7%
Europe & Turkiye	1,284	1,408	-8.8%	1,310	1,438	-8.9%	1,368	1,500	-8.8%
Africa	173	219	-21.3%	180	230	-21.5%	205	258	-20.5%
LatAm & Caribbean	452	645	-29.8%	546	760	-28.1%	594	826	-28.0%
APAC	1,116	1,176	-5.1%	1,214	1,305	-7.0%	1,348	1,447	-6.9%
Corporate	-359	-411	-12.7%	-369	-421	-12.4%	-380	-432	-12.1%
Net finance charges	-864	-831	3.9%	-850	-828	2.6%	-889	-825	7.7%
Share of associates and JVs	488	410	19.2%	519	452	14.6%	555	484	14.6%
Taxes (ex exceptionals)	-1,276	-1,381	-7.6%	-1,327	-1,457	-8.9%	-1,399	-1,556	-10.1%
Tax rate (%)	23.0%	24.0%	-97 bps	23.0%	24.0%	-100 bps	23.0%	24.0%	-100 bps
Minorities	-207	-213	-3.0%	-220	-232	-5.1%	-242	-256	-5.1%
Net profit adj	4,061	4,159	-2.3%	4,224	4,383	-3.6%	4,440	4,671	-5.0%
EPS adjusted (FD)	181.5	186.0	-2.4%	191.4	198.3	-3.5%	204.5	214.7	-4.8%
Number of shares (FD)	2,237	2,236	0.1%	2,207	2,210	-0.1%	2,171	2,175	-0.2%
Dividend (GBP)	82.0	82.2	-0.2%	85.8	86.3	-0.5%	90.1	90.6	-0.5%
Net Debt	-20,320	-19,496	4.2%	-20,179	-18,983	6.3%	-20,953	-19,212	9.1%
FX on Op Profit	-144	-96		-123	-105		-24	-25	
GBPUSD	1.26	1.26		1.27	1.26		1.27	1.26	
EURUSD	1.08	1.09		1.08	1.10		1.08	1.10	
Organic sales growth (%)									
North America	-0.5%	0.2%	-0.7%	1.6%	2.3%	-0.7%	3.1%	3.1%	0.0%
Europe & Turkiye	2.2%	4.4%	-2.2%	4.3%	4.5%	-0.2%	4.0%	4.0%	0.0%
APAC	6.7%	7.3%	-0.6%	6.9%	8.6%	-1.7%	8.8%	8.8%	0.0%
Africa	10.2%	7.5%	2.6%	8.0%	8.3%	-0.3%	7.4%	7.4%	0.0%
LatAm & Caribbean	-19.0%	-9.6%	-9.4%	11.0%	13.0%	-2.0%	7.8%	7.8%	0.0%
Group	0.5%	2.1%	-1.6%	4.7%	5.6%	-0.9%	5.3%	5.3%	0.0%
Org EBIT growth (%)									
North America	-0.5%	-1.4%	0.9%	1.6%	2.6%	-1.0%	3.2%	3.2%	0.0%
Europe & Turkiye	-2.0%	5.6%	-7.6%	2.9%	2.6%	0.4%	4.8%	4.7%	0.1%
APAC	5.7%	9.9%	-4.2%	8.9%	10.5%	-1.6%	11.1%	11.0%	0.1%
Africa	11.9%	12.0%	-0.2%	16.1%	13.4%	2.7%	14.2%	12.6%	1.5%
LatAm & Caribbean	-38.0%	-23.2%	-14.7%	22.5%	18.6%	4.0%	9.5%	9.1%	0.3%
Group	-3.5%	-0.3%	-3.2%	5.2%	6.1%	-0.9%	6.0%	6.2%	-0.2%
Organic margin expansion (bps)	-125	-74	-51	15	15	0	20	25	-5

Source: BofA Global Research estimates

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Financial Summaries

Exhibit 3: Diageo - Income statement and CF statement summaries (FY19-FY28e) – FY19-23£ in GBP, FY23-28 in USD

