

## Diageo

# Unlikely to rerate with subdued growth in US – downgrade to Neutral

Rating Change: NEUTRAL | PO: 3,050 GBp | Price: 2,787 GBp

## Downgrade to Neutral

Diageo had a difficult year, with +1.7% organic sales and -1.2% EBIT in calendar 2023 (BofAe). The stock underperformed, but we downgrade it to Neutral from Buy because we expect the US – key to sentiment and to valuation – to remain lackluster and disappoint, holding back rerating. With earnings risk still on the downside (albeit probably not material from here) and limited scope for rerating (as Diageo is trading broadly on parity with EU staples on PE), we see modest upside potential to the shares on a 12-month view.

## Only modest improvement in the US (c45% of EBIT)

Industry growth decelerated more than expected in 2023, to +c2.5% ex prepared cocktails, on BofAe. We think that the industry might slow further in 2024, possibly to zero or even slightly negative for a couple of quarters (ex prepared cocktails), as last year's pricing is lapped and a weaker consumer environment could lead to some trading down, while volume remains soft, impacted also by prepared cocktails' growth. Diageo has the benefit of easier shipment comps and a solid innovation pipeline, but against the more challenging backdrop, we do not expect more than c1.5% growth for its US spirits business in calendar 2024 (below consensus). Longer term, we expect Diageo to grow c3% in the US, a little below the industry and below consensus.

## Unlikely to regain its premium to staples in the short term

Diageo trades on 18.5x 12-month forward PE, a 1% discount to staples. Whilst multiple and relative valuation are a lot lower than 2-3 years ago, historically (last 10-15 years) Diageo has traded more or less in line with staples on PE, except in periods when it has been able to deliver superior top-line growth, mainly driven by the US (such as in 2H18-1H20 and FY21-22), which led to rerating (Exhibit 3 and Exhibit 4). Given our view on the US, plus some short-term uncertainty in other regions too, we cannot see the stock rerating soon.

## Small change to estimates, PO reduced to 3,050p/\$155

Our EPS estimates are broadly unchanged, having been cut by c18% in last 12 months (partly due to FX). We forecast organic sales +2.1%, EBIT -0.3% in FY24 (close to consensus). We lower PO to 3,050p/\$155 (from 3250p/\$164), reflecting a lower target PE of c19x (previously 19.5x), in line with staples (previously high-single-digit premium).

Estimates (Jun) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted)	2.02	1.96	1.87	1.99	2.15
EPS Change (YoY)	NA	-2.7	-5.0%	6.6%	8.3%
Dividend / Share (USD)	0.95	0.99	1.04	1.09	1.14
ADR EPS (Adjusted - US\$)	8.08	7.86	7.46	7.96	8.62
ADR Dividend / Share (US\$)	3.79	3.95	4.15	4.36	4.57
Valuation (Jun)					
P/E	16.6x	17.9x	18.8x	17.7x	16.3x
Dividend Yield	2.69	2.81	2.95	3.10	3.25
EV / EBITDA*	13.5x	14.4x	14.5x	13.9x	13.2x
Free Cash Flow Yield*	4.52%	2.72%	3.95%	4.34%	4.84%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 16.

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**Refer to important disclosures on page 17 to 20. Analyst Certification on page 15. Price Objective Basis/Risk on page 15.**

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Timestamp: 11 January 2024 12:30AM EST

11 January 2024

## Equity

### Key Changes

(US\$)	Previous	Current
Inv. Opinion	A-1-7	A-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	3,250.00p	3,050.00p
2025E EPS	2.00	1.99
2026E EPS	2.16	2.15
2024E EBITDA (m)	6,942.2	6,944.1
2025E EBITDA (m)	7,233.8	7,229.2
2026E EBITDA (m)	7,656.8	7,645.6

**Andrea Pistacchi** >>  
Research Analyst  
MLI (UK)  
+44 20 7996 4938  
[andrea.pistacchi@bofa.com](mailto:andrea.pistacchi@bofa.com)

**Victor Beltran-Segarra** >>  
Research Analyst  
MLI (UK)  
+44 20 7996 4368  
[victor.beltran-segarra@bofa.com](mailto:victor.beltran-segarra@bofa.com)

## Stock Data

Price (Common / ADR)	2,787GBp / 142.75USD
Price Objective	3,050 GBp / 155.00 USD
Date Established	11-Jan-2024 / 11-Jan-2024
Investment Opinion	A-2-7 / A-2-7
52-Week Range	2,719 GBp-3,790 GBp
Market Value (mn)	61,883 GBp
Shares Outstanding (mn)	2,236.1 / 559.0
Average Daily Value (mn)	91.69 USD
Free Float	99.9%
BofA Ticker / Exchange	DGEAF / LSE
BofA Ticker / Exchange	DEO / NYS
Bloomberg / Reuters	DGE LN / DGE.L
ROE (2024E)	40.5%
Net Dbt to Eqty (Jun-2023A)	162.1%
ESGMeter™	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".

c: circa

ex: excluding

# iQprofile<sup>SM</sup> Diageo

## Key Income Statement Data (Jun)

### (US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	20,516	20,555	20,616	21,709	22,843
EBITDA Adjusted	7,438	6,996	6,944	7,229	7,646
Depreciation & Amortization	(1,064)	(1,297)	(770)	(781)	(822)
EBIT Adjusted	6,374	5,699	6,174	6,448	6,824
Net Interest & Other Income	(1,121)	(1,114)	(1,011)	(948)	(945)
Tax Expense / Benefit	(1,398)	(1,163)	(1,381)	(1,457)	(1,556)
Net Income (Adjusted)	4,681	4,448	4,159	4,383	4,671
Average Fully Diluted Shares Outstanding	2,325	2,271	2,236	2,210	2,175

## Key Cash Flow Statement Data

Net Income (Reported)	4,280	4,445	3,979	4,263	4,551
Depreciation & Amortization	1,064	1,297	770	781	822
Change in Working Capital	(241)	(1,414)	(278)	(233)	(229)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	110	(692)	46.4	(42.3)	(57.1)
<b>Cash Flow from Operations</b>	<b>5,213</b>	<b>3,636</b>	<b>4,516</b>	<b>4,769</b>	<b>5,087</b>
Capital Expenditure	(1,434)	(1,401)	(1,421)	(1,411)	(1,393)
(Acquisition) / Disposal of Investments	(252)	32.5	0	0	(97.6)
Other CFI	(96.0)	(68.0)	0	0	0
<b>Cash Flow from Investing</b>	<b>(1,782)</b>	<b>(1,436)</b>	<b>(1,421)</b>	<b>(1,411)</b>	<b>(1,491)</b>
Share Issue / (Repurchase)	(3,041)	(1,805)	(994)	(988)	(1,988)
Cost of Dividends Paid	(2,584)	(2,206)	(1,854)	(1,857)	(1,837)
Increase (decrease) debt	NA	1,406	650	970	850
Other CFF	NA	(264)	0	0	0
<b>Cash Flow from Financing</b>	<b>(4,531)</b>	<b>(2,868)</b>	<b>(2,198)</b>	<b>(1,875)</b>	<b>(2,975)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>(1,100)</b>	<b>(669)</b>	<b>897</b>	<b>1,482</b>	<b>621</b>
FX and other changes to cash	NA	(283)	(100)	0	0
Change in Cash	NA	(952)	797	1,482	621
Change in Net Debt	NA	2,358	(147)	(512)	229
Net Debt	16,620	18,978	18,831	18,318	18,547

## Key Balance Sheet Data

Property, Plant & Equipment	7,190	7,935	8,521	8,938	9,303
Goodwill	3,663	3,651	3,651	3,651	3,551
Other Intangibles	10,738	10,855	10,920	10,683	10,240
Other Non-Current Assets	6,942	6,820	6,485	6,676	7,195
Trade Receivables	3,729	3,719	3,711	3,886	4,066
Cash & Equivalents	2,765	1,813	2,610	4,093	4,714
Other Current Assets	9,156	10,090	10,397	10,819	11,245
Total Assets	44,183	44,883	46,296	48,746	50,314
Long-Term Debt	17,543	18,649	19,299	20,269	21,119
Other Non-Current Liabilities	4,914	4,932	4,911	5,066	5,227
Short-Term Debt	1,842	2,142	2,142	2,142	2,142
Other Current Liabilities	8,373	7,451	7,472	7,844	8,230
Total Liabilities	32,672	33,174	33,824	35,321	36,718
Total Equity	11,511	11,709	12,472	13,426	13,596
Total Equity & Liabilities	44,183	44,883	46,296	48,746	50,314

## Business Performance\*

Return On Capital Employed	17.2%	13.7%	13.5%	13.4%	13.6%
Return On Equity	57.1%	45.8%	40.5%	39.7%	40.6%
Operating Margin	31.1%	30.7%	29.9%	29.7%	29.9%
Free Cash Flow (MM)	3,683	2,167	3,095	3,358	3,694

## Quality of Earnings\*

Cash Realization Ratio	1.11x	0.82x	1.09x	1.09x	1.09x
Asset Replacement Ratio	1.35x	1.08x	1.85x	1.81x	1.70x
Tax Rate	24.1%	20.6%	24.8%	24.5%	24.5%
Net Debt/Equity	144%	162%	151%	136%	136%
Interest Cover	11.5x	8.00x	7.43x	7.79x	8.27x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 16.

