



The Groovy Investors



Company Overview



Company Overview

- **Created in 1997**
- **ADR – London, U.K.**
- **Ticker (DEO)**
- **\$95B Market cap**
- **200+ Brands**
- **180+ Countries**
- **28K Employees**
- **132 Sites globally**



Why Diageo?

- **Easily understandable**
- **Eat them, Drink them, Smoke them...**
- **Iconic & recognizable brands**
- **Predictable & Consistent**
- **Wide moat**
- **Adapted portfolio**
- **Fairly valued**



Global Giants

37% of revenue

Diageo



JOHNNIE WALKER.

Scotch Whisky



GUINNESS

Beer

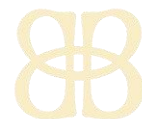


Vodka



Captain Morgan

Rum



Liqueur



Tanqueray®

Gin

Reserve

27% of revenue



Tequila



Tequila



Vodka



Bourbon Whiskey



Vodka

Local Stars

19% of revenue



Scotch Whisky



Chinese Liquor



Whisky



Scotch Whisky



Scotch Whisky



Whisky



Whiskey



Turkish Raki



Canadian Whisky



Rum



Brazilian Cachaca

Other Brands & Recent Acquisitions



34% stake in LVMH'S Moët Hennessy

Pre-Mix Cocktail

Gin



Mezcal

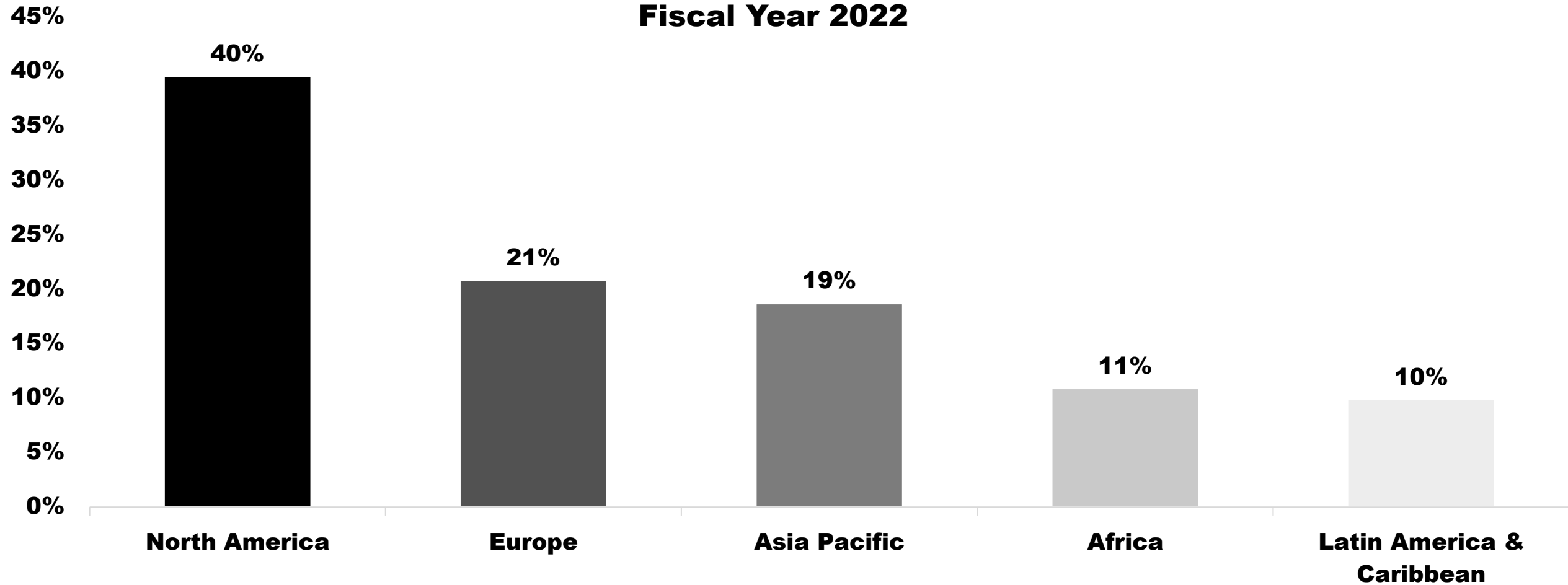
Liqueur

Tequila

Balcones Texas Whisky 8

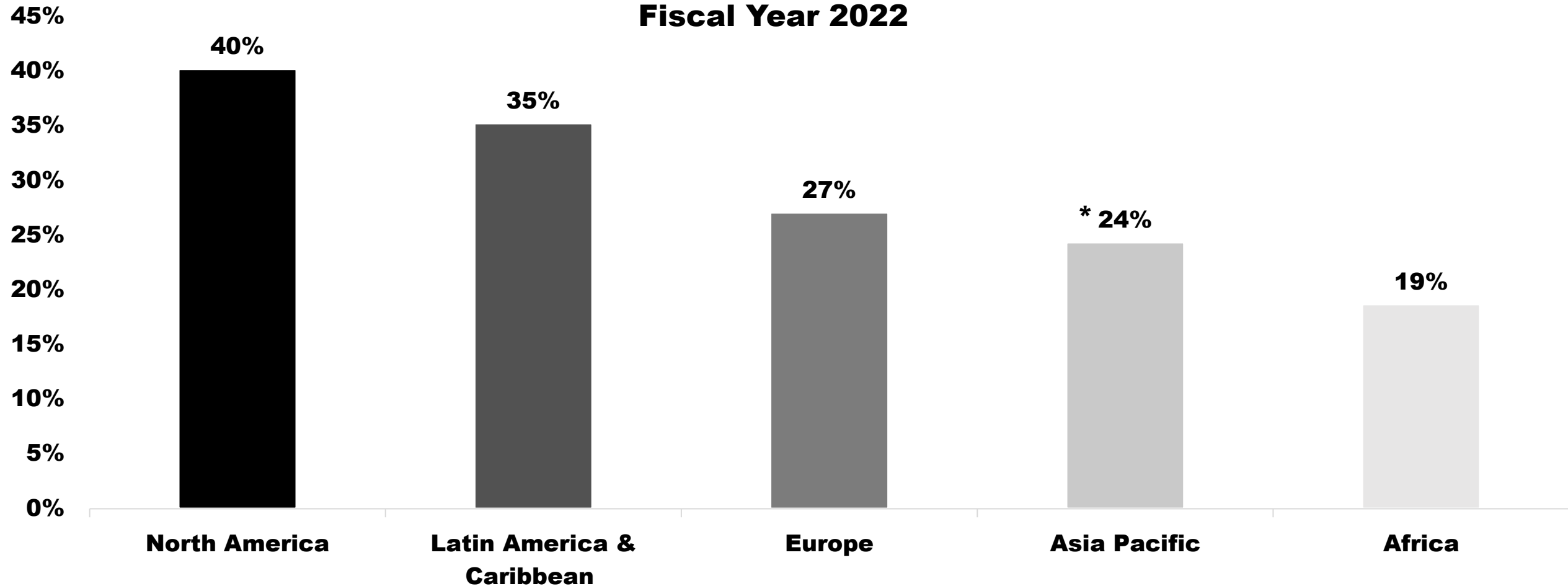
Revenue Breakdown by Region

Fiscal Year 2022



Operating Margin Breakdown

Fiscal Year 2022



* FY21 Operating Margin (\$241M) exceptional operating item

Why Are Margins Higher in Certain Regions

North America
40% OPM

Latin America & Car.
35% OPM

Europe
27% OPM

Asia Pacific
24% OPM

Africa
19% OPM

Reported net sales by category (%)



- Spirits
- Beer
- Ready to drink
- Other

Reported net sales by category (%)



- Spirits
- Beer
- Ready to drink
- Other

Reported net sales by category (%)



- Spirits
- Beer
- Ready to drink
- Other

Reported net sales by category (%)



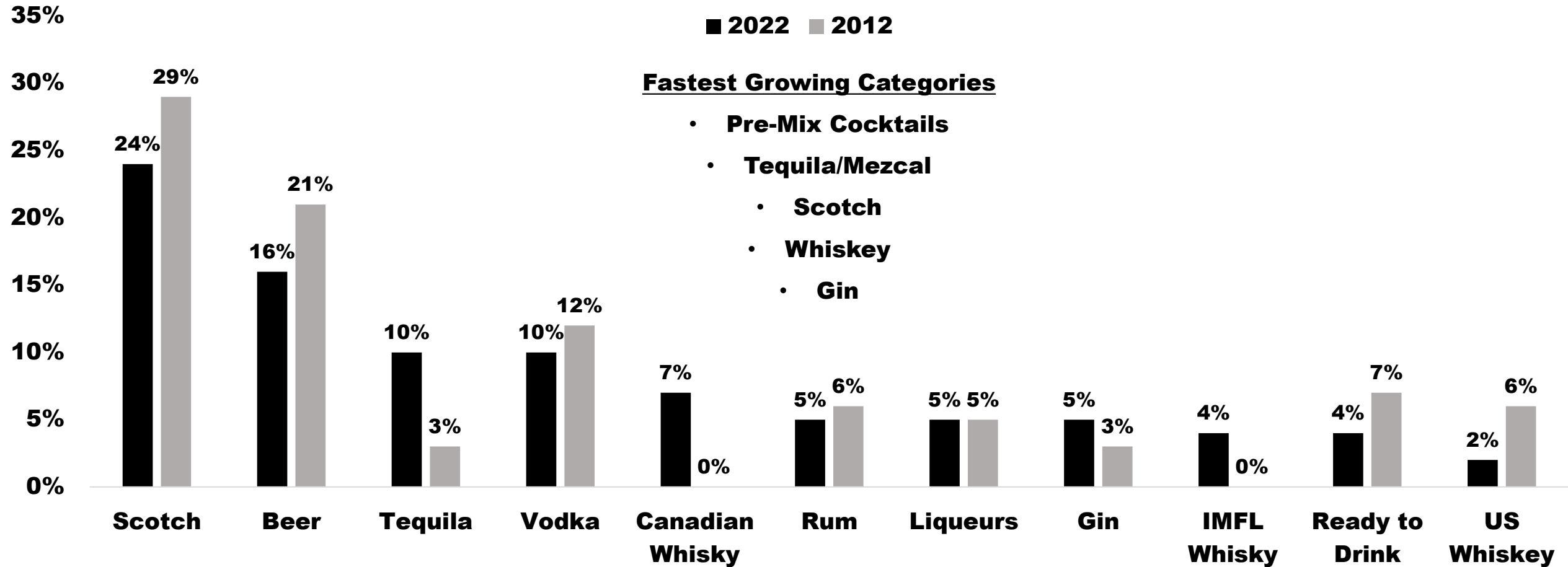
- Spirits
- Beer
- Ready to drink
- Other

Reported net sales by category (%)



- Spirits
- Beer
- Ready to drink
- Other

Revenue Breakdown by Category



Fastest Growing Categories

- Pre-Mix Cocktails
- Tequila/Mezcal
 - Scotch
 - Whiskey
 - Gin



IOTF8



Revenue (in millions)

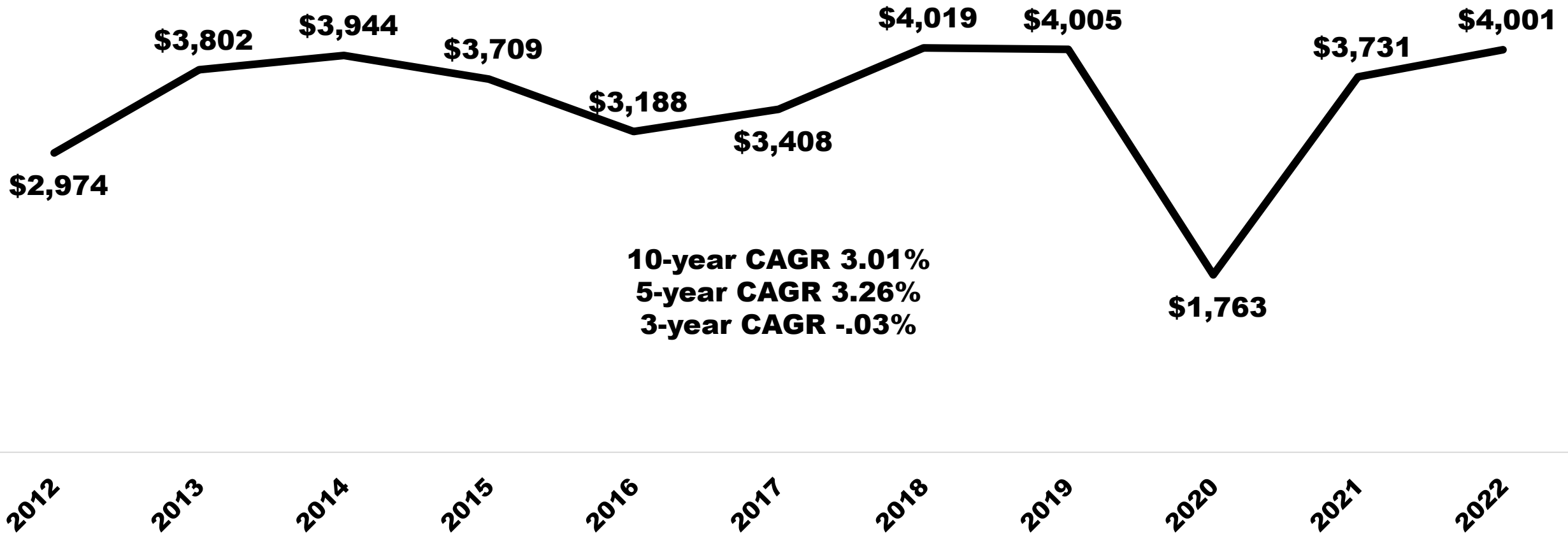
Due to divestitures



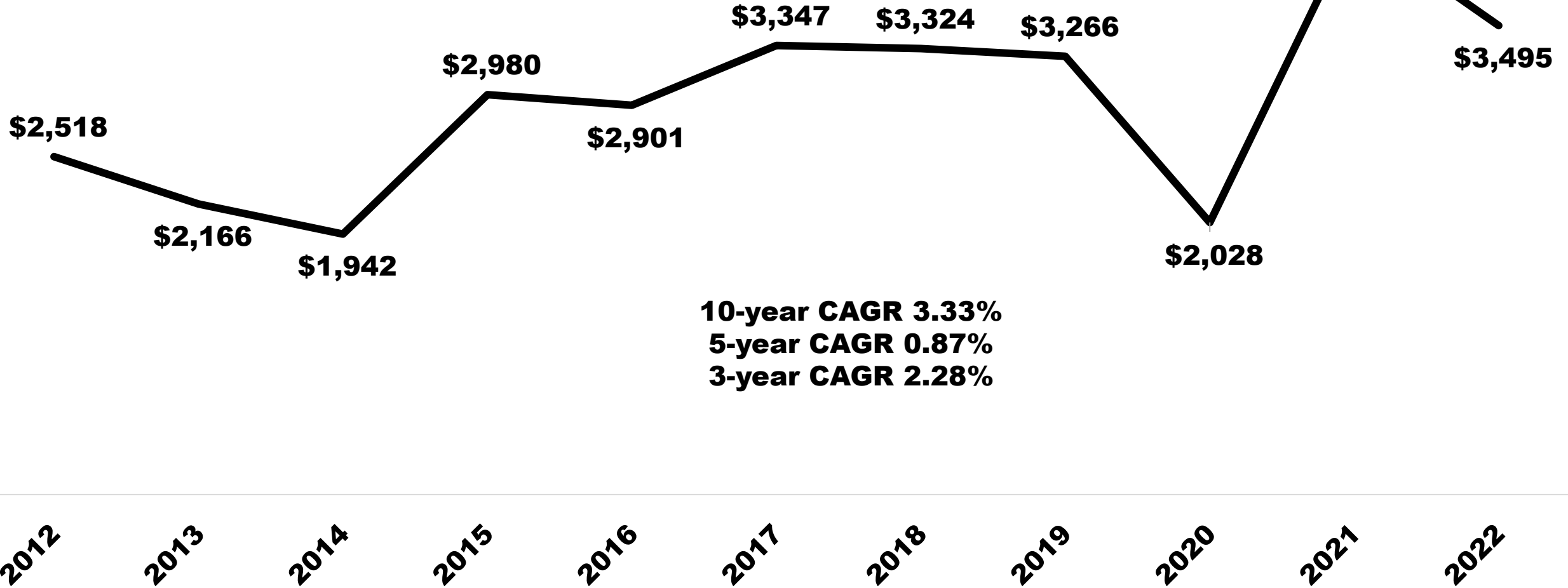
10-year CAGR 1.4%
5-year CAGR 4.28%
3-year CAGR 5.28%

2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

Net Earnings (in millions)



Free Cash Flow (in millions)



10-year CAGR 3.33%
5-year CAGR 0.87%
3-year CAGR 2.28%

Gross Profit Margin



Is it above 40%? **YES**

20...