We forecast -7.3% EPS decline in FY24 and +5.4% growth in FY25

USD mln	FY19	FY20	FY21	FY22	FY23 £	FY23 \$	FY24E	FY25E	FY26E	FY27E	FY28E
Net sales	12,867	11,752	12,733	15,452	17,113	20,555	20,408	21,214	22,316	23,457	24,674
Gross profit	8,001	7,098	7,695	9,479	10,281	12,266	12,114	12,657	13,166	13,887	14,656
EBITDA	4,490	3,988	4,193	5,625	5,822	6,996	6,675	6,834	7,217	7,630	8,069
Operating profit	4,116	3,494	3,746	4,797	5,254	6,313	5,887	6,071	6,415	6,786	7,182
Operating margin (%)	32.0%	29.7%	29.4%	31.0%	30.7%	30.7%	28.8%	28.6%	28.7%	28.9%	29.1%
Net finance charges	-263	-353	-373	-422	-594	-712	-864	-850	-889	-937	-990
Share of associates and JVs	312	282	334	417	370	443	488	519	555	594	635
Pre-tax (incl associates)	4,174	3,423	3,707	4,792	5,030	6,044	5,542	5,771	6,081	6,443	6,827
Taxes	-859	-743	-823	-1,080	-1,156	-1,389	-1,276	-1,327	-1,399	-1,482	-1,570
Tax rate (%)	20.6%	21.7%	22.2%	22.5%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Minorities	-151	-114	-138	-192	-173	-207	-205	-220	-242	-267	-293
Adj net profit	3,164	2,566	2,746	3,520	3,701	4,448	4,061	4,224	4,440	4,695	4,963
Adj EPS - FD (USD)	1.30	1.09	1.17	1.51	1.63	1.96	1.82	1.91	2.04	2.22	2.41
EPS Growth (%)	10.3%	-16.3%	7.4%	29.1%	7.8%	-2.7%	-7.3%	5.4%	6.9%	8.5%	8.8%
Dividend (GBP)	0.69	0.70	0.73	0.76	0.80	0.80	0.82	0.86	0.90	0.95	1.02
#Shares (FD)	2,428	2,354	2,345	2,327	2,271	2,271	2,237	2,207	2,171	2,116	2,055
Cash Flow Statement	FY19	FY20	FY21	FY22	FY23 £	FY23 \$	FY24E	FY25E	FY26E	FY27E	FY28E
EBIT (pre exceptionals)	4,116	3,494	3,746	4,797	5,254	6,313	5,887	6,071	6,415	6,786	7,182
Change in WC requirements	-222	-328	331	-179	-1,175	-1,414	-437	-145	-231	-227	-221
Depreciation, amortisation, impairment	374	494	447	828	1,066	1,297	789	763	803	844	887
Dividends received	168	4	290	190	219	271	268	282	302	323	346
Pension payments	-121	-109	-30	-89	-25	-31	-24	-24	-25	-25	-26
Other items	-10	-26	73	-335	-560	-692	-184	-250	-265	-281	-298
Cash from Operations	4,305	3,529	4,857	5,212	4,779	5,744	6,298	6,697	6,998	7,420	7,870
Net interest	-252	-308	-351	-328	-554	-665	-850	-795	-836	-881	-931
Tax	-805	-901	-852	-949	-1,201	-1,443	-1,247	-1,317	-1,399	-1,482	-1,570
Cash from operating activities	3,248	2,320	3,654	3,935	3,024	3,636	4,232	4,586	4,764	5,057	5,369
Net Capex	-639	-686	-613	-1,080	-1,167	-1,401	-1,331	-1,334	-1,361	-1,361	-1,406
FCF (pre DVD, SBB, M&A)	2,608	1,634	3,037	2,783	1,800	2,167	2,743	3,252	3,403	3,697	3,963
Acquisitions/disposals	370	-119	-474	-189	27	33	-36	0	-98	-85	0
Shares issued/bought back	-2,724	-1,227	-60	-2,281	-1,498	-1,805	-995	-988	-1,988	-2,988	-2,987
Dividends paid	-1,735	-1,757	-1,723	-1,799	-1,858	-2,206	-2,128	-2,123	-2,092	-2,045	-2,006
Other	-705	-500	357	-542	125	-664	-321	0	0	0	0
Change in net debt	-2,186	-1,969	1,137	-2,028	-1,404	-2,475	-738	141	-774	-1,422	-1,031
FCF/EBITDA	58%	41%	72%	49%	31%	31%	41%	48%	47%	48%	49%
Balance sheet	FY19	FY20	FY21	FY22	FY23 £	FY23 \$	FY24E	FY25E	FY26E	FY27E	FY28E
Year End Net Debt	-11,277	-13,246	-12,109	-14,137	-15,541	-19,582	-20,320	-20,179	-20,953	-22,375	-23,405
Net Debt/EBITDA	2.5x	3.3x	2.9x	2.5x	2.7x	2.8x	3.0x	3.0x	2.9x	2.9x	2.9x
ROIC	15.4%	12.8%	14.1%	17.5%	17.1%	16.7%	14.9%	15.2%	16.0%	16.9%	17.8%