## 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 expect the US - key to sentiment and to valuation - to remain lacklustre and disappoint, holding back rerating. With earnings risk still on the downside (albeit probably not material from here) and limited scope for rerating (as Diageo is trading broadly on parity with EU staples on PE), we see modest upside potential to the shares on a 12-month view.

## Stock Data

Shares / ADR	4.00
Price to Book Value	7.4x

## Half-yearly Earnings Estimates

	2023	2024
H1	1.16A	1.08E
H2	0.80A	0.79E

## Key Changes

(US\$)	Previous	Current
Inv. Opinion	A-1-7	A-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	164.00	155.00
2024E EPS	7.48	7.46
2025E EPS	7.99	7.96
2026E EPS	8.66	8.62

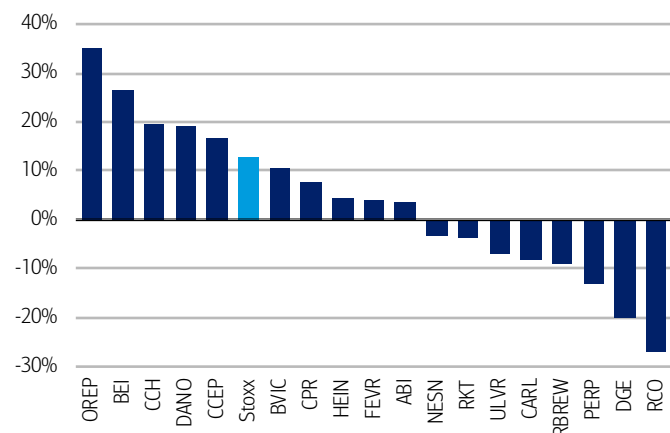
## Investment case

After two remarkably strong years post COVID, Diageo sales growth decelerated, more than expected, to +3.2% in 2H23 (calendar 1H-23) and +0.5% in 1H24 (BofA). The slowdown has been mostly driven by LatAm (sales -13% in calendar 2023, BofAe) and the US (-1.8%), reflecting in both markets a combination of softer underlying trends and destocking (or difficult re-stocking comps). In the last 12 months, we have cut our EPS estimates c18% (calendar 2024). That said, a large portion of the downgrade came from FX (organic EBIT downgrade for calendar 2024 “only” 8%), and we have cut EPS materially for other spirits companies too.

The stock was among the worst-performing in EU staples in 2023, resulting in further derating through the year.

### Exhibit 1: Diageo was one of the worst performers in Staples in 2023

2023 share price performance in Euro

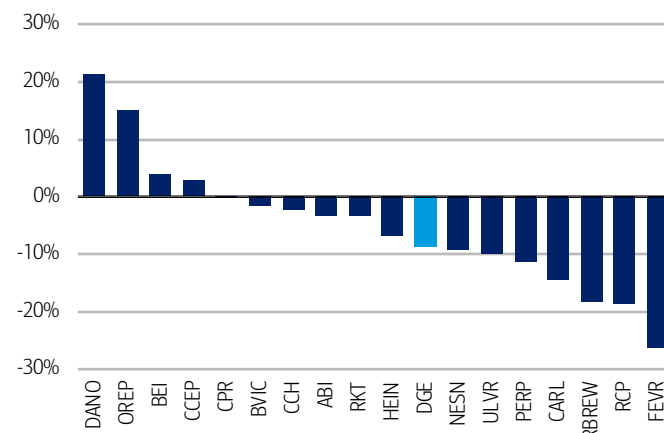


Source: Bloomberg

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### Exhibit 2: Diageo derated c10% on PE in 2023

Re(de)-rating of European staples stocks on PE in 2023



Source: Bloomberg for Food/HPC companies and CCEP. Based on BofAe for Beverages companies. We compare 12-month forward PEs on 9 January 2024 to 12-month forward PE at early January 2023.

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We believe that the worst is behind now, and in the share price, but we see limited upside potential on a 12-month view.

Although we expect Diageo group sales and EBIT growth to improve in 2H24 and FY25, on easier comps, we expect growth in the US to remain subdued and disappoint. The US (c37% of group sales, c45% of EBIT) has historically been key in driving sentiment on the stock and its relative valuation versus staples, we believe. With only modest growth in the US, we see limited scope for Diageo to rerate from its current levels (on 18.5x 12-month forward PE, Diageo is trading broadly in line with EU staples' average). Moreover, the environment in spirits remains uncertain in the short term, and against this backdrop, we believe that earnings risk for Diageo (and other spirits companies) remains on the downside, albeit probably not material from here.

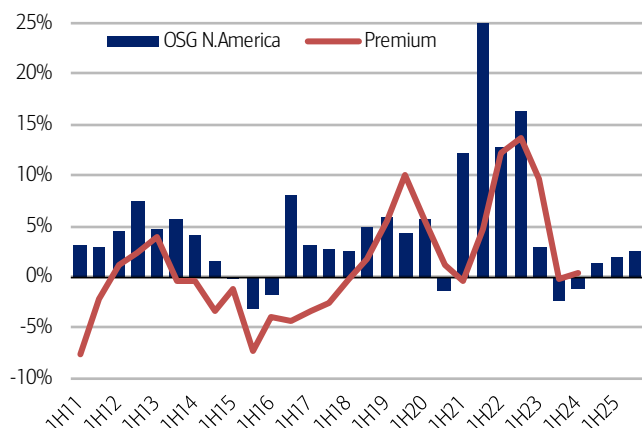
### DGE unlikely to regain premium to staples short term

Diageo trades on c18.5x 12-month forward PE, a 1% discount to EU staples. Whilst multiple and relative valuation are a lot lower than even just 18 months ago (in October 2022, Diageo was trading at a >10% premium to staples), historically (in the last 10-15 years) Diageo has traded more or less in line with European staples on PE, except for periods when Diageo has been able to deliver superior top-line growth, mainly driven by the US (such as in 2H18-1H20 and FY21-22), which led to rerating, as we show in Exhibit 3 and Exhibit 4.

However, we expect a fairly muted recovery in the US, with +1.5% growth in calendar 2024, improving to c+3% medium term.

And for the group, we expect organic sales +5.2% in calendar 2024 (helped by easy comps) and just over 5% thereafter (FY25-26), a little above the average of EU staples (4.8%).

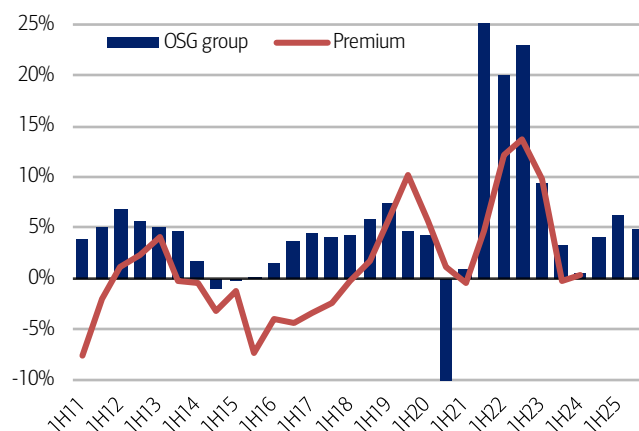
**Exhibit 3: Diageo has traded more or less in line with EU staples over the long term (PE), except in periods of superior growth in the US, key for sentiment**  
DGE PE premium to EU staples versus North America organic sales growth (fiscal periods)



Source: Company reports, BofA Global Research estimates, Bloomberg

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**Exhibit 4: Diageo's premium to EU staples has expanded when group organic sales growth has been above or well above 5%**  
DGE PE premium to EU staples versus group organic sales growth (fiscal periods)



Source: Company reports, BofA Global Research estimates, Bloomberg

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**Exhibit 5: Diageo's double-digit PE premium to staples started eroding in October 2022**