20...

20...

20...

20...

20...

20...

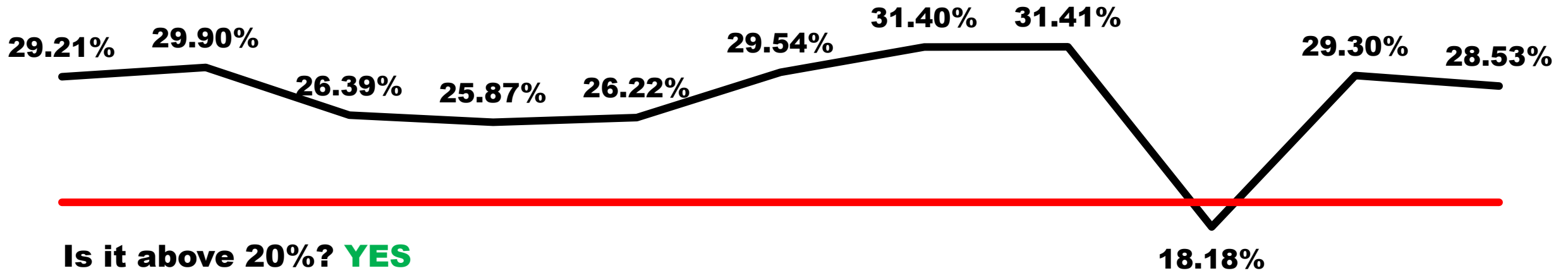
20...

20...

20...

20...

Operating Margin



2012

2013

2014

2015

2016

2017

2018

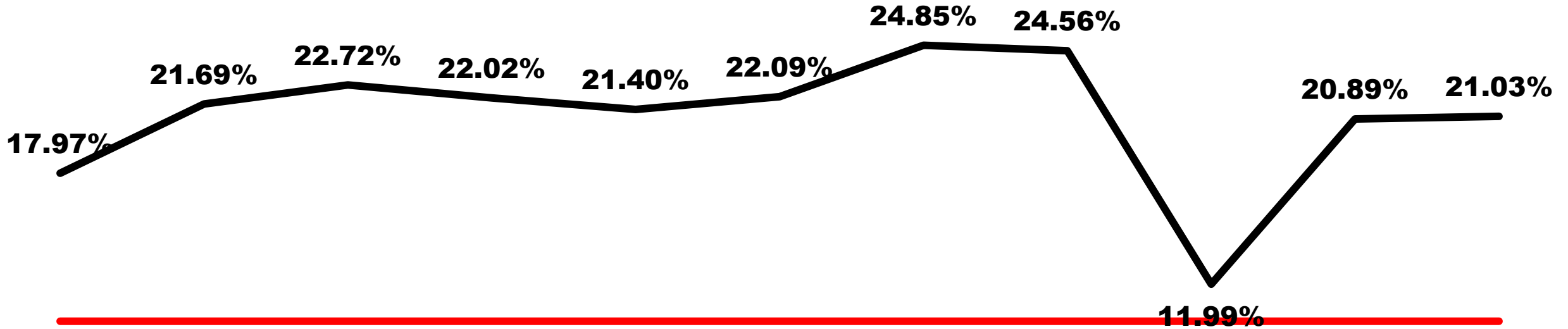
2019

2020

2021

2022

Net Profit Margin



Is it above 10%? **YES**

2012

2013

2014

2015

2016

2017

2018

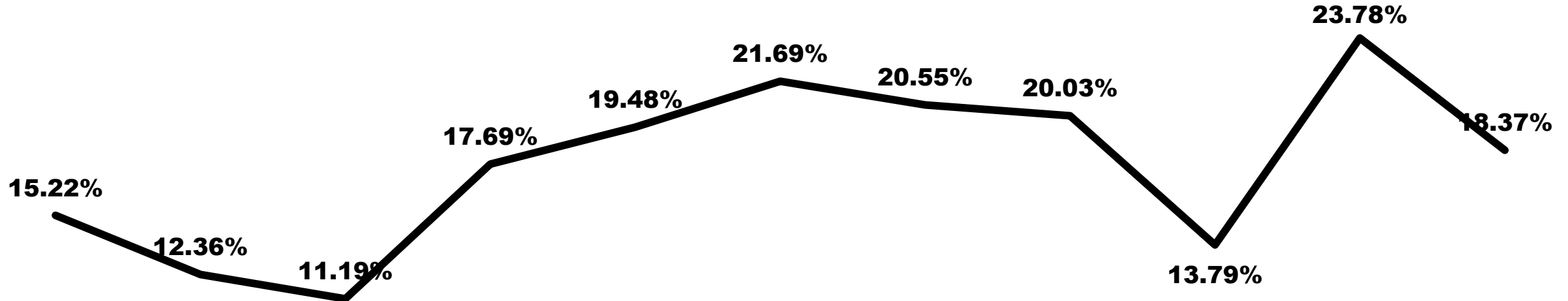
2019

2020

2021

2022

Free Cash Flow Margin



Is it above 10%? **YES**

2012

2013

2014

2015

2016

2017

2018

2019

2020

2021

2022

Selling General & Admin. to Gross Profit

Is it below 80%? **YES**

Year	Percentage
2012	26%
2013	26%
2014	26%
2015	26%
2016	25%
2017	24%
2018	25%
2019	26%
2020	26%
2021	28%
2022	29%

2012

2013

2014

2015

2016

2017

2018

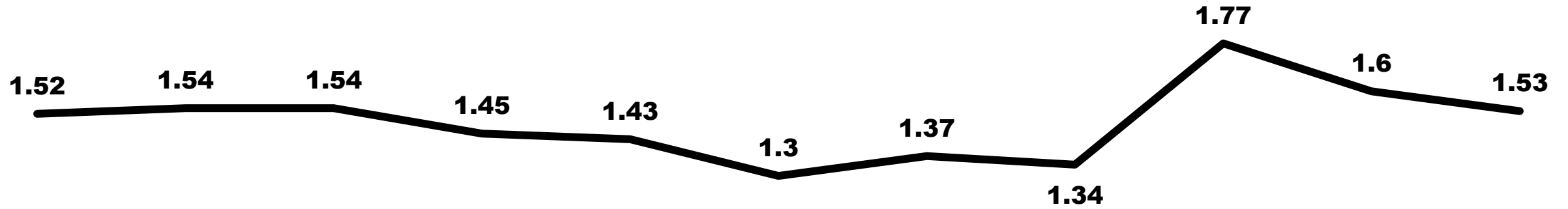
2019

2020

2021

2022

Current Ratio



Is it above 1? **YES**

2012

2013

2014

2015

2016

2017

2018

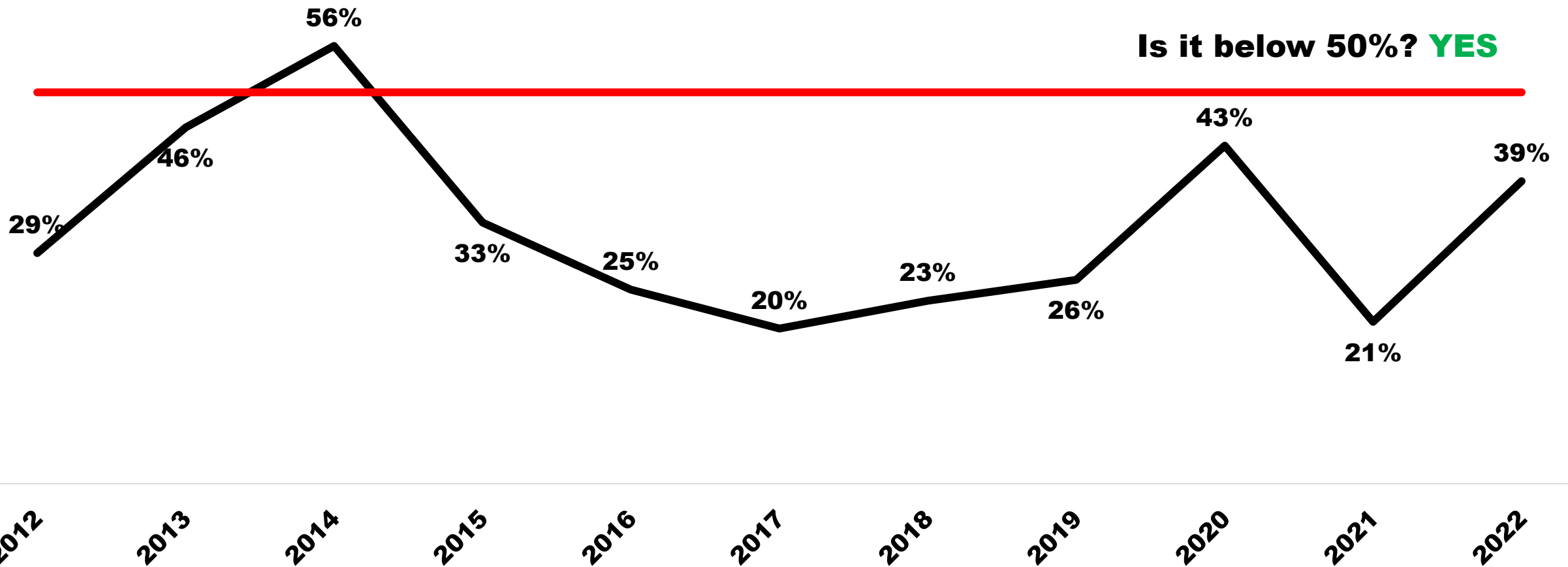
2019

2020

2021

2022

Capital Expenditures to Free Cash Flow



Obligation Ratio

		(in millions)
(+)	LT Debt	\$ 17,855
(+)	ST Debt	\$ 1,784
(+)	Pension Shortfall	\$ -
(+)	Lease Obligation	\$ 568
(+)	Preferred Stock	\$ -
(-)	Cash Assets	\$ 2,982
(/)	Net Income	\$ 4,001
	Obligation Ratio	4.31 Years

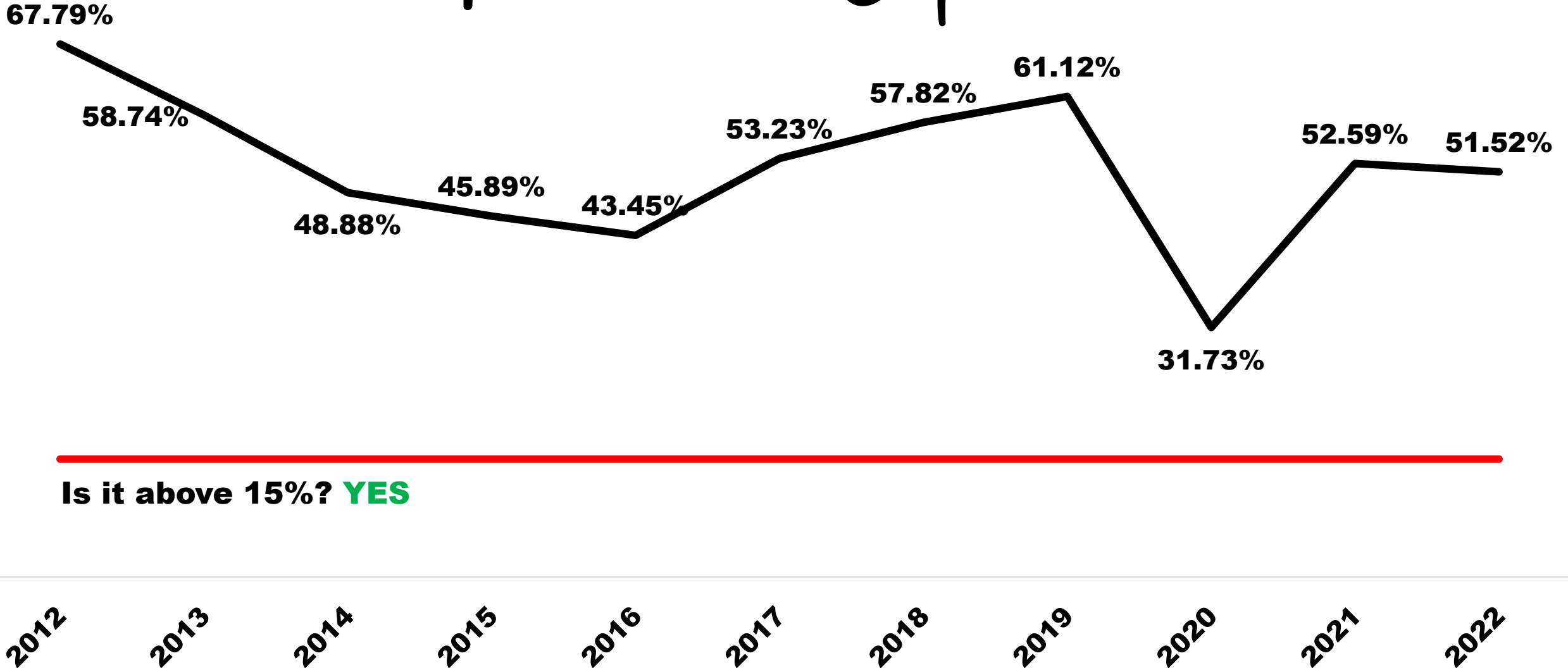
**All TTM except for Net Income which is FY22*

Debt Maturities

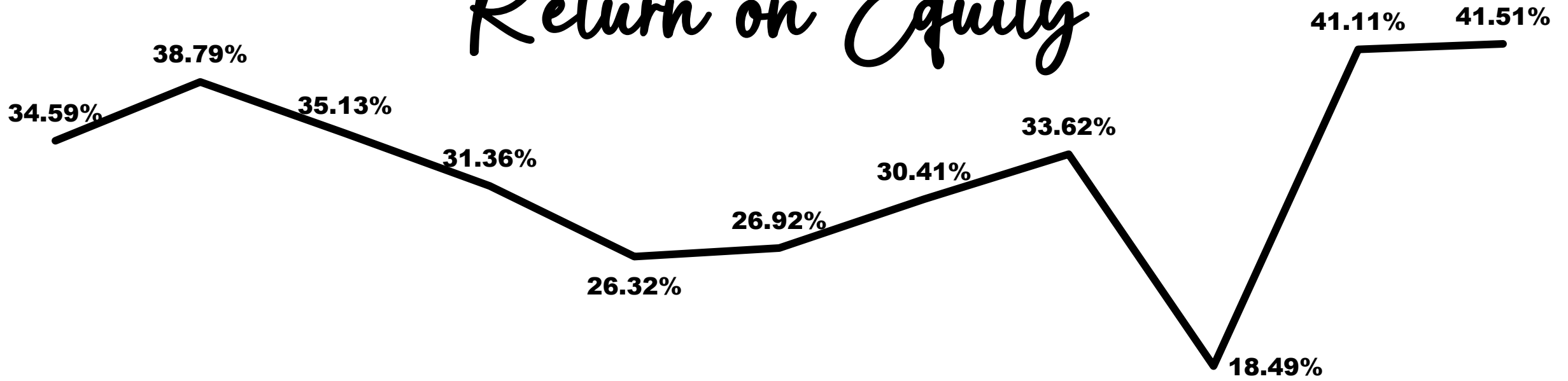
(in millions)	Less than 1 year	1-3 year	3-5 years	5+ years	Total
Long-term debt obligations	\$ 1,469	\$2,842	\$2,738	\$9,276	\$16,325
Interest obligations	\$427	\$626	\$560	\$1,622	\$3,235

- **Debt spread out throughout the years**
- **No large amount of debt due in one year**