Source: Company reports, BofA Global Research estimates

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Exhibit 4: Diageo – Divisional forecasts (FY19-28E) – FY19-23£ in GBP, FY23-28 in USD

We expect margins to contract in FY24

	FY19	FY20	FY21	FY22	FY23 £	FY23 \$	FY24E	FY25E	FY26E	FY27E	FY28E
Sales											
North America	4,460	4,623	5,209	6,095	6,758	8,109	8,065	8,193	8,446	8,707	8,977
Europe & Turkiye	2,939	2,567	2,558	3,212	3,569	4,303	4,610	4,748	4,920	5,095	5,277
APAC	2,688	2,270	2,488	2,884	3,200	3,841	3,965	4,237	4,611	5,006	5,438
LatAm & Caribbean	1,130	908	1,046	1,525	1,799	2,159	1,848	2,034	2,191	2,354	2,529
Africa	1,597	1,346	1,412	1,682	1,699	2,039	1,798	1,877	2,016	2,159	2,313
Group	12,867	11,752	12,733	15,452	17,113	20,555	20,408	21,214	22,316	23,457	24,674
Operating profit											
North America	1,948	2,034	2,237	2,454	2,689	3,222	3,220	3,190	3,279	3,372	3,463
Europe & Turkiye	1,014	757	635	1,017	1,105	1,312	1,284	1,310	1,368	1,431	1,498
APAC	703	501	608	711	905	1,104	1,116	1,214	1,348	1,493	1,654
LatAm & Caribbean	365	248	303	538	661	783	452	546	594	648	706
Africa	275	101	171	315	220	289	173	180	205	233	263
Corporate	-189	-147	-208	-238	-326	-397	-359	-369	-380	-391	-402
Group	4,116	3,494	3,746	4,797	5,254	6,313	5,887	6,071	6,415	6,786	7,182
Operating profit margin											
North America	43.7%	44.0%	42.9%	40.3%	39.8%	39.7%	39.9%	38.9%	38.8%	38.7%	38.6%
Europe & Turkiye	34.5%	29.5%	24.8%	31.7%	31.0%	30.5%	27.9%	27.6%	27.8%	28.1%	28.4%
APAC	26.2%	22.1%	24.4%	24.7%	28.3%	28.7%	28.2%	28.6%	29.2%	29.8%	30.4%
LatAm & Caribbean	32.3%	27.3%	29.0%	35.3%	36.7%	36.3%	24.5%	26.9%	27.1%	27.5%	27.9%
Africa	17.2%	7.5%	12.1%	18.7%	12.9%	14.2%	9.6%	9.6%	10.2%	10.8%	11.4%
Group	32.0%	29.7%	29.4%	31.0%	30.7%	30.7%	28.8%	28.6%	28.7%	28.9%	29.1%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 5: Diageo – organic growth rates FY19-28E