Diageo PE relative to EU staples

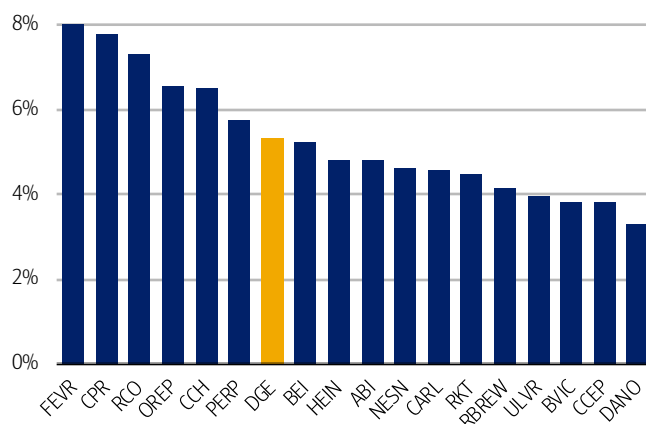


Source: Bloomberg

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**Exhibit 6: We expect Diageo to grow sales slightly above EU staples average in the medium term**

Medium-term (FY26) organic sales growth for EU staples



Source: BofA Global Research estimates, Visible Alpha consensus for non-beverages

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## We expect a muted recovery in the US in 2024

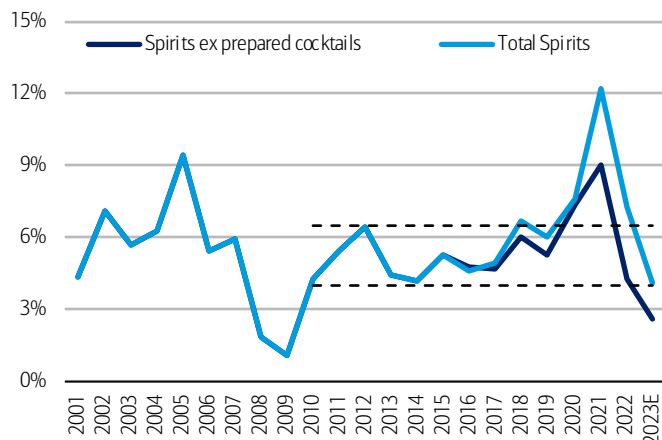
### Industry growth could decelerate further in 2024

After three years of remarkably strong growth, the industry slowed to c+4% value growth in 2023 (bottom end of long-term +4-6% range) and c2.5% excluding prepared cocktails (BofAe based on industry data), effectively all driven by price. We estimate (based on Nielsen) that mix was around zero and volume slightly negative (-1%) in 2023. Q4 was a little weaker. In 2024, we think that industry growth ex prepared cocktails could slow further, possibly to zero or even slightly negative for 2-3 quarters, as last year's price increases are lapped, without new pricing being taken, and a weaker consumer environment (Exhibit 8) could lead to some trading down, while volume growth remains soft, in part impacted by prepared cocktails gaining more share. It is possible (although not very likely, in our view) that pricing could get more competitive, for instance in tequila, where a handful of brands have been priced down.

That said, we do not expect a material decline in US spirits or a potential decline to last more than a couple of quarters. Spirits has historically been a resilient category in developed markets, particularly in the US, where alcohol spend has declined only once in the last 60 years.

#### Exhibit 7: Spirits growth decelerated to +4% in 2023, and c2.5% excluding prepared cocktails

US spirits industry long-term growth

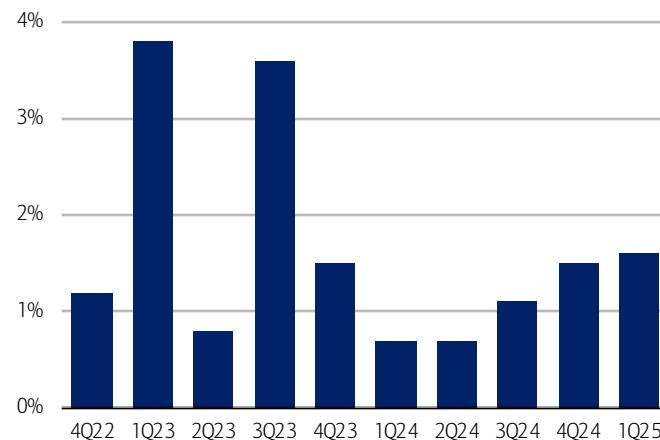


Source: IWSR, BofAe for 2023 based on Nielsen and on-trade data

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#### Exhibit 8: Economists expect US consumer spending to weaken in the short term

US consumer spending, YoY growth



Source: Bloomberg consensus

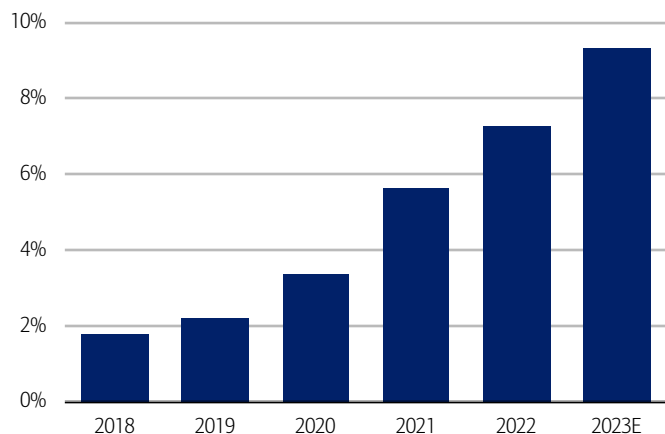
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### US spirits mid-term fundamentals no doubt attractive, but new normal may be slightly below 4-6%

When the industry recovers, in 6-12 months' time, we expect growth to return to close to the historical +4-6% range, supported by structural premiumization and share of alcohol gains. However, excluding prepared cocktails, we believe that industry growth may not quite reach +4-6%, if prepared cocktails continue to grow (we believe that they will), recruiting not just from beer and hard seltzers but also new young legal-drinking-age (LDA) consumers who otherwise would have gone to spirits. We expect medium-term industry growth of c3-5%, with c+0.5-1% volume, 2-3% mix and 0-2% price. In our [2024 Beverages Year Ahead report](#), we discuss all of this in more detail.

**Exhibit 9: Prepared cocktails now c10% of US spirits in value**

Prepared cocktails as % of US spirits (value)

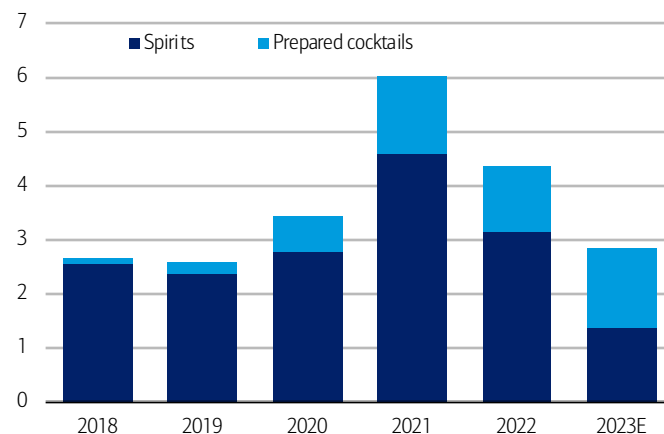


Source: IWSR, BofA Global Research estimates for 2023

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**Exhibit 10: Prepared cocktails drove >50% of industry growth in 2023**

Spirits and prepared cocktails YoY growth (\$ bn, retail prices)



Source: IWSR, BofA Global Research estimates (based on Nielsen) for 2023

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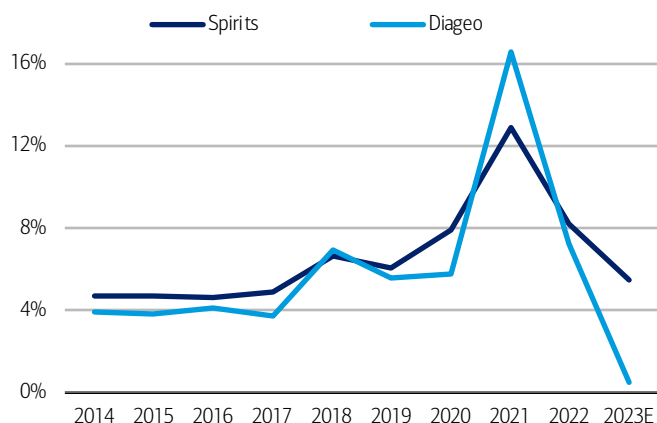
**Diageo growing below industry**

We expect Diageo's US spirits business to decline -1% in 1H24 (Diageo reports on 30 January), which is broadly in line with consensus. While the industry backdrop could be quite soft in the next six months (fiscal 2H24), Diageo will face easier comps and has a solid innovation pipeline (discussed at the recent Investor Day), including Crown Royal Blackberry and innovation on Bailey's. So for fiscal 2H24, we expect +1.5% organic sales growth for Diageo North America (consensus +3.4%). Medium term, FY25-26, growth should accelerate, but we believe that Diageo will slightly lag the industry. We model c+3% for Diageo versus +3-5% for the industry. That said, Diageo has a proven track record of successful innovation and scaling up brands, and it has strong brands in segments/categories that could accelerate (high-end rum and high-end gin), so our medium-term forecasts could turn out to be conservative.