Return on Capital



Return on Equity



Is it above 15%? **YES**

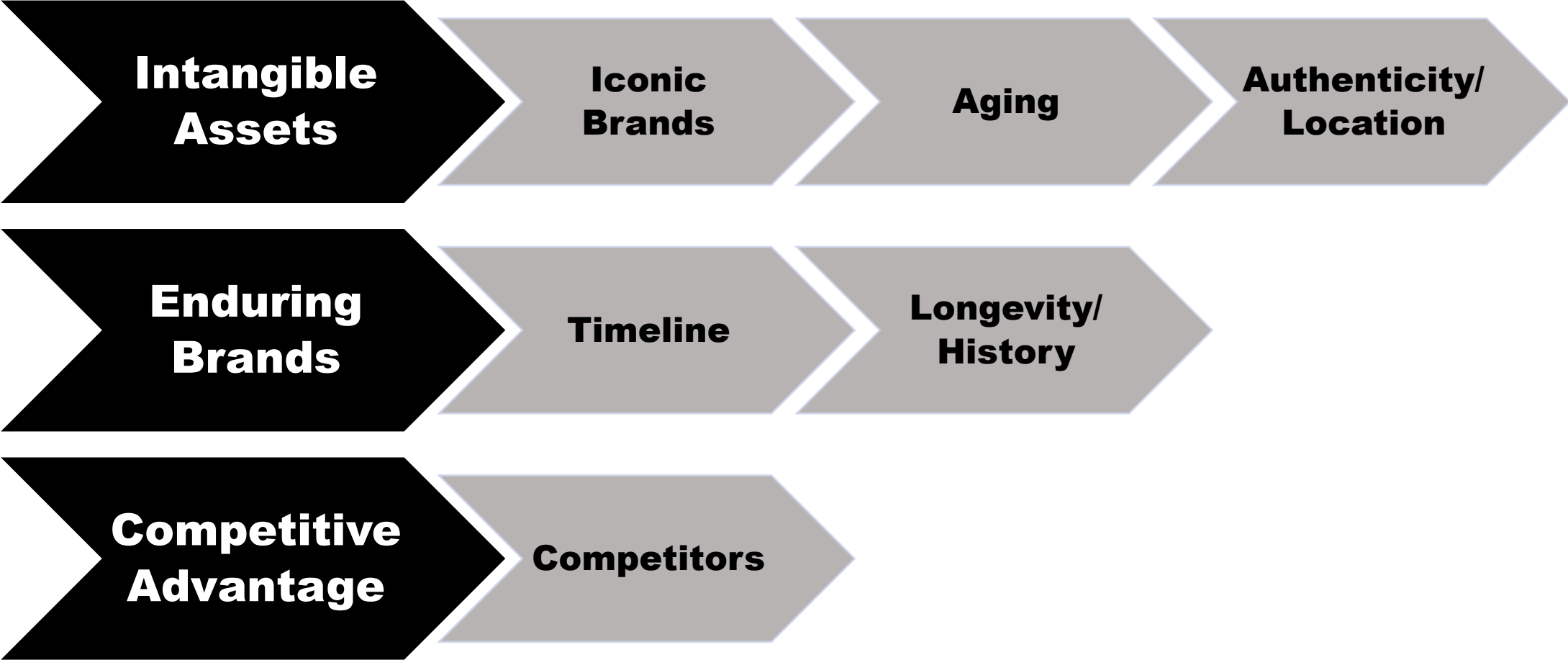
2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022



Economic Moat



Economic Moat



Intangible Assets

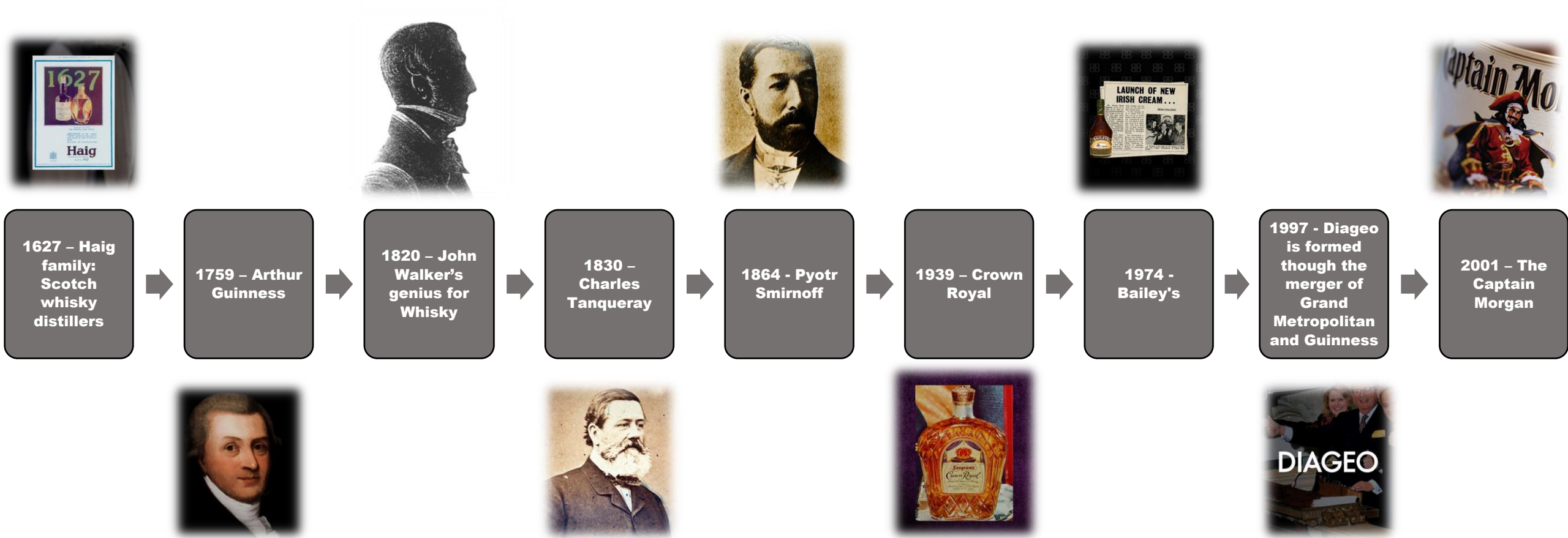


Alcohol

Longer Aged

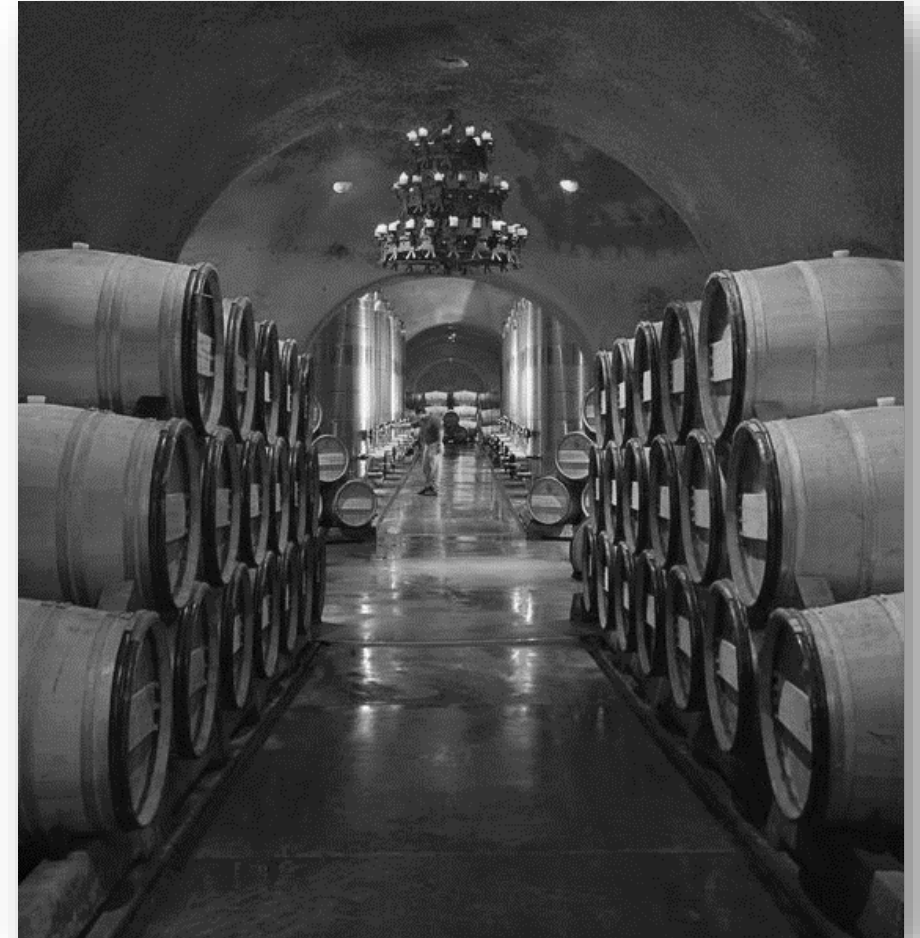
Higher Selling Price

Enduring Brands



Cost Advantages

- **Economies of scale**
 - Increasing production while lowering costs
 - More cost savings & higher production levels
- **Production Scale**
 - Cost per unit depends on how much the company produces
 - Produce more by spreading costs across goods
- **Competitive Advantage**
 - Cost structure, product offerings, distribution networks
 - 132 strategically located sites in over 180 countries





Competitor Analysis



Diageo's Largest Publicly Traded Competitors



Constellation
Brands



Pernod Ricard



BROWN-FORMAN

Gross Profit Margin > 40%

Diageo

DIAGEO



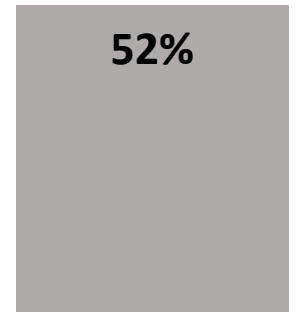
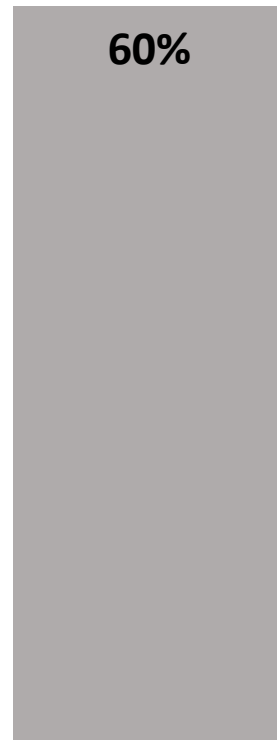
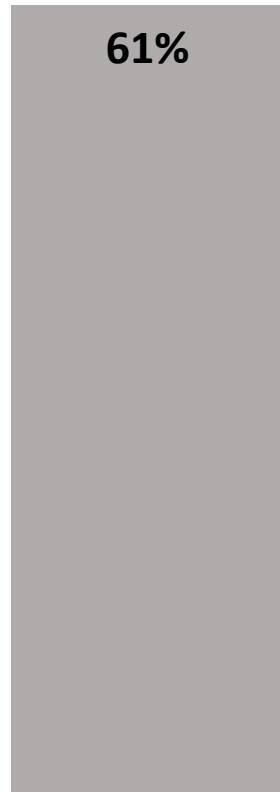
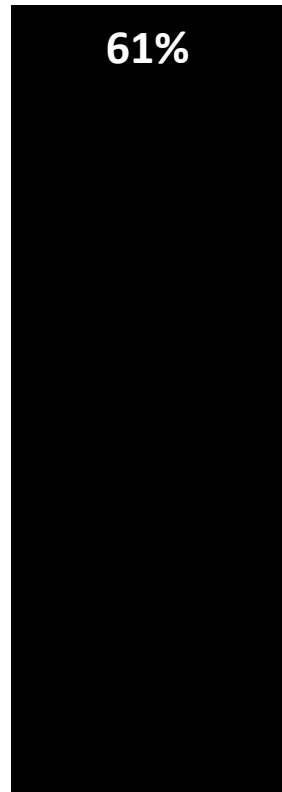
BROWN-FORMAN