We expect 0.5% organic sales in FY24 and +4.7% in FY25

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Organic sales growth (%)										
North America	5.2%	2.4%	20.2%	14.5%	0.2%	-0.5%	1.6%	3.1%	3.1%	3.1%
Europe & Turkiye	3.7%	-12.3%	4.3%	30.2%	11.3%	2.2%	4.3%	4.0%	3.9%	4.0%
APAC	9.2%	-15.7%	13.6%	16.2%	12.9%	6.7%	6.9%	8.8%	8.6%	8.6%
LatAm & Caribbean	8.7%	-15.0%	30.1%	43.1%	9.4%	-19.0%	11.0%	7.8%	7.6%	7.6%
Africa	6.7%	-13.3%	20.1%	22.1%	5.4%	10.2%	8.0%	7.4%	7.1%	7.1%
Group	6.1%	-8.4%	16.0%	21.4%	6.5%	0.5%	4.7%	5.3%	5.2%	5.3%
Organic operating profit growth (%)										
North America	2.8%	4.1%	16.9%	6.6%	-2.4%	-0.5%	1.6%	3.2%	2.8%	2.7%
Europe & Turkiye	2.2%	-24.3%	-5.2%	64.3%	10.9%	-2.0%	2.9%	4.8%	5.1%	5.1%
APAC	25.5%	-29.1%	22.2%	16.3%	29.4%	5.7%	8.9%	11.1%	10.8%	10.8%
LatAm & Caribbean	19.3%	-29.2%	63.2%	70.3%	11.7%	-38.0%	22.5%	9.5%	9.2%	9.2%
Africa	49.7%	-56.0%	100.9%	78.8%	12.0%	11.9%	16.1%	14.2%	13.4%	13.1%
Group	9.0%	-14.4%	17.7%	26.3%	7.0%	-3.5%	5.2%	6.0%	5.9%	5.9%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Diageo (DGEAF / DEO)

We derive our PO using a PE multiple. Diageo trades on a 12-month forward PE of c19x, broadly in line with EU Staples. Over the next 12 months, we expect Diageo to trade on a similar multiple, as we see limited scope for rerating, given lacklustre growth in the US. Applying a c19x multiple to our Feb-26 EPS estimate of \$2.00 (converted into GBP at 1.27), we derive our PO of 3,000p (ADR \$153).

Risks: (1) competition (in most categories barriers to entry are low and the industry is rather fragmented), (2) weakening consumer environment, (3) EM macro (demand for spirits in EMs tends to be more cyclical than other staples), (4) currency risk (FX movements, particularly the GBP/USD and GBP/EUR, can have a material impact on profit. In addition to translation, Diageo is exposed to transactional FX risk).

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EMEA - Beverages Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AB InBev	BUD	BUD US	Andrea Pistacchi
	Anheuser-Busch InBev	BUDFF	ABI BB	Andrea Pistacchi
	Anheuser-Busch InBev SA	XAIBF	ANH SJ	Andrea Pistacchi
	Campari	DVDCF	CPR IM	Andrea Pistacchi
	Carlsberg	CABJF	CARLB DC	Andrea Pistacchi
	Carlsberg	CABGY	CABGY US	Andrea Pistacchi
	Coca-Cola Hellenic	CCHBF	CCH LN	Andrea Pistacchi
	Heineken	HINKF	HEIA NA	Andrea Pistacchi
	Heineken	HEINY	HEINY US	Andrea Pistacchi
	Pernod Ricard	PDRDF	RI FP	Andrea Pistacchi
	Pernod Ricard	PRNDY	PRNDY US	Andrea Pistacchi
NEUTRAL				
	Diageo	DEO	DEO US	Andrea Pistacchi
	Diageo	DGEAF	DGE LN	Andrea Pistacchi
	Remy Cointreau	REMYF	RCO FP	Andrea Pistacchi
	Royal Unibrew	ROYUF	RBREW DC	Andrea Pistacchi
UNDERPERFORM				
	Britvic	BTVCF	BVIC LN	Victor Beltran-Segarra
	Fevertree Drinks plc	FQVTF	FEVR LN	Andrea Pistacchi