Exhibit 11 shows Diageo's underlying sales growth in the US (measured by IWSR) versus the spirits industry. Diageo outperformed in 2021-22 and in 2018, but it has otherwise slightly underperformed the industry. Diageo's outperformance over 2018-22 (c8.5% CAGR, IWSR) came mainly from *Don Julio* and *Casamigos*, (which contributed c60% of the growth on average over the period) and from *Crown Royal* (16% contribution to growth, Exhibit 12).

**Exhibit 11: Diageo outperformed the US industry in 2021-22**

US spirits industry and Diageo value growth (underlying trends)

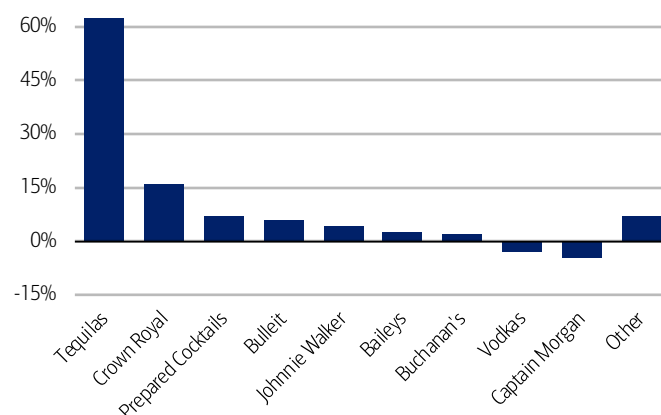


Source: IWSR (for 2014-22). Nielsen (for 2023)

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**Exhibit 12: Tequilas have driven the majority of Diageo's US sales growth over the 5-year period 2017-22**

Contribution to Diageo US spirits growth 2017-22 by brand



Source: IWSR

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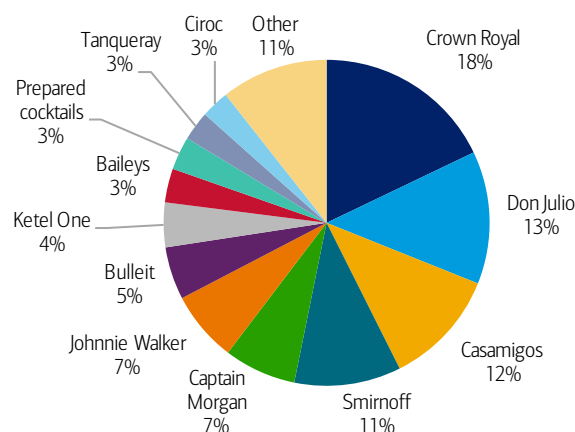
Going forward, as we see things today, we think that Diageo may grow a little below the industry, as we expect the following:

- Less contribution from tequilas (c25% of Diageo's US spirits sales).** Over CY18-23, *Don Julio* and *Casamigos* drove 62% of Diageo's US spirits growth (based on IWSR data), contributing c8pp to Diageo's growth in 2021, 6pp in 2022, but only c1.3pp in 2023 (Exhibit 14). Diageo did a remarkable job scaling up *Don Julio* and *Casamigos*, and the brands also benefited from the unusually strong post-COVID super/ultra-premiumisation trend. In the last 6 months, *Casamigos'* growth turned negative (Nielsen), however, and *Don Julio* growth stalled in calendar 1H23, accelerating strongly again, however, in calendar 2H23 (Nielsen shows high-teens growth in the last three months for *Don Julio*). Whilst part of the slowdown is cyclical, there are other causes too, in our opinion: (1) The most vibrant segment in tequila now is super-premium (c\$25-35 price points), rather than ultra-premium. People we have spoken to from the industry expect most of the growth in tequila going forward to come from superpremium, rather than ultrapremium. (2) *Don Julio* and *Casamigos* are now very large brands (both 2-2.5 million cases), so it is becoming more difficult to grow them. (3) Competition in high-end tequila has increased, with many new entrants. Also, *Patron* (an important source of share gains for Diageo's tequilas in recent years) seems to be losing less share now. That said, Diageo is evolving its tequila strategy, moving towards more of a portfolio approach, with increased focus also on price points below ultrapremium (*21 Seeds* flavoured tequila, priced at c\$30, *Astral* repositioned to c\$25 and growing fast, *DeLeon*). Diageo is also stepping up innovation, now that it is no longer capacity constrained, which should help *Casamigos* and is already benefiting *Don Julio* (*Rosado* launch last year).
- Slower growth for *Crown Royal* (18% of US spirits sales) than in recent years.** In the last 12-18 months, *Crown Royal* has been held back by supply constraints, which have limited Diageo's ability to innovate and promote. The issue is resolved, and Diageo is launching *Crown Royal Blackberry*, which should help in the short term. However, we doubt that *Crown Royal* going forward will grow as much as it has done in the past; c90% of *Crown*'s growth over 2017-22 or 2019-22 came from flavours, according to IWSR (largely *Apple* and *Peach*). The issue, in our opinion, is that (1) competition in flavoured whiskeys has increased and (2) it is difficult to launch frequent flavour extensions without risking impact on long-term brand equity.

- **We are optimistic on some Diageo larger brands (Bulleit, Johnnie Walker, Baileys, Tanqueray, Ketel One, Buchanan's), its single malts portfolio and many of the smaller brands, such as George Dickel, Astral, Balcones and Aviation gin, which have potential to be scaled up.** These brands (large one and smaller ones) are delivering between mid-single-digit and strong double-digit growth. This part of the portfolio represents almost 1/4 of Diageo's US sales, on our estimates based on IWSR.
- **But we see continued mediocre growth or decline for Smirnoff** (c10% of sales, although the brand grew in 2023, in volume and value), **Captain Morgan** (7% of sales), **Ciroc** (now <3% off group sales) and **Seagram's 7**.

**Exhibit 13: Diageo has a well-diversified spirits portfolio in the US, with many attractive brands, but we expect growth to slightly lag the industry medium term**

Diageo US brand split (value, CY22)

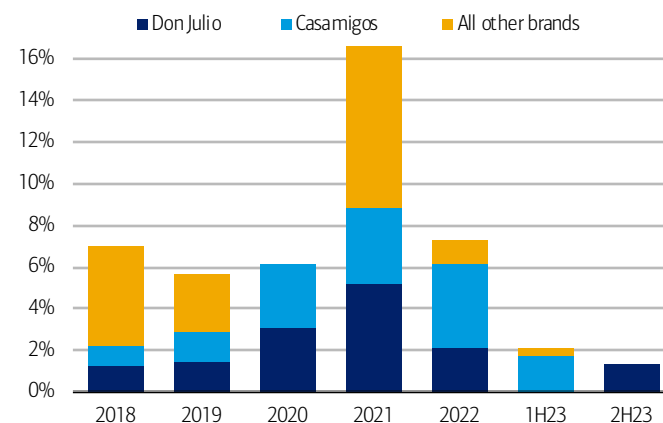


Source: IWSR

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**Exhibit 14: Don Julio and Casamigos have been the main drivers of Diageo's US growth in recent years**

Contribution of Don Julio and Casamigos to Diageo's US growth



Source: IWSR 2023 based on Nielsen???

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All in, we expect Diageo's US spirits to grow c3% medium term, as we detail in Exhibit 15. That said, Diageo has a strong execution machine in the US (best in class data, relationships with distributors, broad portfolio, innovation) and a proven track record of agility and identifying successful brands and scaling them up (Casamigos, Don Julio, Crown innovation, recent Smirnoff innovation, George Dickel, etc), even turning around underperforming brands (Johnnie Walker). Whilst it is not obvious what the "next Casamigos" could be, we would not be surprised if Diageo were to improve its US spirits sales growth more than we currently assume.