Pernod Ricard

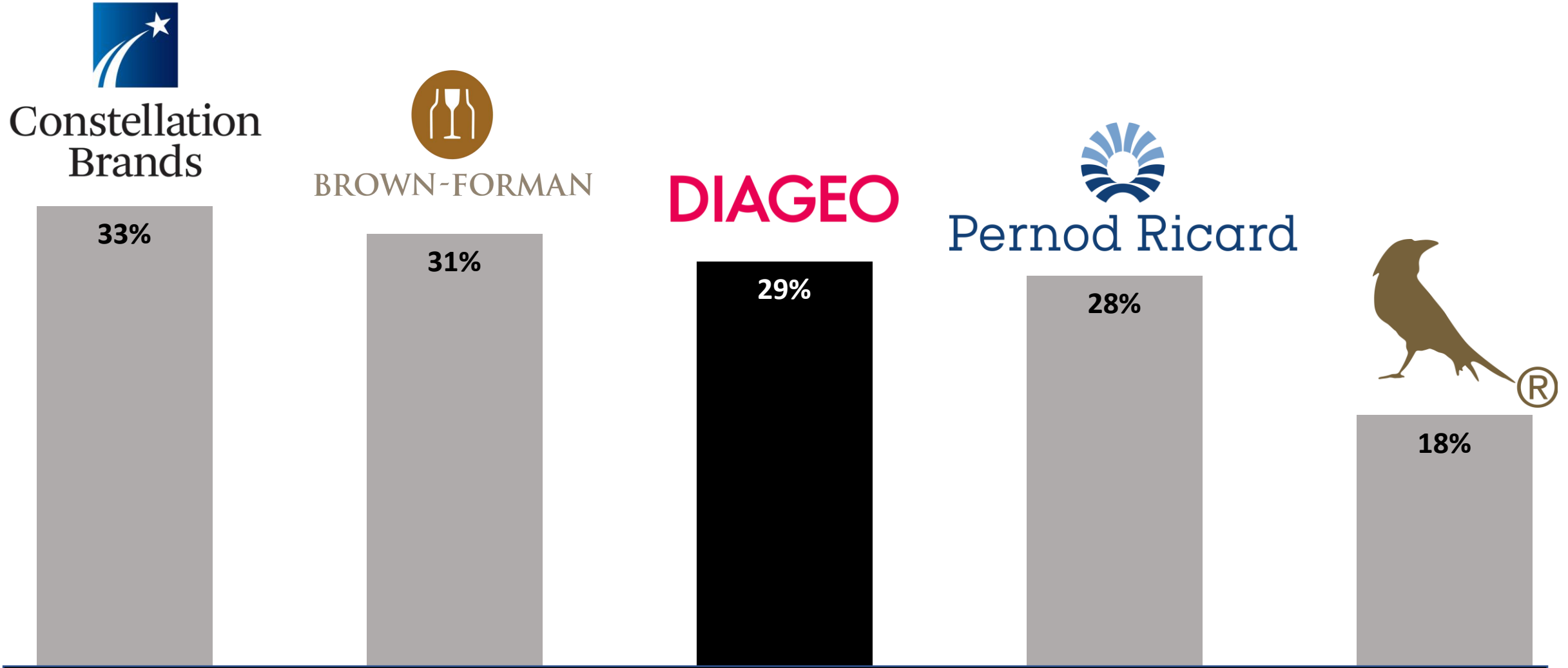


Constellation
Brands



Operating Margin > 20%

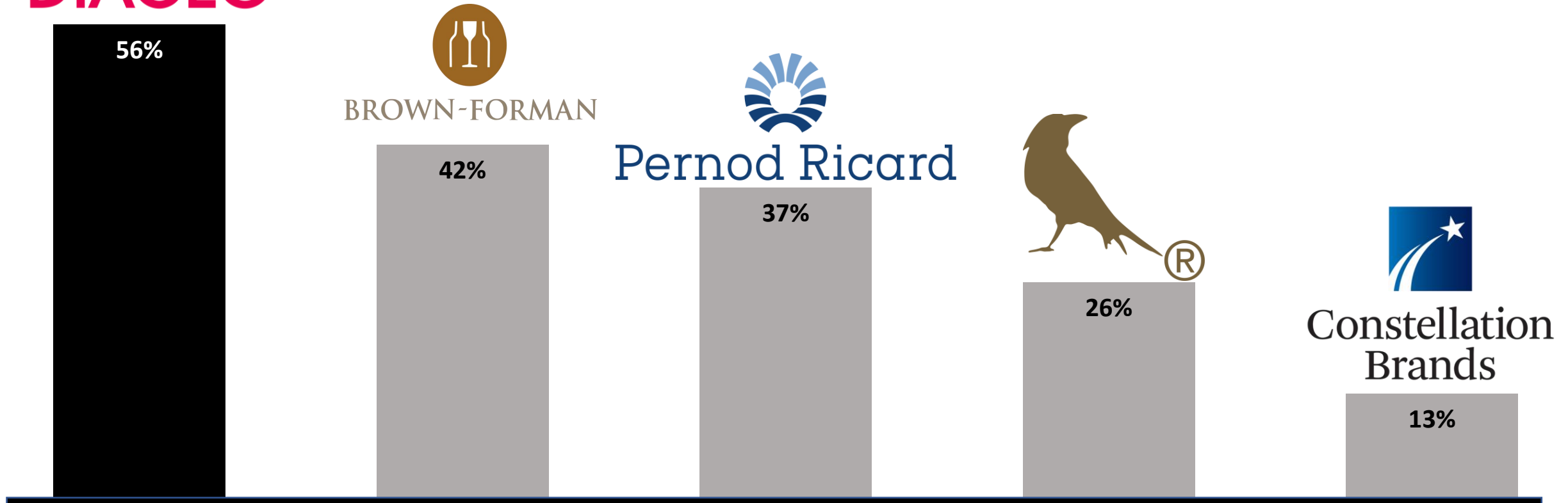
Diageo



Return On Capital > 15%

Diageo

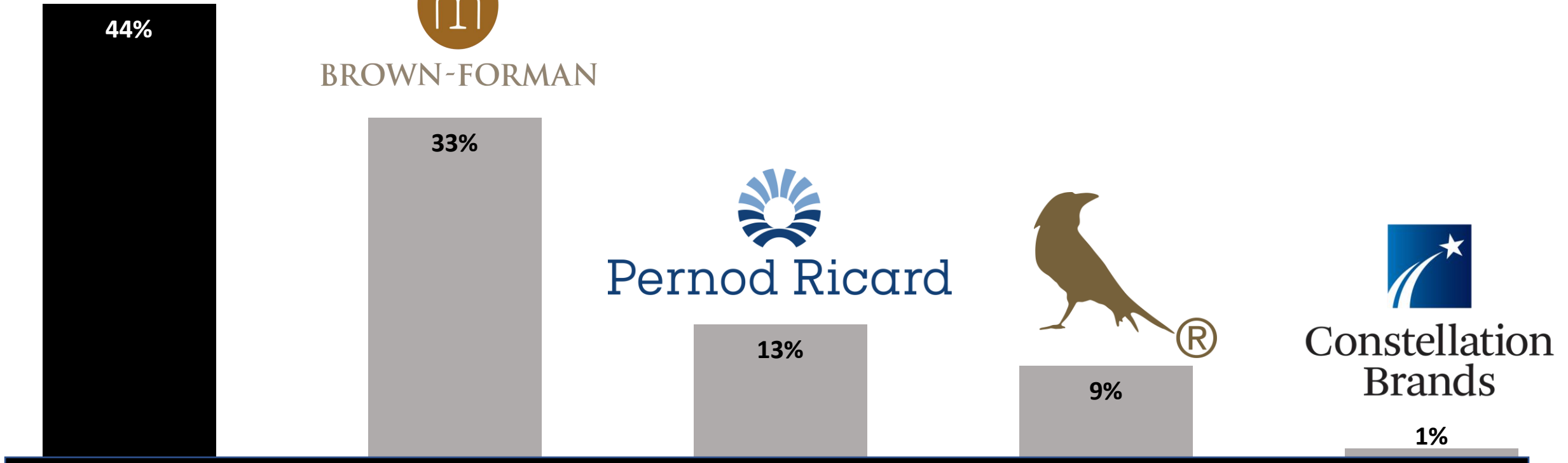
DIAGEO



Return On Equity > 15%

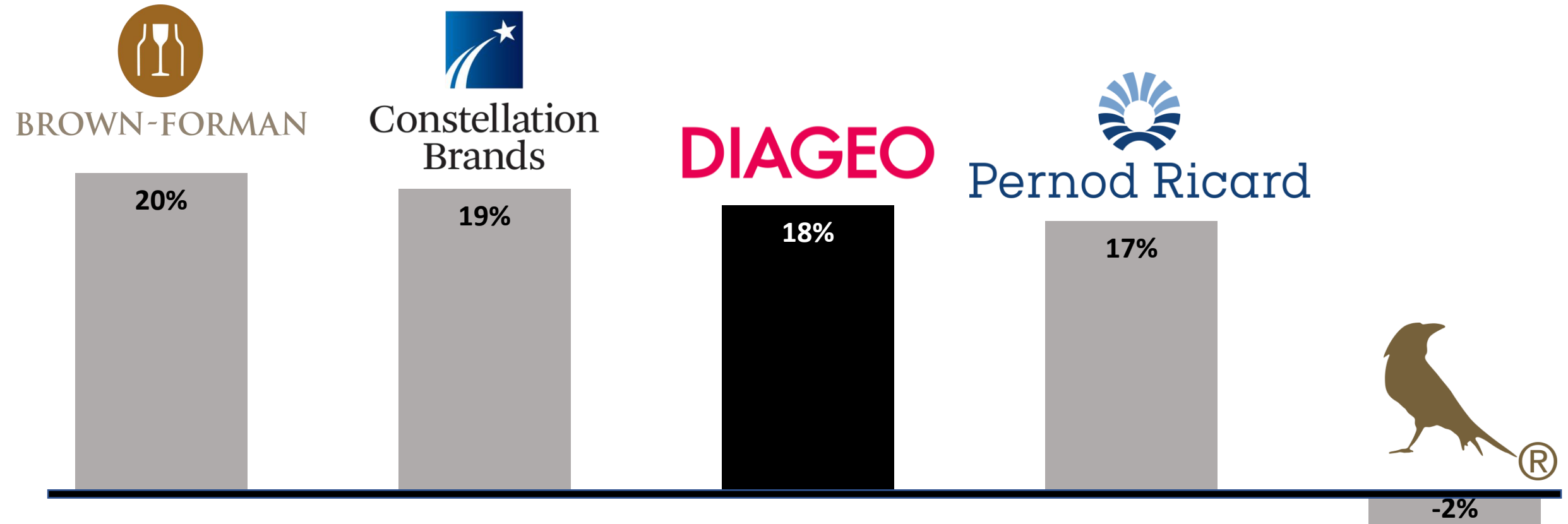
Diageo

DIAGEO



Free Cash Flow > 10%

Diageo



Inventory Turnover

Diageo



Constellation
Brands

2.9



1.4



BROWN-FORMAN

0.9

DIAGEO

0.9



Pernod Ricard

0.6

Revenue *(in millions)*

Diageo

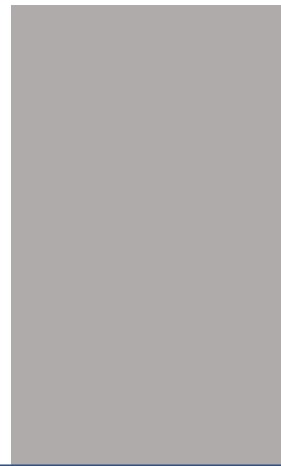
DIAGEO

\$19,030



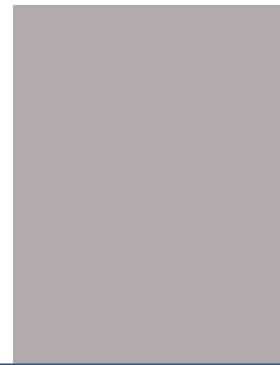
Pernod Ricard

\$11,312



Constellation
Brands

\$8,821



BROWN-FORMAN

\$3,933



\$1,884



Market Cap (In Millions)

Diageo

DIAGEO

\$95,000



Constellation
Brands

\$46,410



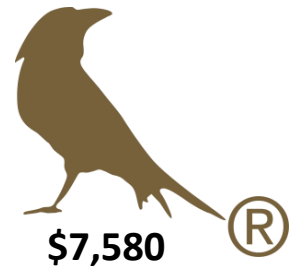
Pernod Ricard

\$44,990



BROWN-FORMAN

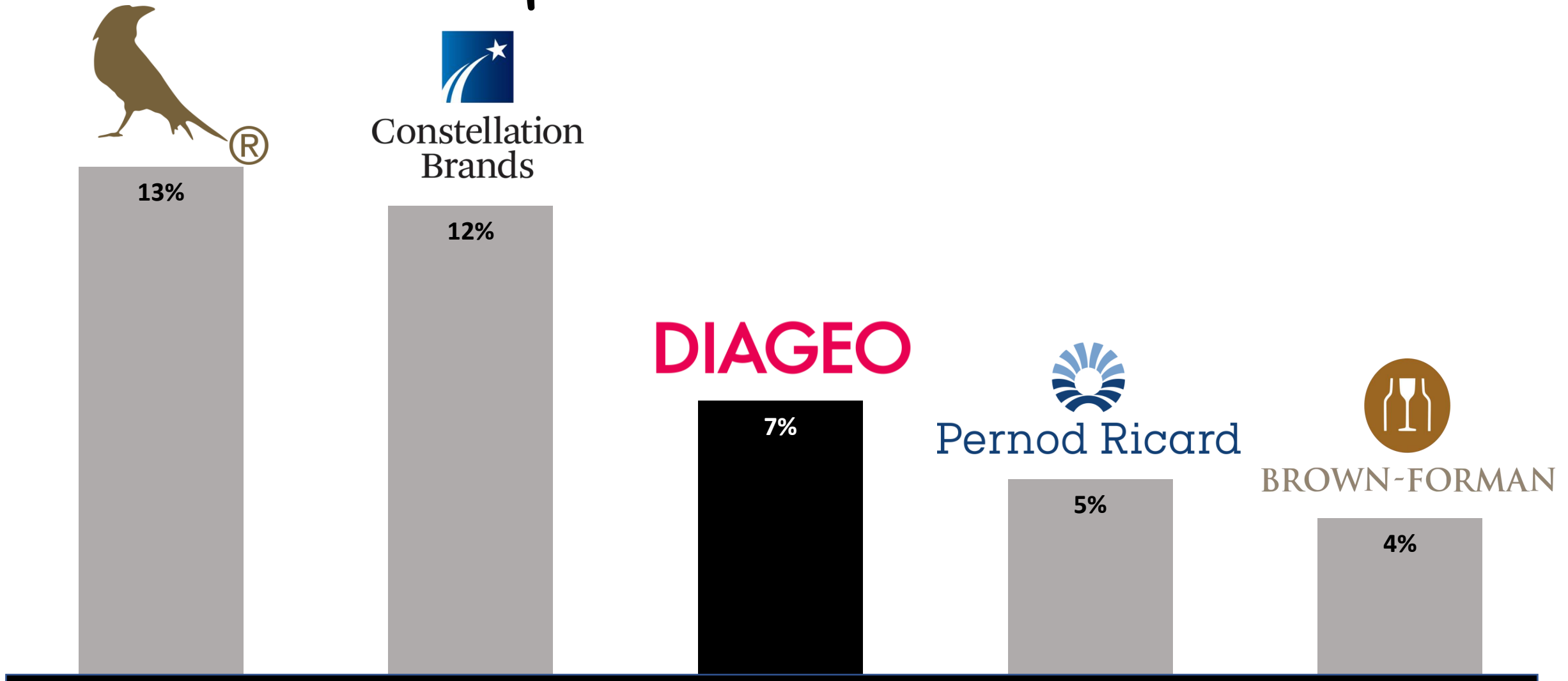
\$31,950



\$7,580

Capex To Revenue

Diageo





Risk Factors



Risk Factors

- **Health consciousness**
- **Negative association**
- **Shift towards lower levels of alcohol**
- **Healthier alternatives**
- **Despite worries alcohol consumption increased**



Foreign Exchange

- **British-based company**
- **Benefited from FX translations**
- **North America 40% of sales 40% OPM**
- **USD is stronger than the Pound**
- **Benefits DEO but this is temporary**



Resilient Against Recessions

More resilient today than 08/09

1. **Brand portfolio became more premium**
2. **Skewed toward higher income consumer**
3. **In downturn on-trade to off-trade**
4. **Down trading could occur but later in the cycle**
5. **Spirits to gain market share from beer**
6. **Entering this downturn with a lower level of inventories**
7. **DEO strong marketing spent 17.6% up 2.3 pp from 08/09**

	FY09	FY10	FY11
Net Sales			
North America	1%	-3%	3%
Europe	-5%	-2%	-3%
APAC Middle East	-4%	1%	9%
International	7%	13%	13%
Group Net Sales	-	2%	5%

	FY09	FY10	FY11
EBIT			
North America	-	-	8
Europe	-1	-1	-7
APAC Middle East	-	6	13
International	10	25	19
Group EBIT	4	2	5

Inflationary Risks

- **Inflation rate 8%**
- **Shelter, Energy & Food**
- **Europe's energy crisis**
- **Supply chain shortages**
- **Geopolitical conflicts Russia/Ukraine**
- **Tight labor market wage increases**





Management



Key Executives



Debra Crew
Chief Operating Officer
Since 2020



Ivan Mendez
Chief Executive Officer
Since 2013



Lavanya Chandrashekar
Chief Financial Officer
Since 2021

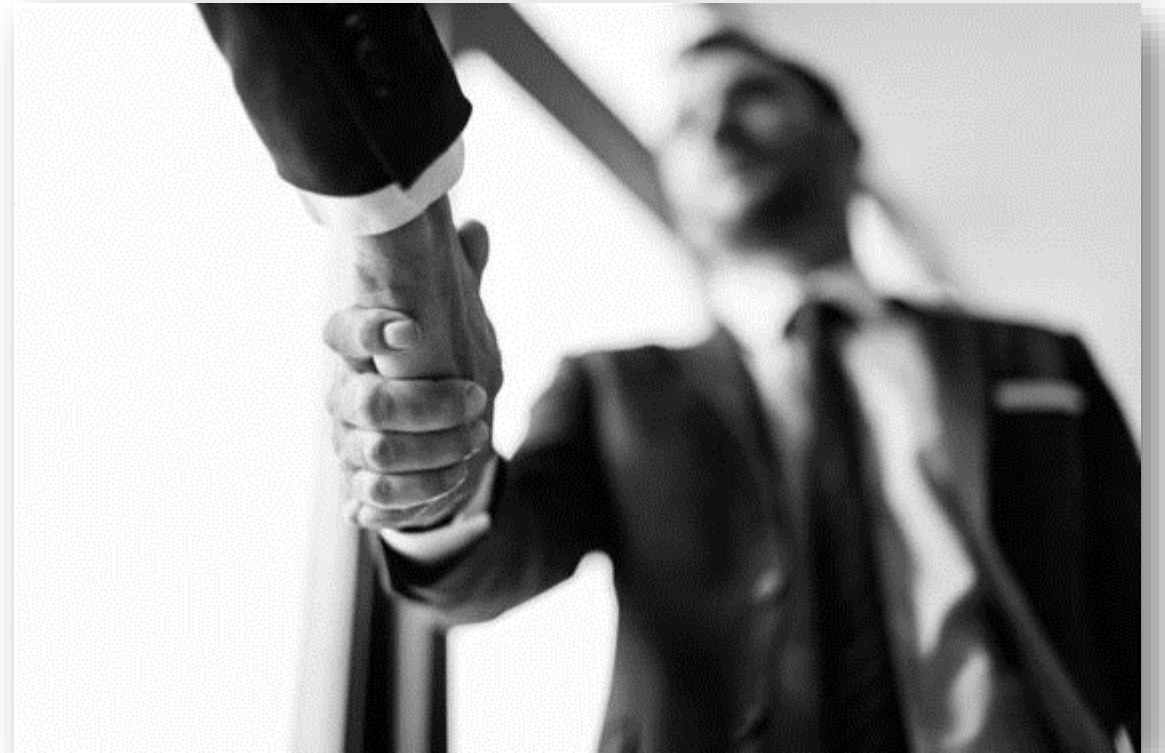
Management Compensation

- **ROIC threshold greater than 15%**
- **Net sales growth 26% weight**
- **Operating cash conversation 26% weight**
- **ESG accounts 20% weight**