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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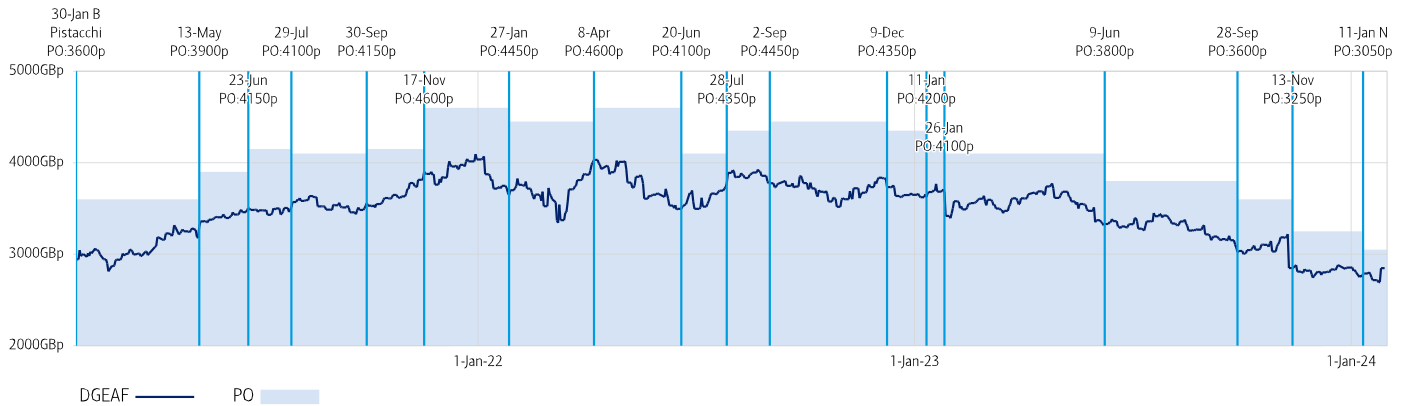
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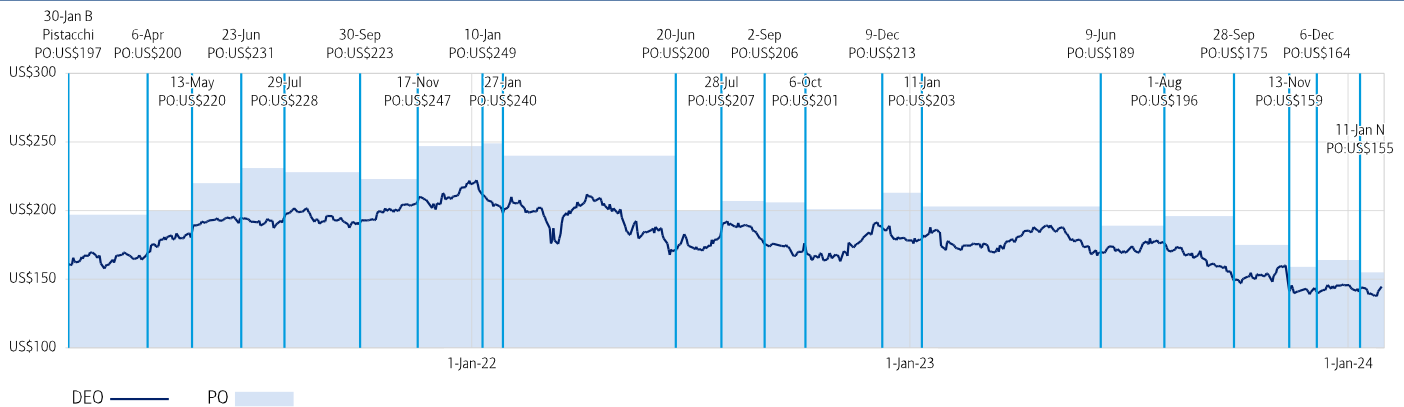
Diageo (DGEAF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Diageo (DEO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Beverages - Alcoholic Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	22	61.11%	Buy	15	68.18%
Hold	6	16.67%	Hold	4	66.67%
Sell	8	22.22%	Sell	2	25.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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