**Exhibit 15: We expect c3% sales growth for Diageo's US spirits medium term**

BofA forecasts for Diageo US spirits sales growth, split by brand

	YoY growth					Sales, 2022 \$ mln	Sales split %	Underlying growth forecasts			Contribution to growth	
	2018	2019	2020	2021	2022			FY24E	FY25E	FY26E	CY17-22	FY25-26
Crown Royal	11%	8%	8%	12%	-6%	1,230	18%	1%	3%	3%	1.4%	0.5%
Don Julio	30%	28%	48%	59%	18%	906	13%	9%	5%	5%	2.6%	0.7%
Casamigos	71%	66%	95%	60%	48%	793	12%	-4%	3%	4%	2.6%	0.4%
Smirnoff	0%	-2%	2%	-1%	-2%	728	11%	3%	0%	-2%	-0.1%	-0.1%
Captain Morgan	-7%	-1%	1%	-10%	-1%	492	7%	-6%	-6%	-5%	-0.4%	-0.4%
Johnnie Walker	14%	1%	-26%	21%	28%	482	7%	-1%	2%	5%	0.4%	0.2%
Bulleit	13%	9%	-2%	5%	28%	359	5%	4%	6%	7%	0.5%	0.4%
Ketel One	6%	5%	4%	2%	-11%	304	4%	1%	1%	2%	0.1%	0.1%
Baileys	11%	4%	13%	9%	-9%	231	3%	-4%	1%	3%	0.2%	0.1%
Tanqueray	1%	4%	8%	7%	-15%	200	3%	0%	2%	4%	0.1%	0.1%
Ciroc	-6%	-10%	-2%	20%	-31%	192	3%	-18%	-9%	-8%	-0.3%	-0.2%
Buchanan's	13%	1%	-16%	21%	28%	160	2%	9%	-3%	7%	0.2%	0.0%
Single Malt scotch	4%	54%	-42%	1%	63%	118	2%	-16%	10%	8%	0.1%	0.1%



**Exhibit 15: We expect c3% sales growth for Diageo's US spirits medium term**

BofA forecasts for Diageo US spirits sales growth, split by brand

	YoY growth					Sales, 2022	Sales split	Underlying growth forecasts			Contribution to growth	
Seagram's 7 Crown	-2%	-6%	-4%	-12%	-9%	74	1%	5%	-2%	-5%	-0.1%	0.0%
Rumpel Minze	0%	10%	-17%	36%	-10%	53	1%	-3%	2%	2%	0.0%	0.0%
George Dickel	10%	-3%	18%	38%	-8%	37	1%	15%	15%	15%	0.1%	0.1%
DeLeon Tequila	30%	-32%	-10%	122%	21%	28	0%	3%	8%	5%	0.1%	0.0%
Zacapa Rum	13%	11%	5%	61%	0%	22	0%	5%	10%	10%	0.0%	0.0%
Aviation Gin	121%	112%	13%	2%	27%	20	0%	-5%	6%	6%	0.1%	0.0%
Casamigos Mezcal	0%	42%	23%	66%	11%	19	0%	-5%	15%	15%	0.1%	0.0%
Old Parr	21%	20%	6%	34%	98%	19	0%	50%	10%	10%	0.0%	0.0%
21 Seeds Tequila	0%	0%	583%	170%	86%	17	0%	-5%	10%	10%	0.1%	0.0%
Gordon's Gin	-4%	-9%	-19%	-11%	-6%	15	0%	-5%	-5%	-5%	0.0%	0.0%
Ciroc Brandy	0%	-66%	25%	42%	-12%	15	0%	-25%	-15%	-15%	0.1%	0.0%
Blade and Bow US Whiskey	5%	76%	15%	72%	27%	13	0%	20%	20%	20%	0.0%	0.1%
Balcones US Whiskey	86%	-24%	143%	19%	-7%	10	0%	40%	25%	25%	0.0%	0.1%
Smirnoff Zero Sugar	0%	0%	-10%	-7%	-12%	10	0%	-15%	-10%	-10%	0.0%	0.0%
J&B Scotch	-12%	-1%	-39%	-10%	14%	10	0%	-10%	-5%	-5%	0.0%	0.0%
Astral Tequila						9	0%	60%	30%	15%	0.0%	0.1%
Smirnoff Sours	3%	-11%	21%	-8%	7%	8	0%	0%	0%	0%	0.0%	0.0%
Godiva Cream Liqueur	-2%	16%	11%	48%	-59%	8	0%	-40%	0%	0%	0.0%	0.0%
Gordon's Vodka	-10%	-13%	-24%	-6%	-6%	8	0%	-15%	-8%	-8%	0.0%	0.0%
Seedlip Non-Alcoholic	0%	611%	63%	26%	13%	8	0%	10%	25%	25%	0.0%	0.0%
Other Spirits	4%	0%	-8%	21%	14%	47	1%	5%	8%	8%	0.0%	0.1%
Prepared cocktails	0%	2%	30%	100%	45%	227	3%	-15%	5%	5%	0.6%	0.1%
<b>Total DGE US spirits</b>	<b>7%</b>	<b>6%</b>	<b>6%</b>	<b>17%</b>	<b>7%</b>	<b>6,875</b>	<b>100%</b>	<b>0.1%</b>	<b>2.3%</b>	<b>3.0%</b>		

Source: IWSR, BofA Global Research estimates

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# Changes to estimates

The following table summarizes the changes we have made to our forecasts.

## Exhibit 16: Our EPS estimates are more or less unchanged

Diageo – Changes to our estimates

	FY24E			FY25E			FY26E		
	New ests.	Old ests.	Change	New ests.	Old ests.	Change	New ests.	Old ests.	Change
Revenues	20,616	20,687	-0.3%	21,709	21,821	-0.5%	22,843	22,983	-0.6%
Operating profit	6,174	6,158	0.3%	6,448	6,420	0.4%	6,824	6,800	0.4%
North America	3,137	3,182	-1.4%	3,137	3,161	-0.8%	3,225	3,242	-0.5%
Europe & Türkiye	1,408	1,378	2.2%	1,438	1,430	0.6%	1,500	1,501	-0.1%
Africa	219	221	-1.0%	230	240	-4.2%	258	270	-4.5%
LatAm & Caribbean	645	613	5.1%	760	706	7.8%	826	767	7.6%
APAC	1,176	1,175	0.1%	1,305	1,307	-0.1%	1,447	1,455	-0.5%
Corporate	-411	-411	0.0%	-421	-423	-0.5%	-432	-435	-0.8%
Net finance charges	-831	-816	1.9%	-828	-779	6.3%	-825	-818	0.9%
Share of associates and JVs	410	405	1.1%	452	441	2.5%	484	481	0.7%
Taxes (ex exceptionals)	-1,381	-1,379	0.1%	-1,457	-1,429	2.0%	-1,556	-1,519	2.4%
Tax rate (%)	24.0%	24.0%	0 bps	24.0%	23.5%	50 bps	24.0%	23.5%	50 bps
Minorities	-213	-211	1.0%	-232	-232	0.0%	-256	-256	-0.1%
Net profit adj	4,159	4,157	0.0%	4,383	4,420	-0.9%	4,671	4,688	-0.4%
<b>EPS adjusted (FD)</b>	<b>186.0</b>	<b>185.9</b>	<b>0.0%</b>	<b>198.3</b>	<b>200.0</b>	<b>-0.8%</b>	<b>214.7</b>	<b>215.3</b>	<b>-0.3%</b>
Number of shares (FD)	2,236	2,236	0.0%	2,210	2,211	0.0%	2,175	2,178	-0.1%
Dividend (GBP)	82.2	81.6	0.7%	86.3	85.7	0.7%	90.6	90.0	0.7%
Net Debt	-19,496	-19,470	0.1%	-18,983	-18,871	0.6%	-19,212	-19,021	1.0%
FX on Op Profit	-96	-105		-105	-104		-25	-15	
GBPUSD	1.26	1.26		1.26	1.26		1.26	1.26	
EURUSD	1.09	1.08		1.10	1.08		1.10	1.08	
<b>Organic sales growth (%)</b>									
North America	0.2%	1.5%	-1.3%	2.3%	3.0%	-0.7%	3.1%	3.0%	0.1%
Europe & Türkiye	4.4%	3.9%	0.5%	4.5%	5.0%	-0.5%	4.0%	4.3%	-0.3%
APAC	7.3%	7.8%	-0.5%	8.6%	8.7%	-0.2%	8.8%	8.9%	-0.1%
Africa	7.5%	7.3%	0.2%	8.3%	7.6%	0.7%	7.4%	7.2%	0.3%
LatAm & Caribbean	-9.6%	-9.9%	0.3%	13.0%	10.3%	2.7%	7.8%	7.8%	0.0%
<b>Group</b>	<b>2.1%</b>	<b>2.6%</b>	<b>-0.5%</b>	<b>5.6%</b>	<b>5.7%</b>	<b>-0.1%</b>	<b>5.3%</b>	<b>5.3%</b>	<b>0.0%</b>
<b>Org EBIT growth (%)</b>									
North America	-1.4%	0.0%	-1.4%	2.6%	1.8%	0.8%	3.2%	2.9%	0.4%
Europe & Türkiye	5.6%	3.6%	2.0%	2.6%	4.4%	-1.8%	4.7%	5.0%	-0.3%
APAC	9.9%	10.3%	-0.3%	10.5%	11.3%	-0.8%	11.0%	11.4%	-0.5%
Africa	12.0%	11.9%	0.2%	13.4%	13.6%	-0.2%	12.6%	13.0%	-0.4%
LatAm & Caribbean	-23.2%	-26.8%	3.5%	18.6%	15.8%	2.8%	9.1%	9.2%	0.0%
<b>Group</b>	<b>-0.3%</b>	<b>-0.4%</b>	<b>0.1%</b>	<b>6.1%</b>	<b>5.9%</b>	<b>0.2%</b>	<b>6.2%</b>	<b>6.2%</b>	<b>0.0%</b>
<b>Organic margin expansion (bps)</b>	<b>-74</b>	<b>-91</b>	<b>17</b>	<b>15</b>	<b>7</b>	<b>8</b>	<b>25</b>	<b>23</b>	<b>2</b>