Capital Allocation Mentality

- **Mergers & Acquisitions**
- **Dividends**
- **Repurchases**
- **Marketing**



Dividends Per Share



10-year CAGR 3.17%
5-year CAGR 0.74%
3-year CAGR 0.75%

2012

2013

2014

2015

2016

2017

2018

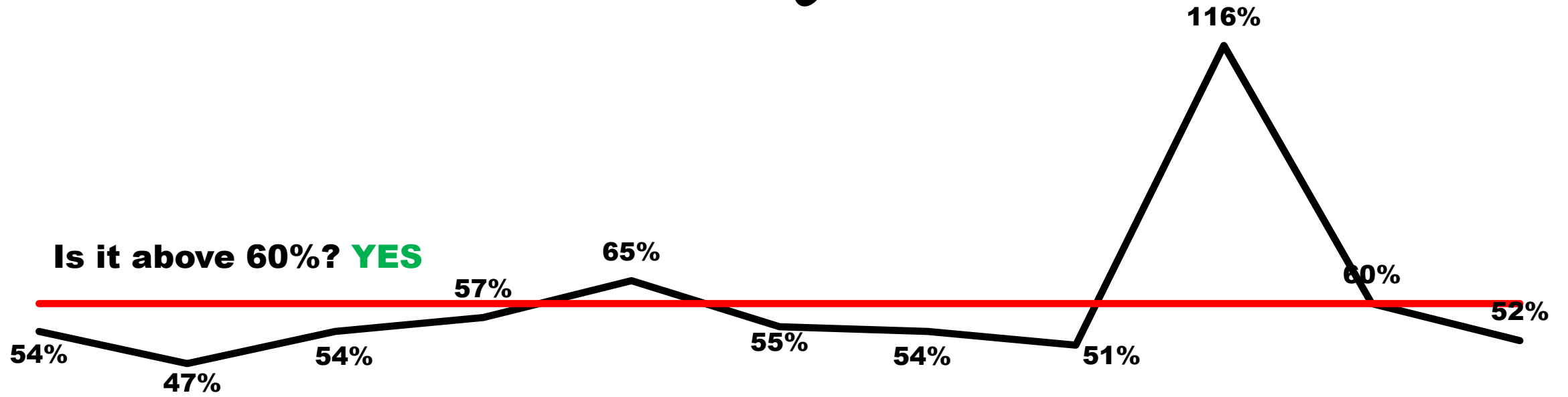
2019

2020

2021

2022

Dividend Payout Ratio



2012

2013

2014

2015

2016

2017

2018

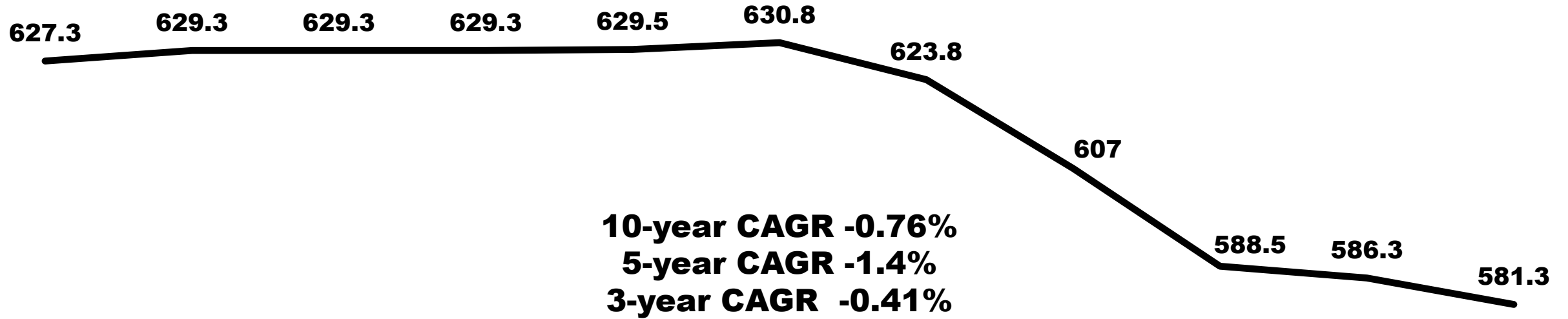
2019

2020

2021

2022

Shares Outstanding



2012

2013

2014

2015

2016

2017

2018

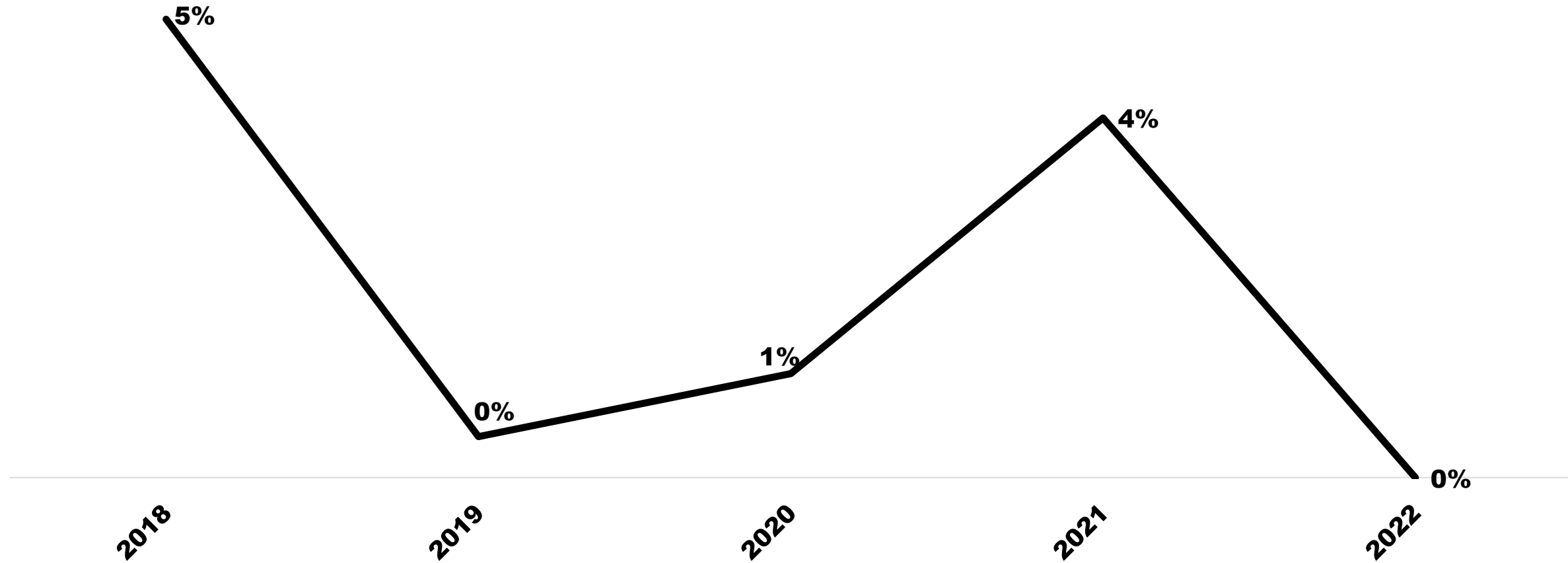
2019

2020

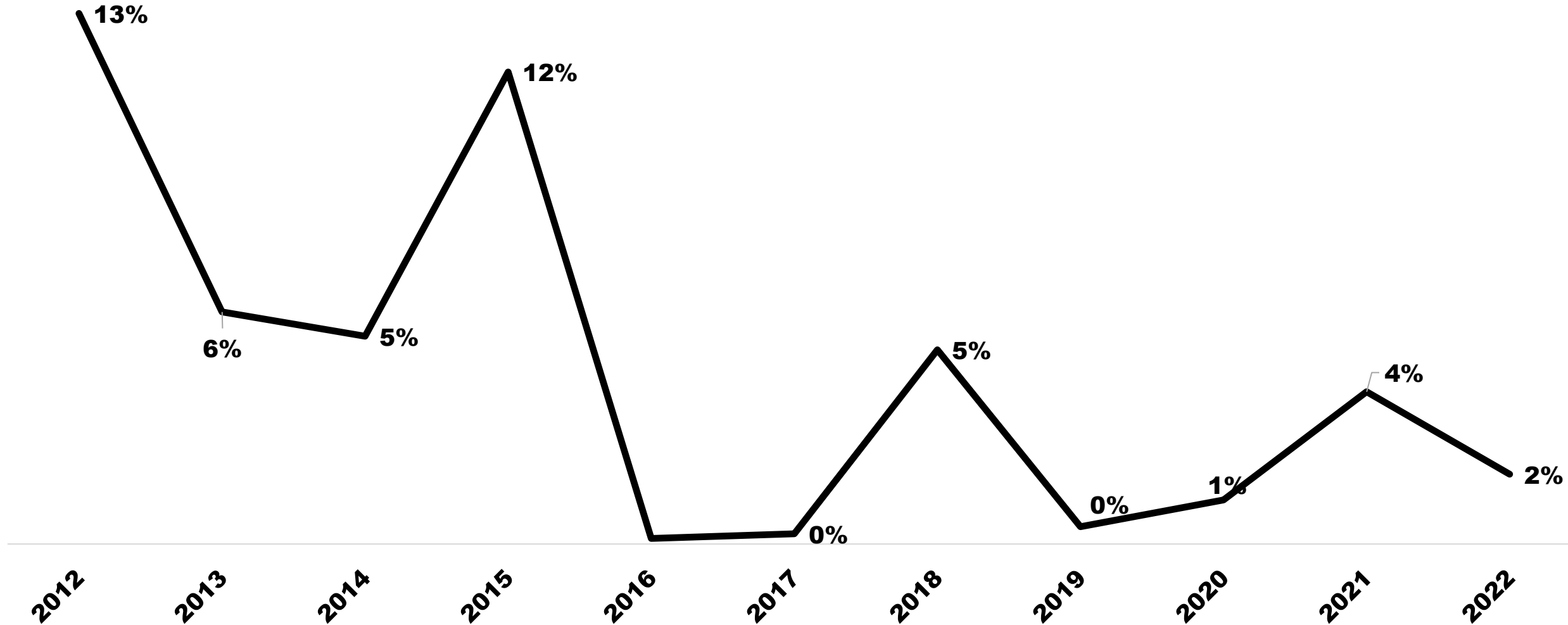
2021

2022

Cash Used to Repurchase Stock as % of Revenue



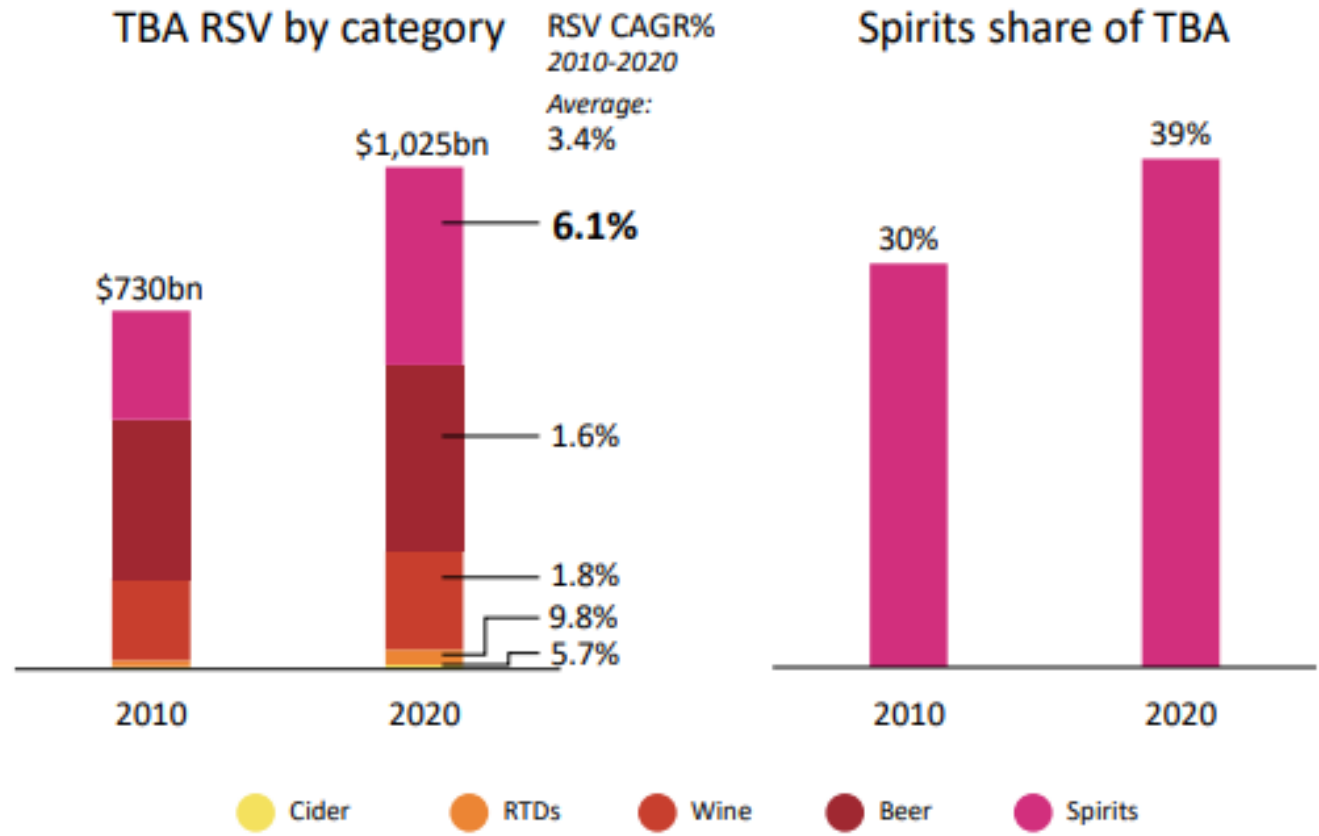
Cash Used to Purchase Business as % of Revenue