Source: BofA Global Research estimates. ests = estimates. FD = fully diluted.

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## BofAe versus consensus

### Exhibit 17: We expect +2.1% and -0.3% organic EBIT for FY24

Diageo – BofA estimates versus Vuma Consensus

	1H24			FY24		
	BofAe	Consensus		BofAe	Consensus	
Organic sales growth (%)						
North America	-1.1%	-0.7%	-0.4%	0.2%	0.8%	-0.7%
Europe & Türkiye	6.7%	5.2%	1.5%	4.4%	4.7%	-0.3%
APAC	5.7%	5.8%	-0.1%	7.3%	7.2%	0.0%
Africa	6.8%	6.6%	0.1%	7.5%	7.1%	0.5%
LatAm & Caribbean	-20.0%	-23.0%	3.0%	-9.6%	-14.1%	4.6%
Group	0.5%	0.0%	0.5%	2.1%	1.9%	0.2%
Org EBIT growth (%)						
North America	-3.8%	-2.8%	-1.0%	-1.4%	-0.1%	-1.3%
Europe & Türkiye	4.3%	3.2%	1.1%	5.6%	4.0%	1.6%
APAC	7.7%	5.5%	2.1%	9.9%	8.1%	1.9%
Africa	10.0%	5.6%	4.4%	12.0%	12.6%	-0.6%
LatAm & Caribbean	-38.4%	-37.0%	-1.4%	-23.2%	-25.9%	2.7%
Group	-4.2%	-4.7%	0.5%	-0.3%	-0.8%	0.5%
Org margin expansion	-160	-159		-73	-82	
Sales	10,968	10,936	0.3%	20,616	20,551	0.3%
Operating profit	3,580	3,572	0.2%	6,174	6,188	-0.2%
Associates	175	197	-11.3%	410	435	-5.8%
Fin charges	-410	-422	-2.9%	-831	-840	-1.0%
Tax	-803	-800	0.4%	-1,381	-1,381	-0.1%
Tax rate	24.0%	24.0%		24.0%	24.0%	
Minorities	-136	-131	3.7%	-213	-210	1.7%
Net profit	2,407	2,275	5.8%	4,159	4,188	-0.7%
EPS	107.3	107.4	-0.1%	186.0	187.0	-0.5%
Operating profit - FX Impact	-55	-6		-96	-25	

Source: Company reports, BofA Global Research estimates, Vuma Consensus

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# H1 results preview

Diageo reports H1 results on January 30, at 7am UK time. We forecast organic sales +0.5% and EBIT -4.2% (\$3,580m), with margin -160bps and EPS (\$c108, -7.5% YoY) held back by negative FX and declining share of associates income (Moët Hennessy). With the warning in November, Diageo said that sales in LatAm would likely fall more than 20% in H1 (BofAe -21.5%), impacted by weaker consumer demand and destocking (spirits specific, we believe). For North America, we forecast organic sales -1.1% in H1, while momentum for the rest of the group should have remained resilient to fairly strong (APAC organic sales +6.2%, driven by India and the baijiu business in China, Europe +6.7%, led by Türkiye and pricing in Western Europe, and Africa +6.8%, also entirely price driven). VUMA consensus for the group is flat organic sales and EBIT -4.7%.

## Exhibit 18: We expect +0.5% organic sales and -4.2% organic EBIT

BofA forecasts for H1 results

	1H22	2H22	FY22	1H23	2H23	FY23	1H24E	1H Cons	Var (%)
<b>Revenues</b>	<b>10,821</b>	<b>9,695</b>	<b>20,516</b>	<b>11,120</b>	<b>9,435</b>	<b>20,555</b>	<b>10,968</b>	<b>10,936</b>	<b>0.3%</b>
<b>Operating profit</b>	<b>3,730</b>	<b>2,644</b>	<b>6,374</b>	<b>3,770</b>	<b>2,543</b>	<b>6,313</b>	<b>3,580</b>	<b>3,572</b>	<b>0.2%</b>
North America	1,761	1,507	3,268	1,690	1,532	3,222	1,634		
Europe & Türkiye	833	512	1,345	820	492	1,312	889		
Africa	239	180	419	215	74	289	168		
LatAm & Caribbean	453	259	712	538	245	783	359		
APAC	613	334	947	704	400	1,104	730		
Corporate	-169	-148	-317	-197	-200	-397	-199		
Net finance charges	-245	-311	-556	-345	-367	-712	-410	-422	-2.9%
Share of associates	258	297	555	202	241	443	175	197	-11.3%
Taxes (ex exceptionals)	-862	-576	-1,438	-850	-539	-1,389	-803	-803	0.0%
Tax rate (%)	23.0%	21.9%	22.6%	23.4%	22.3%	23.0%	24.0%	24.0%	0.0p
Minorities adjusted	-166	-88	-254	-131	-76	-207	-136	-131	3.7%
Net profit adj	2,715	1,966	4,681	2,646	1,802	4,448	2,407	2,275	5.8%
<b>EPS unadj. (basic)</b>	<b>114.7</b>	<b>69.7</b>	<b>184.6</b>	<b>119.1</b>	<b>77.0</b>	<b>196.3</b>	<b>103.6</b>	<b>106.0</b>	<b>-2.3%</b>
<b>EPS adj. (basic)</b>	<b>116.5</b>	<b>85.3</b>	<b>201.9</b>	<b>116.4</b>	<b>79.9</b>	<b>196.5</b>	<b>107.7</b>	<b>107.4</b>	<b>0.2%</b>
Number of shares (FD)	2,339	2,311	2,325	2,281	2,261	2,271	2,242	2,244	-0.1%
Dividend	29.4	46.8	76.2	30.8	49.2	80.0	30.6	27.3	12.0%
Net Debt	-16,684	-17,216	-17,216	-18,329	-19,742	-19,742	-20,354	-17,588	
FX on Op Profit				-295	-223	-518	-55	-6	809.0%
<b>Organic sales growth (%)</b>									
North America	12.9%	16.3%	14%	2.9%	-2.6%	0.2%	-1.1%	-0.7%	-0.4p
Europe & Türkiye	27%	34%	30%	9.8%	13.2%	11.3%	6.7%	5.2%	1.5p
Africa	23%	21%	22%	6.0%	4.5%	5.3%	6.8%	6.6%	0.1p
LatAm & Caribbean	45%	40%	43%	20.1%	-3.7%	9.4%	-20.0%	-23%	3.0p
APAC	13%	20%	16%	16.9%	8.2%	12.9%	5.7%	5.8%	-0.1p
<b>Group</b>	<b>20.0%</b>	<b>23.0%</b>	<b>21.4%</b>	<b>9.4%</b>	<b>3.2%</b>	<b>6.5%</b>	<b>0.5%</b>	<b>0.0%</b>	<b>0.5p</b>
<b>Org EBIT growth (%)</b>									
North America	7.4%	5.7%	6.6%	-2.1%	-2.7%	-2.4%	-3.8%	-2.8%	-1.0p
Europe & Türkiye	42%	111%	64%	19.4%	-0.7%	10.8%	4.3%	3.2%	1.1p
Africa	85%	71%	79%	11.8%	11.9%	11.8%	10.0%	5.6%	4.4p
LatAm & Caribbean	80%	55%	70%	20.0%	-3.6%	12%	-38%	-37%	-1.4p
APAC	19%	12%	16%	27.1%	33.5%	29%	7.7%	5.5%	2.1p
<b>Group</b>	<b>24.7%</b>	<b>28.6%</b>	<b>26.3%</b>	<b>9.7%</b>	<b>3.2%</b>	<b>7.0%</b>	<b>-4.2%</b>	<b>-4.7%</b>	<b>0.5p</b>
<b>Organic margin expansion (bps)</b>	<b>131</b>	<b>120</b>	<b>121</b>	<b>9</b>	<b>-1</b>	<b>15</b>	<b>-160</b>	<b>-159</b>	