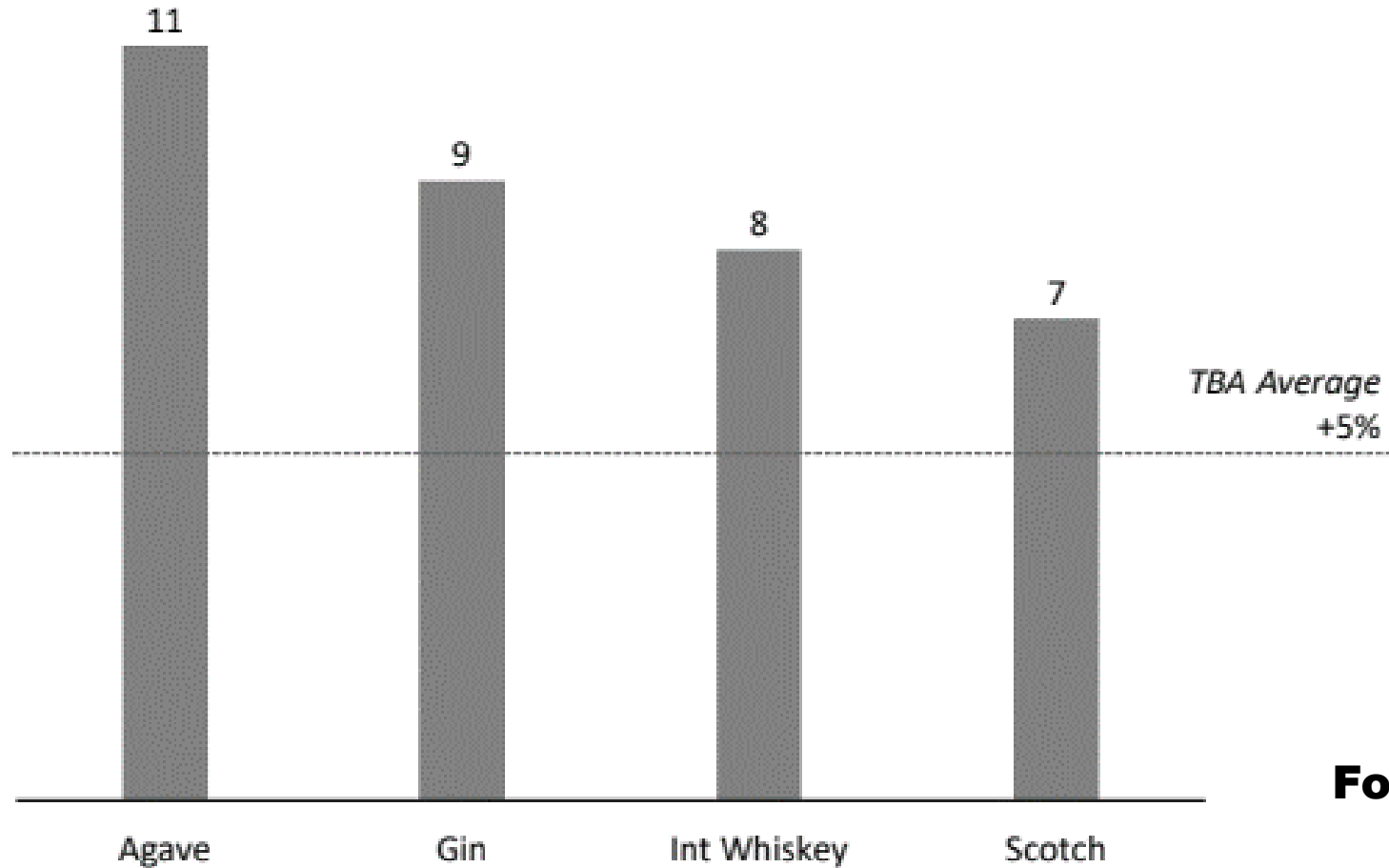
Growth Opportunities

Spirits Fueling TBA Growth



Source IWSR TBA and Spirits Retail Sales Value 2010 & 2020

Well-Positioned in Fast-Growing Areas



Forecast 5-YR CAGR

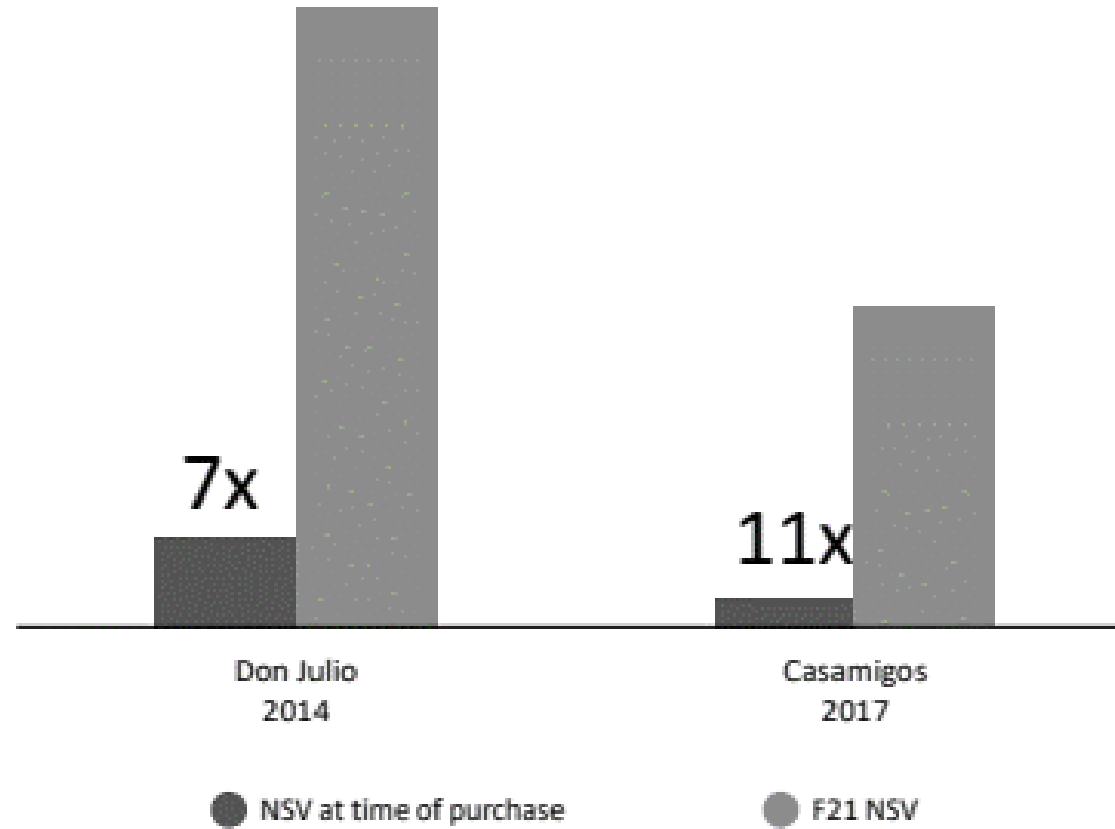
M&A High Growth Categories



Acquisition Successes

Transforming
their scale

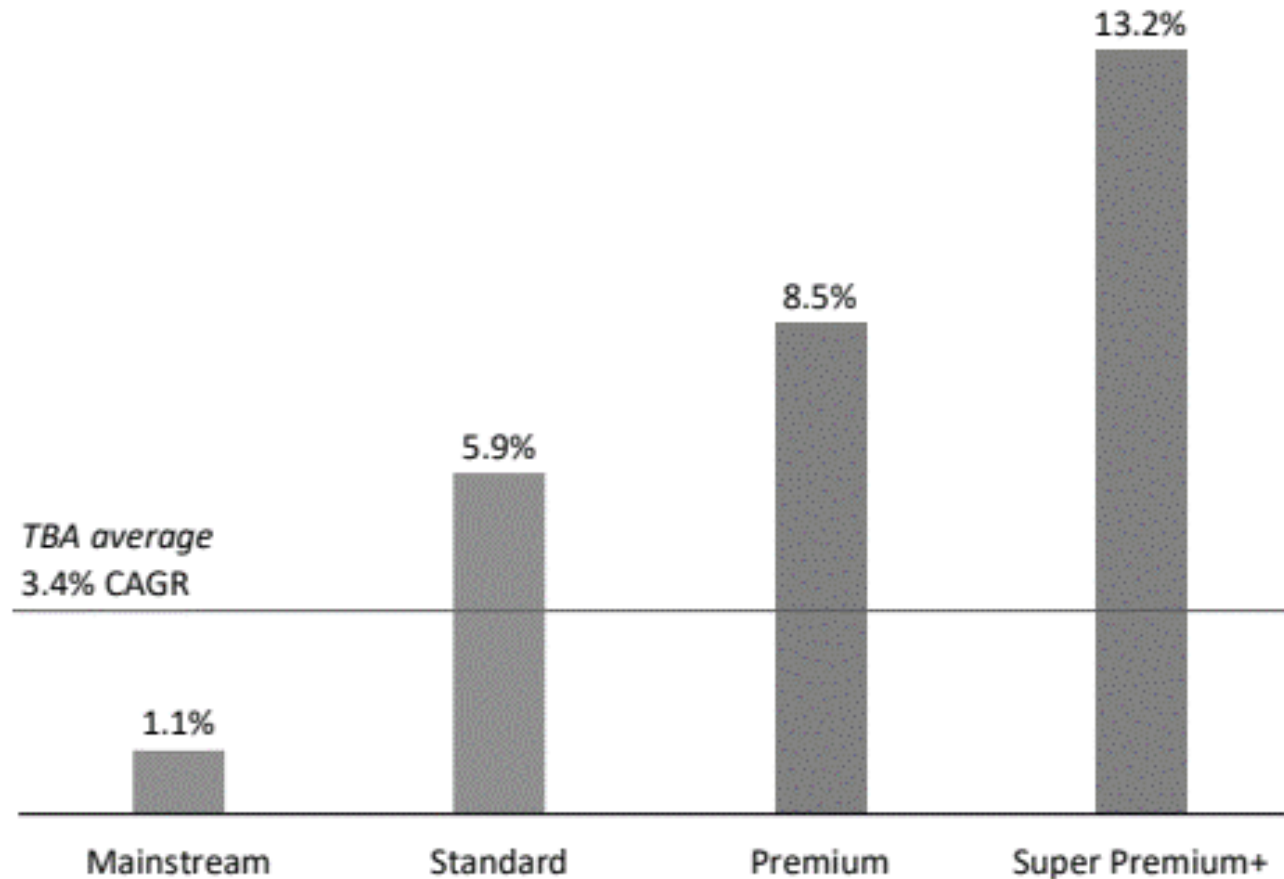
NSV growth since
acquired by Diageo



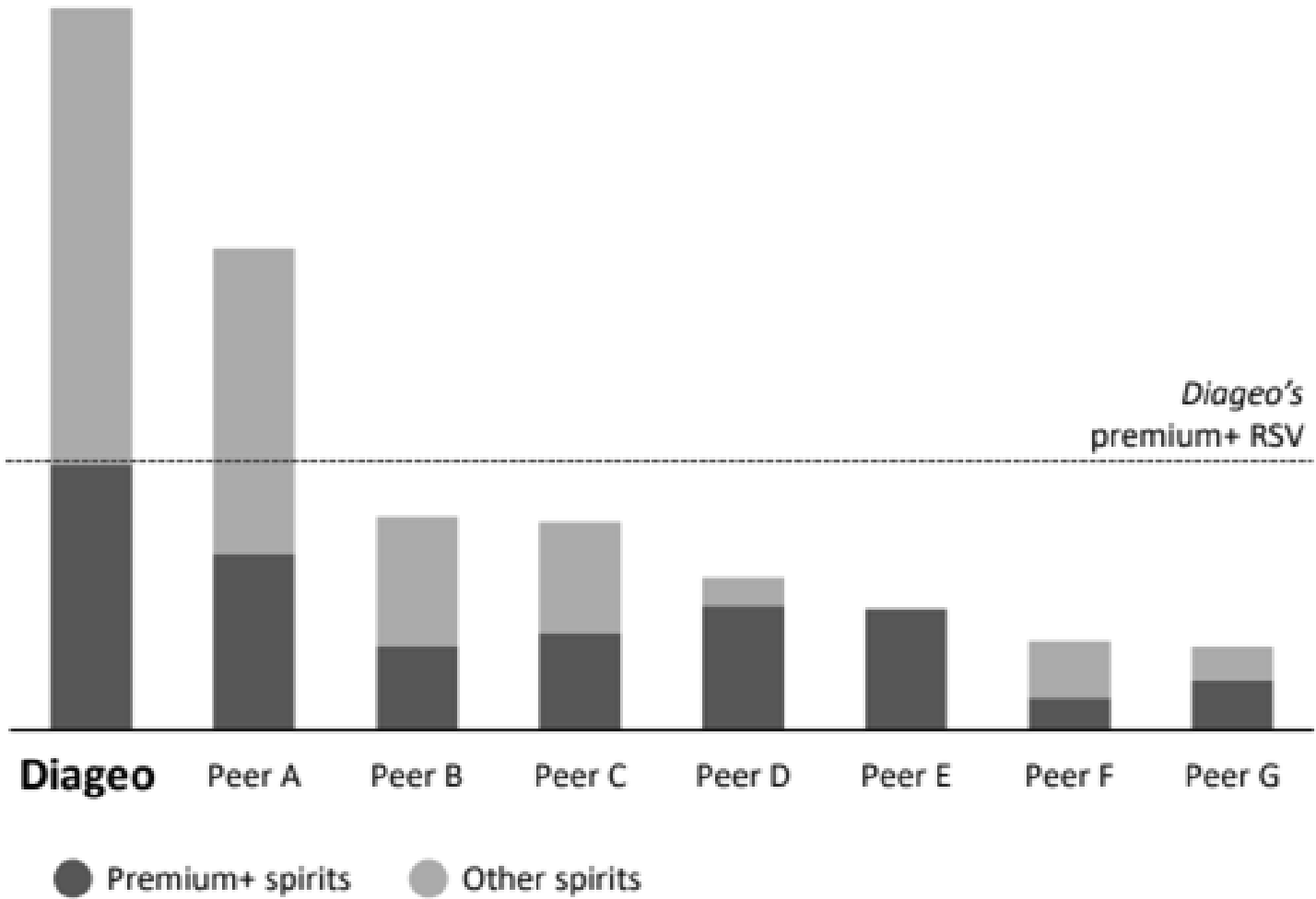
Pricing Growth

*With premium
Spirits price
points growing
faster*

Spirits growth by price point
CAGR% 2010-20



Leading in Premium + Spirits



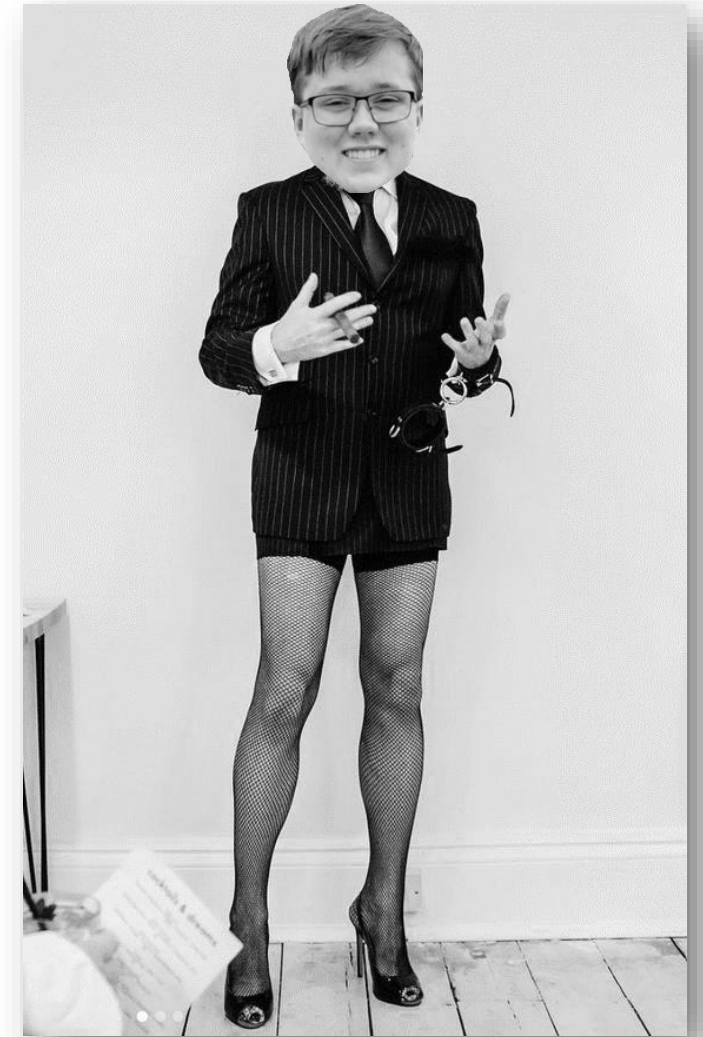
Global Spirits Market Growth

- **Market projected to grow 6%-7% 2022-2026**
- **Population growth**
- **600M consumers to enter by 2032**
- **Continued growth in the middle class**
- **Spirits penetration remains low at 50% in the US**



Diageo Company Growth

- **Management guidance FY23-FY25**
 - **Sales 5%-7%**
 - **EBIT 6%-9%**
- **Growing spirit market**
- **Improvement in the quality of the brands**
- **Price/mix and cost efficiencies**
- **Geographical growth**
- **China sales from 5% to 10%**
- **Increased market share FY22-FY30 4.6% to 6%**
- **Shares outstanding & M&A**

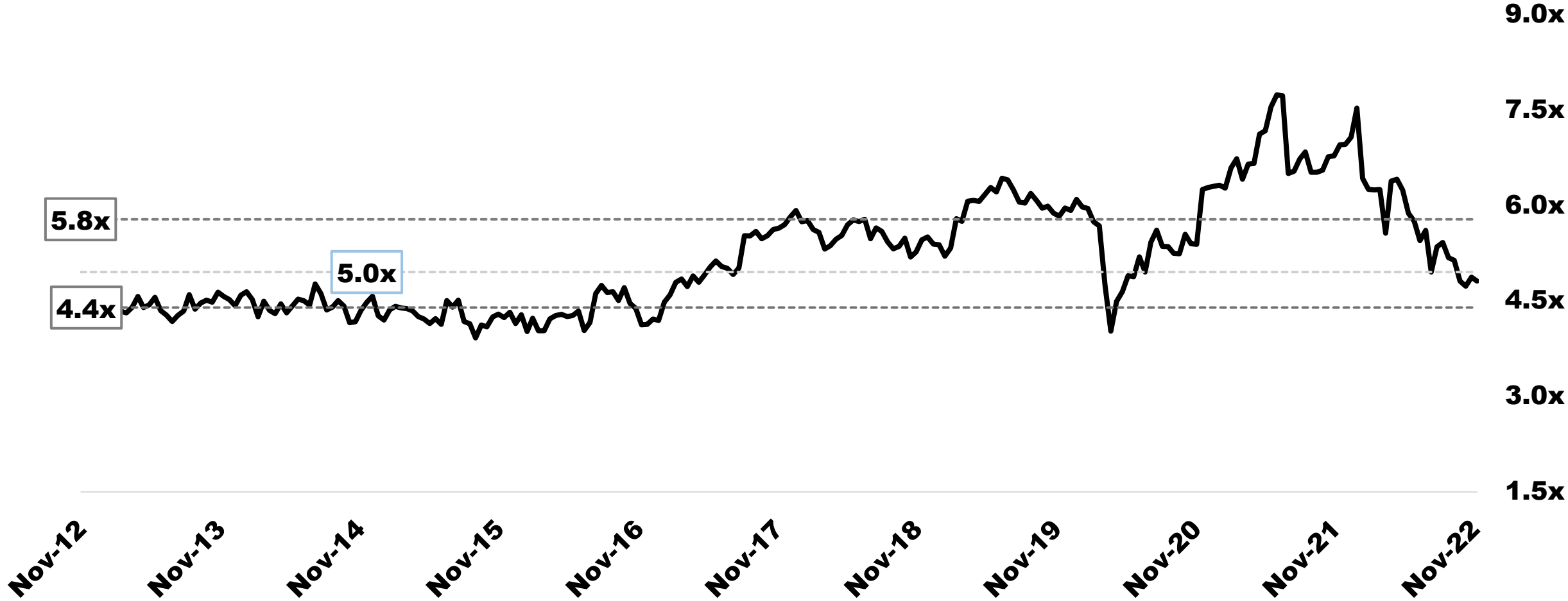




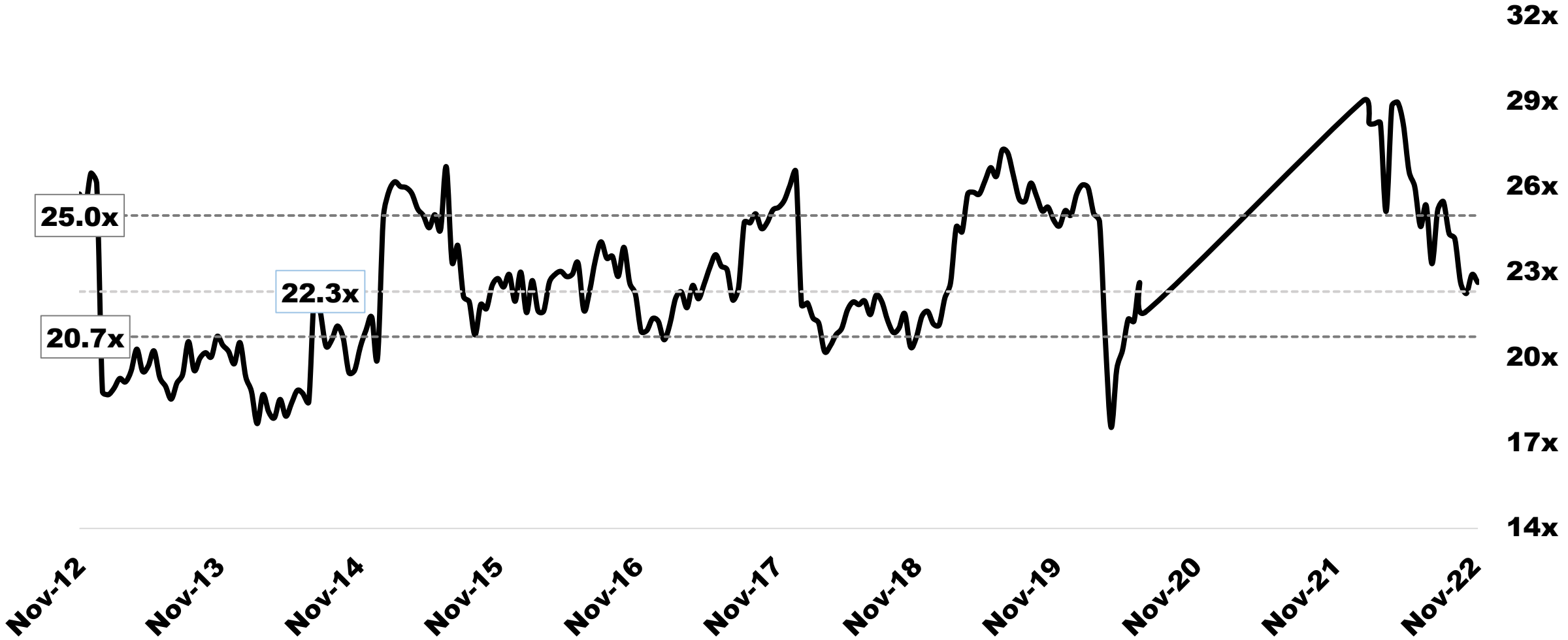
Valuation



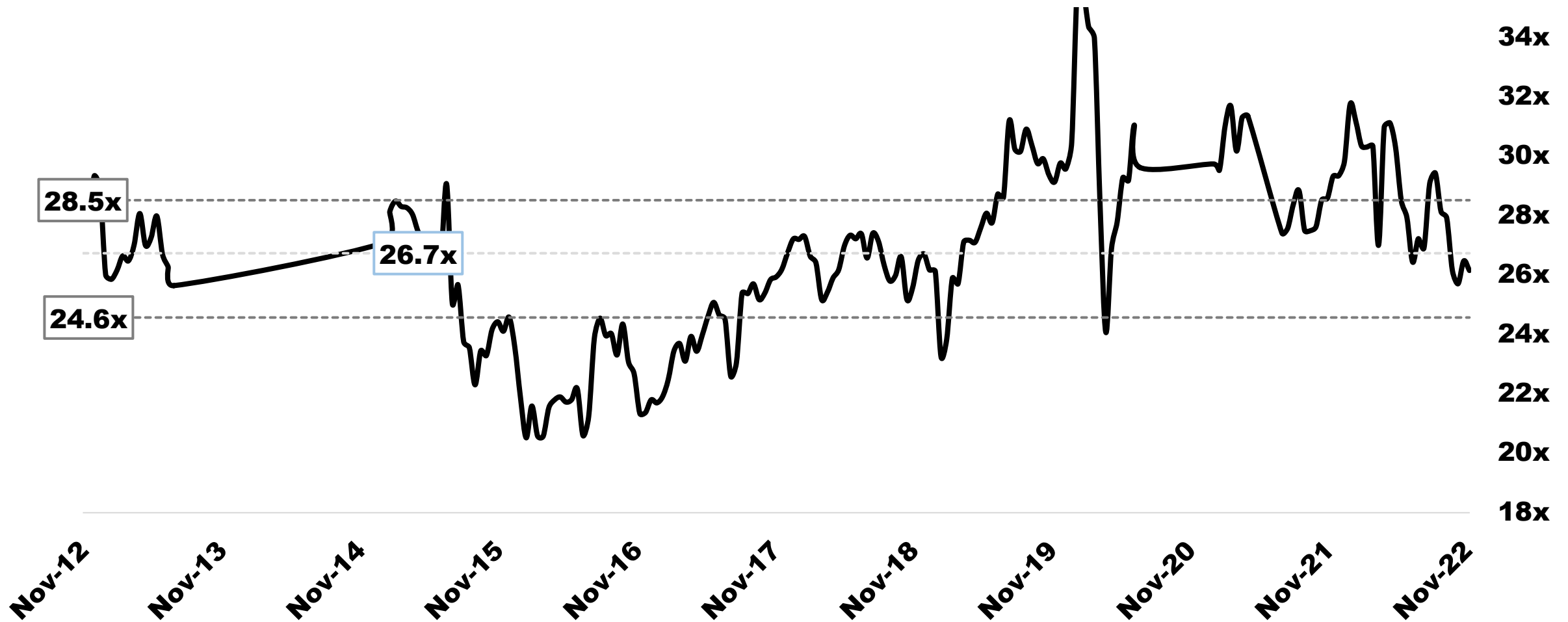
Price to Sales



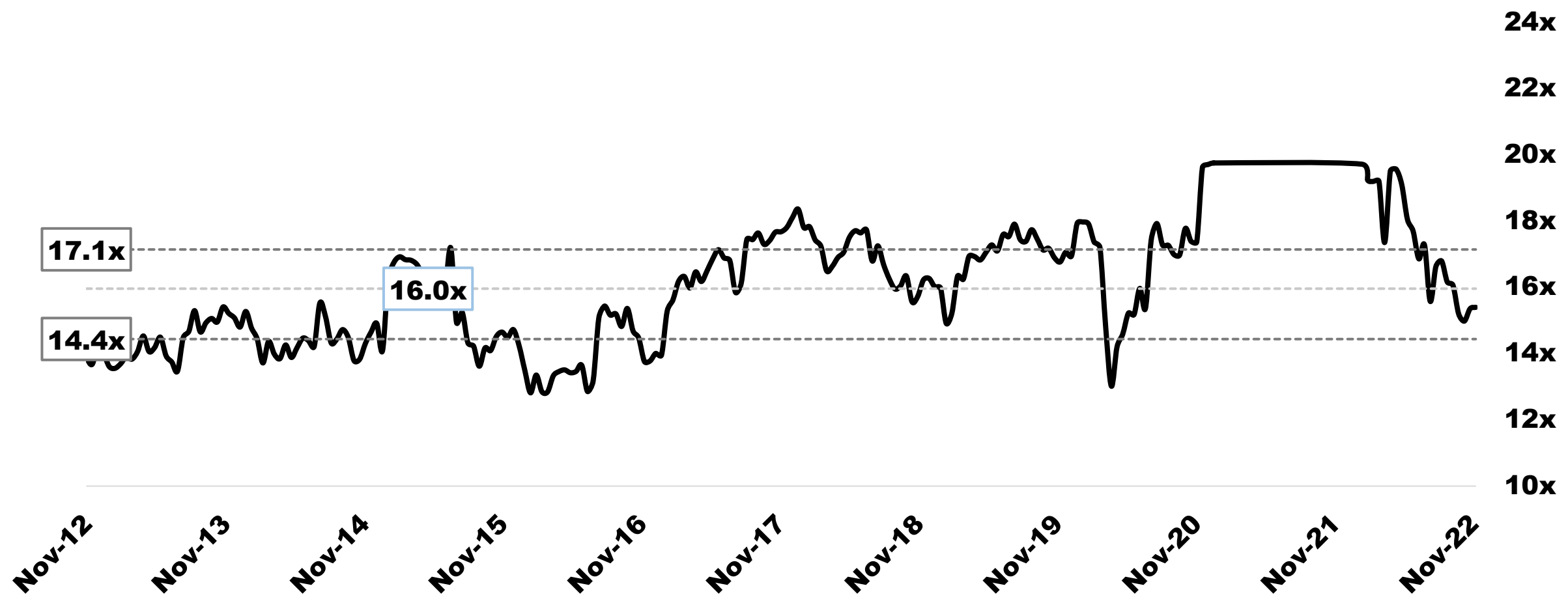
Price to Earnings



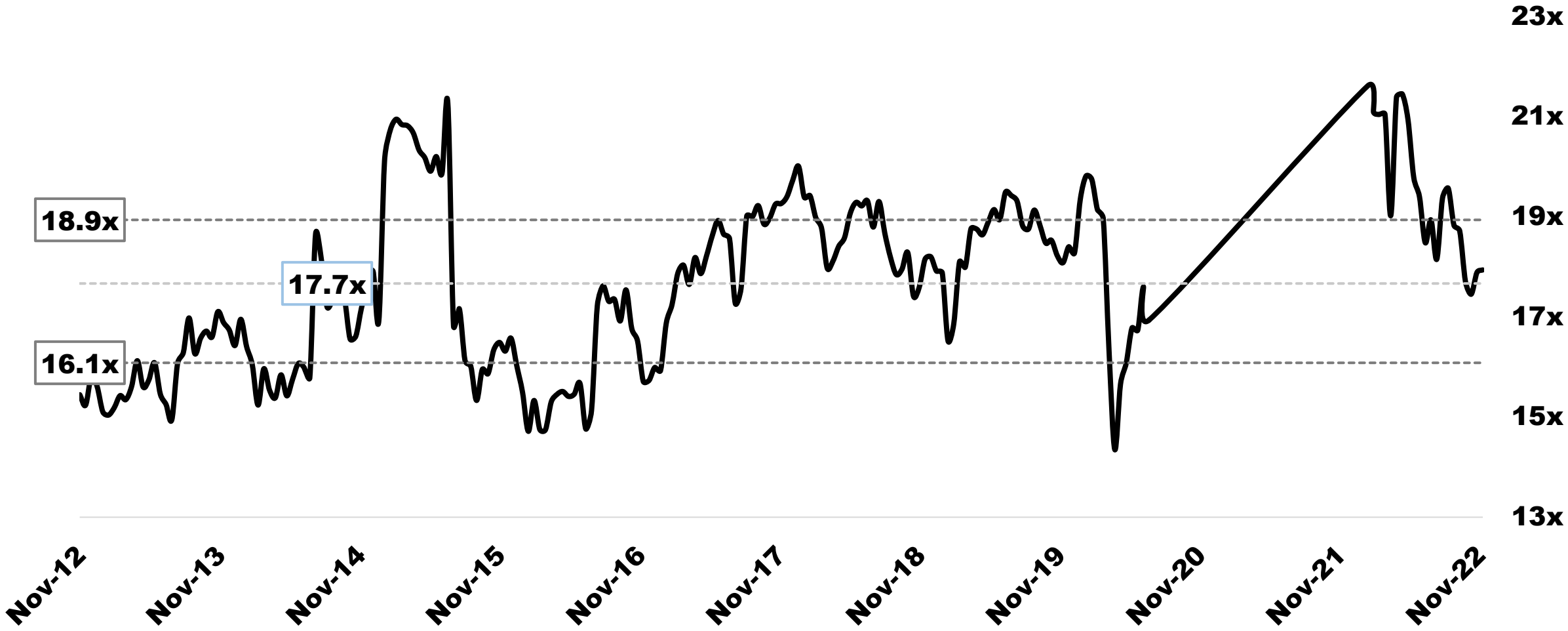
Price to Free Cash Flow



Enterprise Value to EBITDA

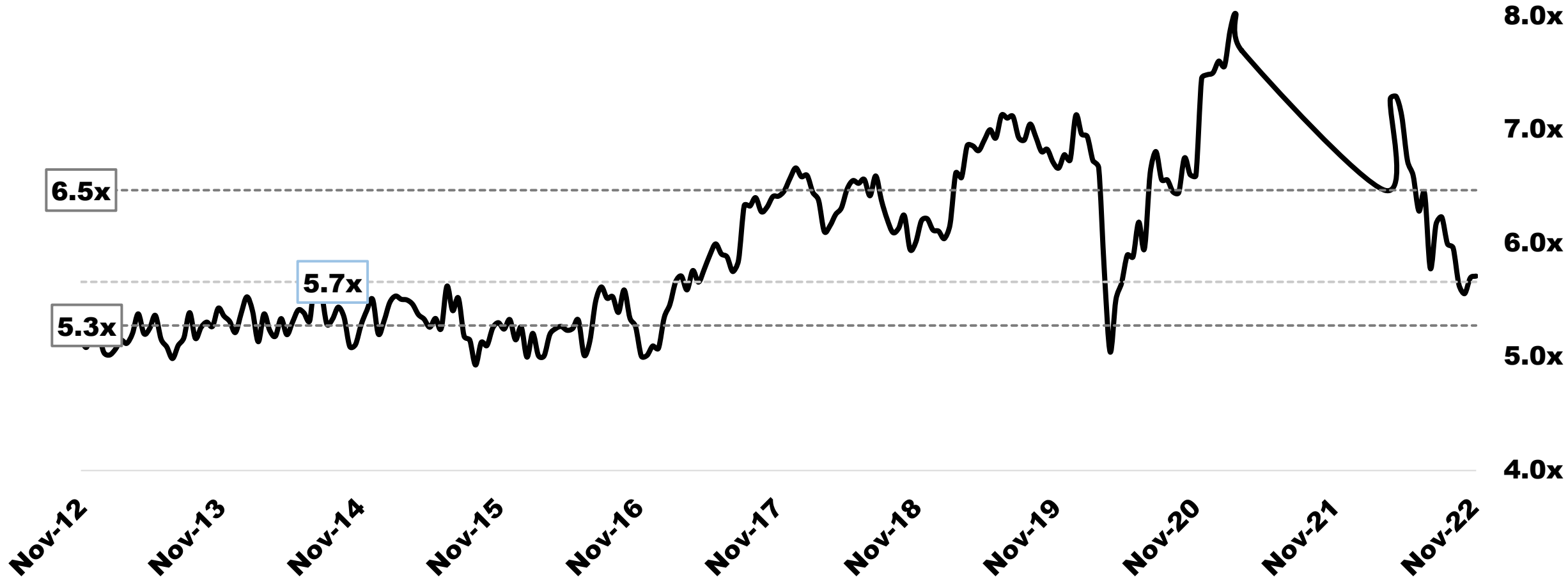


Enterprise Value to EBIT