Source: Company reports, BofA Global Research estimates, Vuma Consensus

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# Financial Summaries

## Exhibit 19: Diageo – Income statement and CF statement summaries (FY19-FY28e) – FY19-23£ in GBP, FY23-28 in USD

We forecast a 5% EPS decline in FY24 (in USD) and c7-9% growth thereafter

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	20,616	21,709	22,843	24,019	25,273
Gross profit	8,001	7,098	7,695	9,479	10,281	12,266	12,026	12,729	13,477	14,219	15,012
EBITDA	4,490	3,988	4,193	5,625	5,822	6,996	6,944	7,229	7,646	8,093	8,570
<b>Operating profit</b>	<b>4,116</b>	<b>3,494</b>	<b>3,746</b>	<b>4,797</b>	<b>5,254</b>	<b>6,313</b>	<b>6,174</b>	<b>6,448</b>	<b>6,824</b>	<b>7,229</b>	<b>7,661</b>
Operating margin (%)	32.0%	29.7%	29.4%	31.0%	30.7%	30.7%	29.9%	29.7%	29.9%	30.1%	30.3%
Net finance charges	-263	-353	-373	-422	-594	-712	-831	-828	-825	-849	-878
Share of associates and JVs	312	282	334	417	370	443	410	452	484	518	554
Pre-tax (incl associates)	4,174	3,423	3,707	4,792	5,030	6,044	5,753	6,072	6,482	6,897	7,337
Taxes	-859	-743	-823	-1,080	-1,156	-1,389	-1,381	-1,457	-1,556	-1,655	-1,761
Tax rate (%)	20.6%	21.7%	22.2%	22.5%	23.0%	23.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Minorities	-151	-114	-138	-192	-173	-207	-213	-232	-256	-281	-309
Adj net profit	3,164	2,566	2,746	3,520	3,701	4,448	4,159	4,383	4,671	4,961	5,267
<b>Adj EPS - FD (USD)</b>	<b>1.30</b>	<b>1.09</b>	<b>1.17</b>	<b>1.51</b>	<b>1.63</b>	<b>1.96</b>	<b>1.86</b>	<b>1.98</b>	<b>2.15</b>	<b>2.34</b>	<b>2.55</b>
EPS Growth (%)	10.3%	-16.3%	7.4%	29.1%	7.8%	-2.7%	-5.0%	6.6%	8.3%	8.8%	9.0%
Dividend (GBP)	0.69	0.70	0.73	0.76	0.80	0.80	0.82	0.86	0.91	0.95	1.03
#Shares (FD)	2,428	2,354	2,345	2,327	2,271	2,271	2,236	2,210	2,175	2,124	2,068
<b>Cash Flow Statement</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23 £</b>	<b>FY23 \$</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
EBIT (pre exceptionals)	4,116	3,494	3,746	4,797	5,254	6,313	6,174	6,448	6,824	7,229	7,661
Change in WC requirements	-222	-328	331	-179	-1,175	-1,414	-278	-233	-229	-225	-219
Depreciation, amortisation, impairment	374	494	447	828	1,066	1,297	770	781	822	864	909
Dividends received	168	4	290	190	219	271	264	280	300	321	343
Pension payments	-121	-109	-30	-89	-25	-31	-32	-32	-33	-34	-34
Other items	-10	-26	73	-335	-560	-692	-225	-250	-265	-281	-298
Cash from Operations	4,305	3,529	4,857	5,212	4,779	5,744	6,673	6,994	7,419	7,875	8,363
Net interest	-252	-308	-351	-328	-554	-665	-781	-774	-776	-798	-825
Tax	-805	-901	-852	-949	-1,201	-1,443	-1,375	-1,451	-1,556	-1,655	-1,761
<b>Cash from operating activities</b>	<b>3,248</b>	<b>2,320</b>	<b>3,654</b>	<b>3,935</b>	<b>3,024</b>	<b>3,636</b>	<b>4,516</b>	<b>4,769</b>	<b>5,087</b>	<b>5,421</b>	<b>5,777</b>
Net Capex	-639	-686	-613	-1,080	-1,167	-1,401	-1,421	-1,411	-1,393	-1,393	-1,441
<b>FCF (pre DVD, SBB, M&amp;A)</b>	<b>2,608</b>	<b>1,634</b>	<b>3,037</b>	<b>2,783</b>	<b>1,800</b>	<b>2,167</b>	<b>3,095</b>	<b>3,358</b>	<b>3,694</b>	<b>4,028</b>	<b>4,336</b>
Acquisitions/disposals	370	-119	-474	-189	27	33	0	0	-98	-85	0
Shares issued/bought back	-2,724	-1,227	-60	-2,281	-1,498	-1,805	-994	-988	-1,988	-2,988	-2,987
Dividends paid	-1,735	-1,757	-1,723	-1,799	-1,858	-2,206	-1,854	-1,857	-1,837	-1,806	-1,782
Other	-705	-500	357	-542	125	-715	-2	0	0	0	0
Change in net debt	-2,186	-1,969	1,137	-2,028	-1,404	-2,526	246	512	-229	-851	-433
FCF/EBITDA	58%	41%	72%	49%	31%	31%	45%	46%	48%	50%	51%
<b>Balance sheet</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23 £</b>	<b>FY23 \$</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
<b>Year End Net Debt</b>	<b>-11,277</b>	<b>-13,246</b>	<b>-12,109</b>	<b>-14,137</b>	<b>-15,541</b>	<b>-19,742</b>	<b>-19,496</b>	<b>-18,983</b>	<b>-19,212</b>	<b>-20,063</b>	<b>-20,497</b>
<b>Net Debt/EBITDA</b>	<b>2.5x</b>	<b>3.3x</b>	<b>2.9x</b>	<b>2.5x</b>	<b>2.7x</b>	<b>2.8x</b>	<b>2.8x</b>	<b>2.6x</b>	<b>2.5x</b>	<b>2.5x</b>	<b>2.4x</b>
ROIC	15.4%	12.8%	14.1%	17.5%	17.1%	16.7%	15.1%	15.6%	16.4%	17.4%	18.3%

Source: Company reports, BofA Global Research estimates

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**Exhibit 20: 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
<b>Sales</b>											
North America	4,460	4,623	5,209	6,095	6,758	8,109	8,123	8,314	8,571	8,836	9,109
Europe & Türkiye	2,939	2,567	2,558	3,212	3,569	4,303	4,582	4,759	4,933	5,109	5,291
APAC	2,688	2,270	2,488	2,884	3,200	3,841	4,003	4,362	4,747	5,151	5,595
LatAm & Caribbean	1,130	908	1,046	1,525	1,799	2,159	2,054	2,313	2,490	2,675	2,873
Africa	1,597	1,346	1,412	1,682	1,699	2,039	1,740	1,842	1,979	2,119	2,271
<b>Group</b>	<b>12,867</b>	<b>11,752</b>	<b>12,733</b>	<b>15,452</b>	<b>17,113</b>	<b>20,555</b>	<b>20,616</b>	<b>21,709</b>	<b>22,843</b>	<b>24,019</b>	<b>25,273</b>
<b>Operating profit</b>											
North America	1,948	2,034	2,237	2,454	2,689	3,222	3,137	3,137	3,225	3,315	3,404
Europe & Türkiye	1,014	757	635	1,017	1,105	1,312	1,408	1,438	1,500	1,569	1,640
APAC	703	501	608	711	905	1,104	1,176	1,305	1,447	1,601	1,773
LatAm & Caribbean	365	248	303	538	661	783	645	760	826	897	974
Africa	275	101	171	315	220	289	219	230	258	289	323
Corporate	-189	-147	-208	-238	-326	-397	-411	-421	-432	-443	-454
<b>Group</b>	<b>4,116</b>	<b>3,494</b>	<b>3,746</b>	<b>4,797</b>	<b>5,254</b>	<b>6,313</b>	<b>6,174</b>	<b>6,448</b>	<b>6,824</b>	<b>7,229</b>	<b>7,661</b>
<b>Operating profit margin</b>											
North America	43.7%	44.0%	42.9%	40.3%	39.8%	39.7%	38.6%	37.7%	37.6%	37.5%	37.4%
Europe & Türkiye	34.5%	29.5%	24.8%	31.7%	31.0%	30.5%	30.7%	30.2%	30.4%	30.7%	31.0%
APAC	26.2%	22.1%	24.4%	24.7%	28.3%	28.7%	29.4%	29.9%	30.5%	31.1%	31.7%
LatAm & Caribbean	32.3%	27.3%	29.0%	35.3%	36.7%	36.3%	31.4%	32.9%	33.2%	33.5%	33.9%
Africa	17.2%	7.5%	12.1%	18.7%	12.9%	14.2%	12.6%	12.5%	13.0%	13.6%	14.2%
<b>Group</b>	<b>32.0%</b>	<b>29.7%</b>	<b>29.4%</b>	<b>31.0%</b>	<b>30.7%</b>	<b>30.7%</b>	<b>29.9%</b>	<b>29.7%</b>	<b>29.9%</b>	<b>30.1%</b>	<b>30.3%</b>

Source: Company reports, BofA Global Research estimates

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**Exhibit 21: Diageo – organic growth rates FY19-28E**

We expect 2% organic sales in FY24 and +5.6% in FY25

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
<b>Organic sales growth (%)</b>										
North America	5.2%	2.4%	20.2%	14.5%	0.2%	0.2%	2.3%	3.1%	3.1%	3.1%
Europe & Türkiye	3.7%	-12.3%	4.3%	30.2%	11.3%	4.4%	4.5%	4.0%	3.9%	3.9%
APAC	9.2%	-15.7%	13.6%	16.2%	12.9%	7.3%	8.6%	8.8%	8.5%	8.6%
LatAm & Caribbean	8.7%	-15.0%	30.1%	43.1%	9.4%	-9.6%	13.0%	7.8%	7.6%	7.6%
Africa	6.7%	-13.3%	20.1%	22.1%	5.4%	7.5%	8.3%	7.4%	7.1%	7.1%
<b>Group</b>	<b>6.1%</b>	<b>-8.4%</b>	<b>16.0%</b>	<b>21.4%</b>	<b>6.5%</b>	<b>2.1%</b>	<b>5.6%</b>	<b>5.3%</b>	<b>5.2%</b>	<b>5.3%</b>
<b>Organic operating profit growth (%)</b>										
North America	2.8%	4.1%	16.9%	6.6%	-2.4%	-1.4%	2.6%	3.2%	2.8%	2.7%
Europe & Türkiye	2.2%	-24.3%	-5.2%	64.3%	10.9%	5.6%	2.6%	4.7%	5.0%	5.0%
APAC	25.5%	-29.1%	22.2%	16.3%	29.4%	9.9%	10.5%	11.0%	10.7%	10.7%
LatAm & Caribbean	19.3%	-29.2%	63.2%	70.3%	11.7%	-23.2%	18.6%	9.1%	8.9%	8.9%
Africa	49.7%	-56.0%	100.9%	78.8%	12.0%	12.0%	13.4%	12.6%	12.0%	11.8%
<b>Group</b>	<b>9.0%</b>	<b>-14.4%</b>	<b>17.7%</b>	<b>26.3%</b>	<b>7.0%</b>	<b>-0.3%</b>	<b>6.1%</b>	<b>6.2%</b>	<b>6.1%</b>	<b>6.1%</b>

Source: Company reports, BofA Global Research estimates

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## Price objective basis & risk

### Diageo (DGEAF / DEO)

We derive our PO using a PE multiple. Diageo trades on a 12-month forward PE of c18.5x, 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 (previously we were applying 19.5x) to our Dec-25 EPS estimate of \$2.07 (converted into GBP at 1.27), we derive our PO of 3,050p (ADR \$155).

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).

## Analyst Certification

I, Andrea Pistacchi, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### EMEA - Beverages Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
	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
<b>NEUTRAL</b>				
	Carlsberg	CABJF	CARLB DC	Andrea Pistacchi
	Carlsberg	CABGY	CABGY US	Andrea Pistacchi
	Diageo	DEO	DEO US	Andrea Pistacchi
	Diageo	DGEAF	DGE LN	Andrea Pistacchi
	Remy Cointreau	REMYF	RCO FP	Andrea Pistacchi
<b>UNDERPERFORM</b>				
	Britvic	BTVCF	BVIC LN	Victor Beltran-Segarra
	Fevertree Drinks plc	FQVTF	FEVR LN	Andrea Pistacchi
	Royal Unibrew	ROYUF	RBREW DC	Andrea Pistacchi

## **IQmethod<sup>SM</sup> 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**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + 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  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + 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  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

*IQmethod<sup>SM</sup>* is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *IQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

*IQdatabase<sup>®</sup>* is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

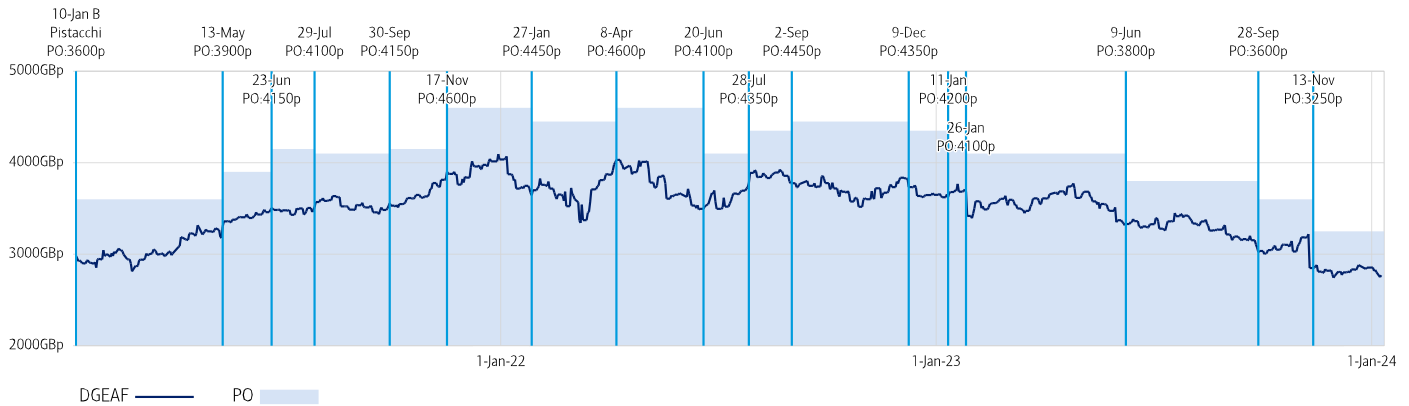
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# Disclosures

## Important Disclosures

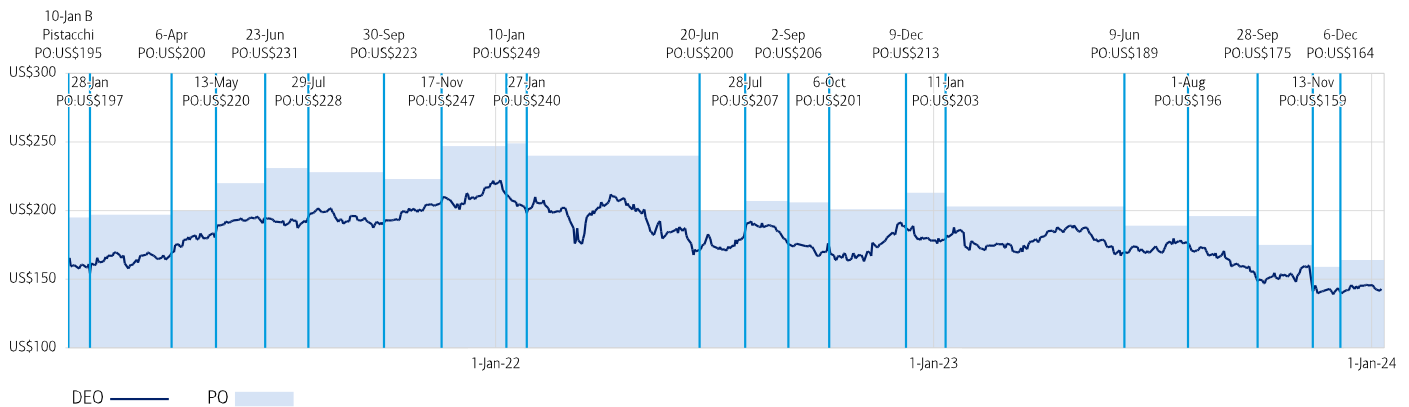
### Diageo (DGEAF) Price Chart



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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

<sup>R2</sup> 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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