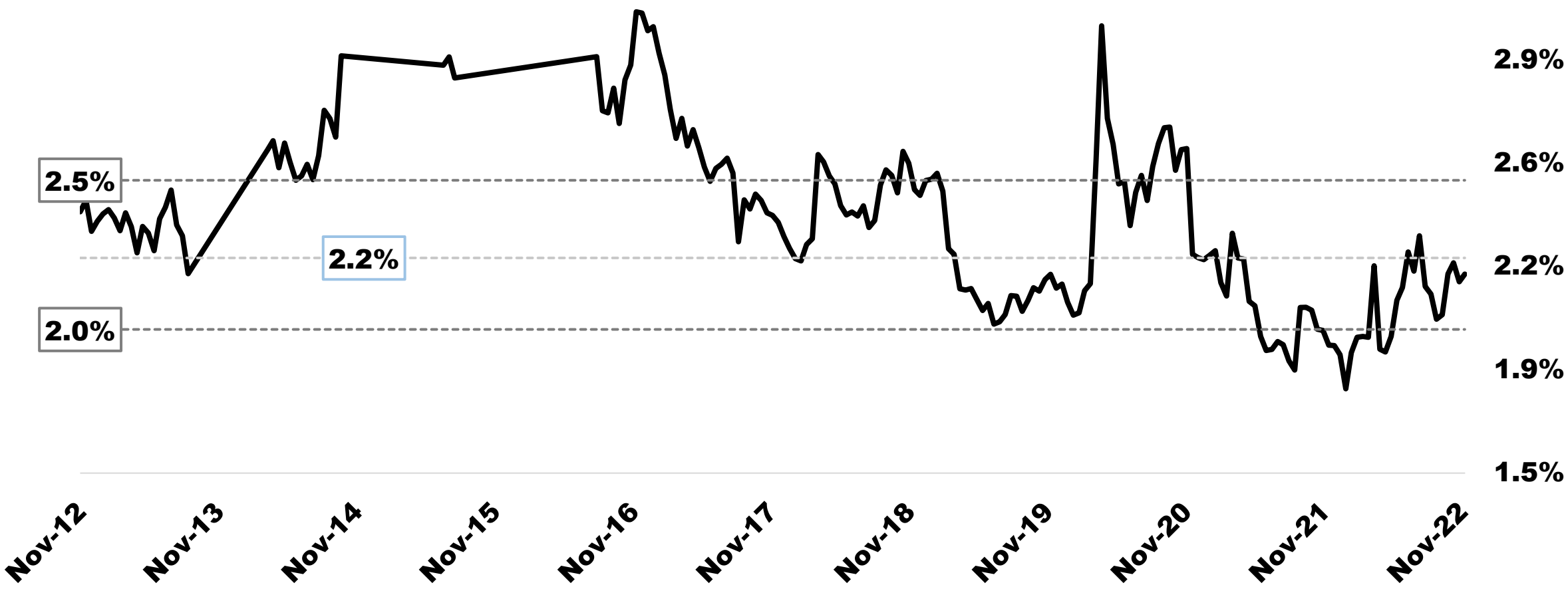


Enterprise Value to Sales

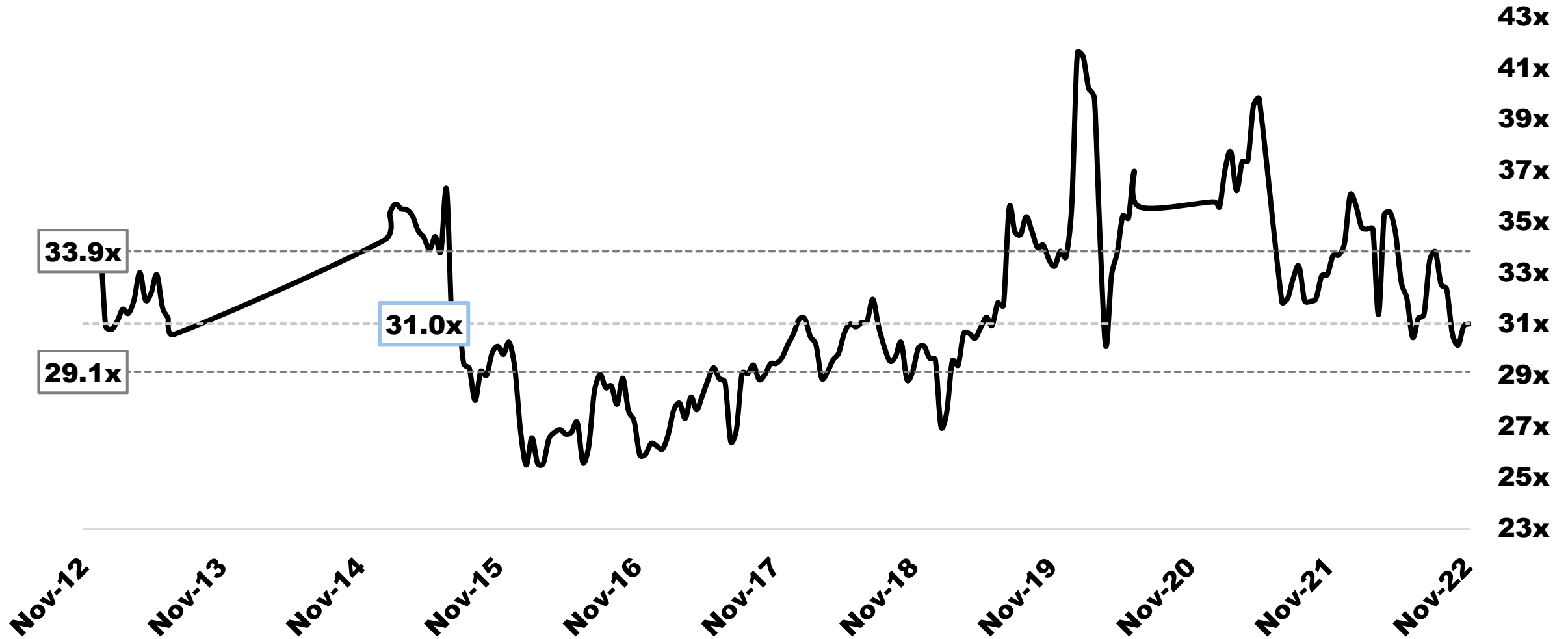
Diageo



Dividend Yield

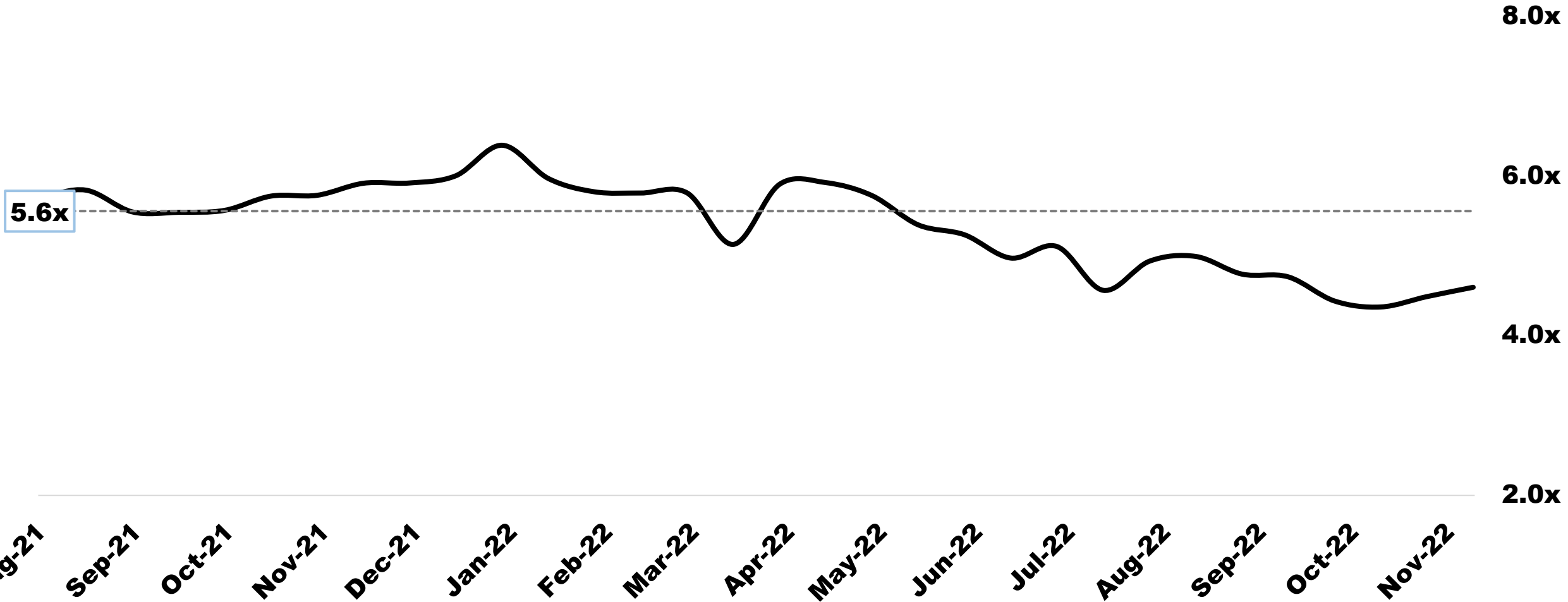


Enterprise Value to Free Cash Flow

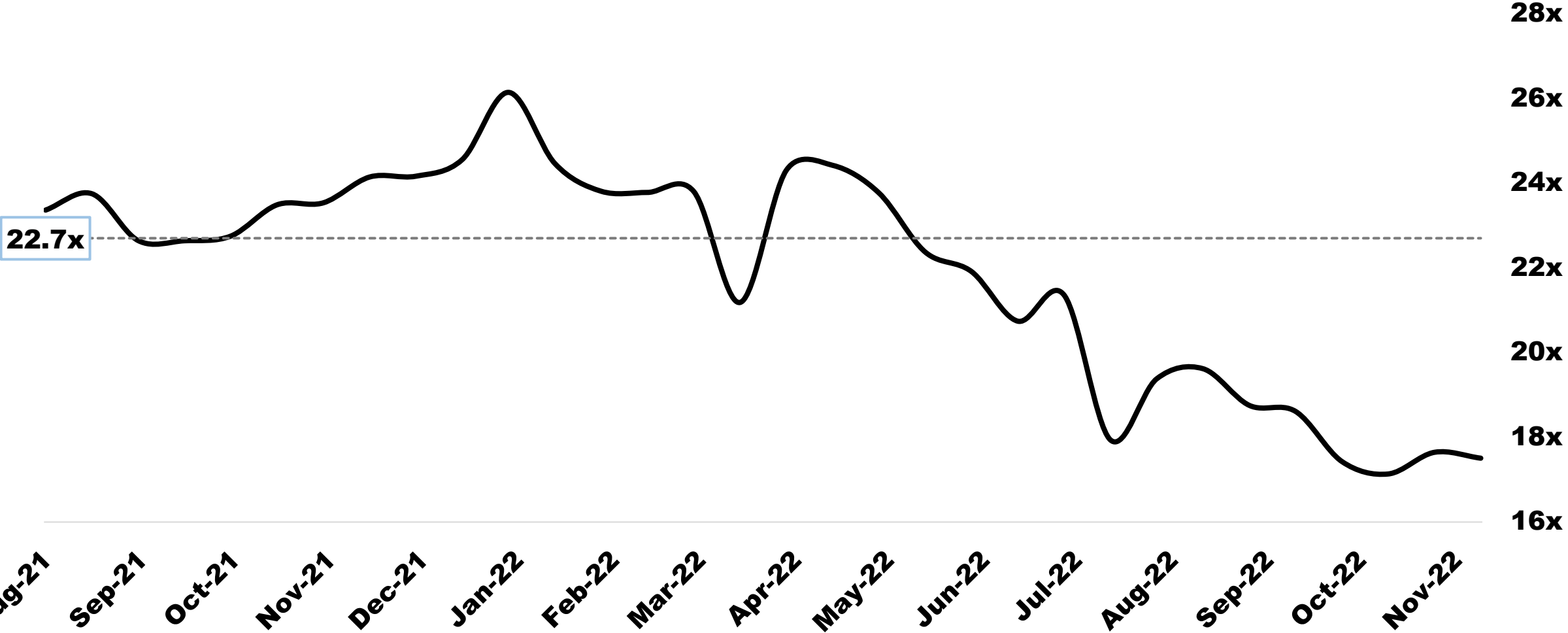


Forward Price to Sales

Diageo

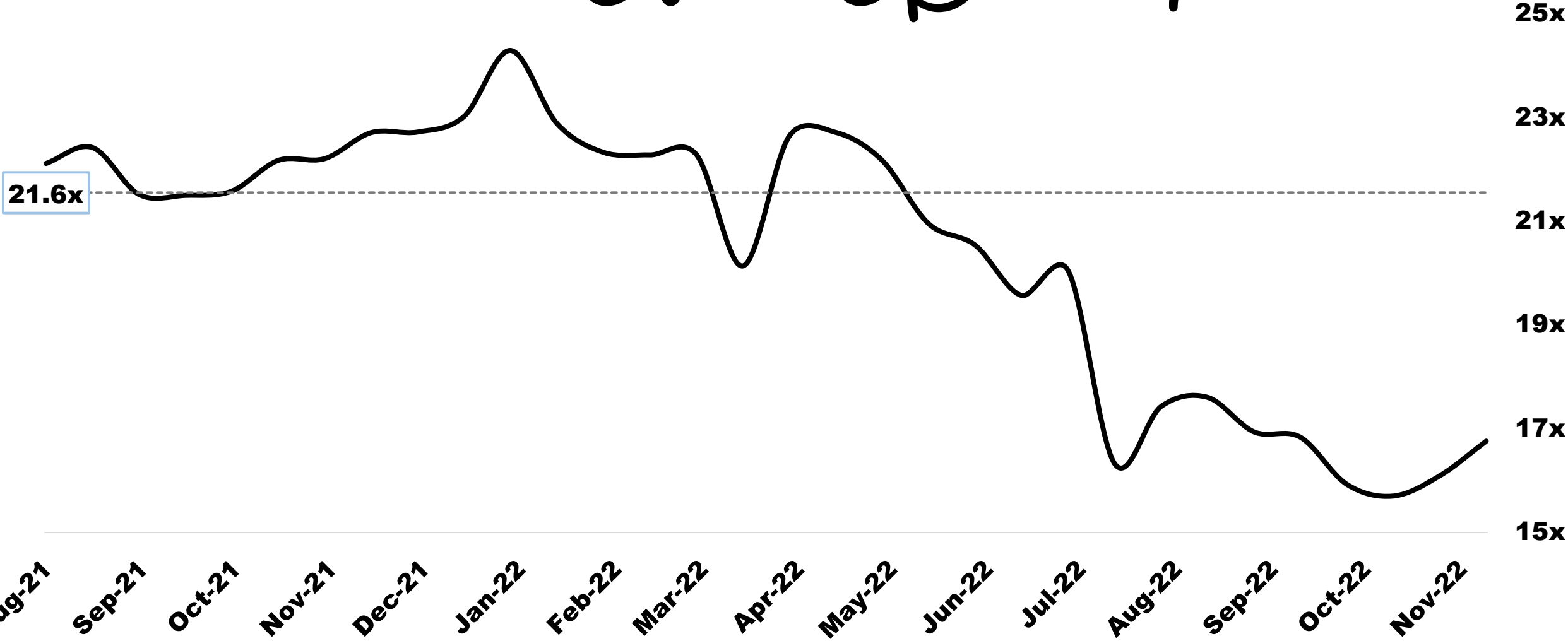


Forward Price to Earnings



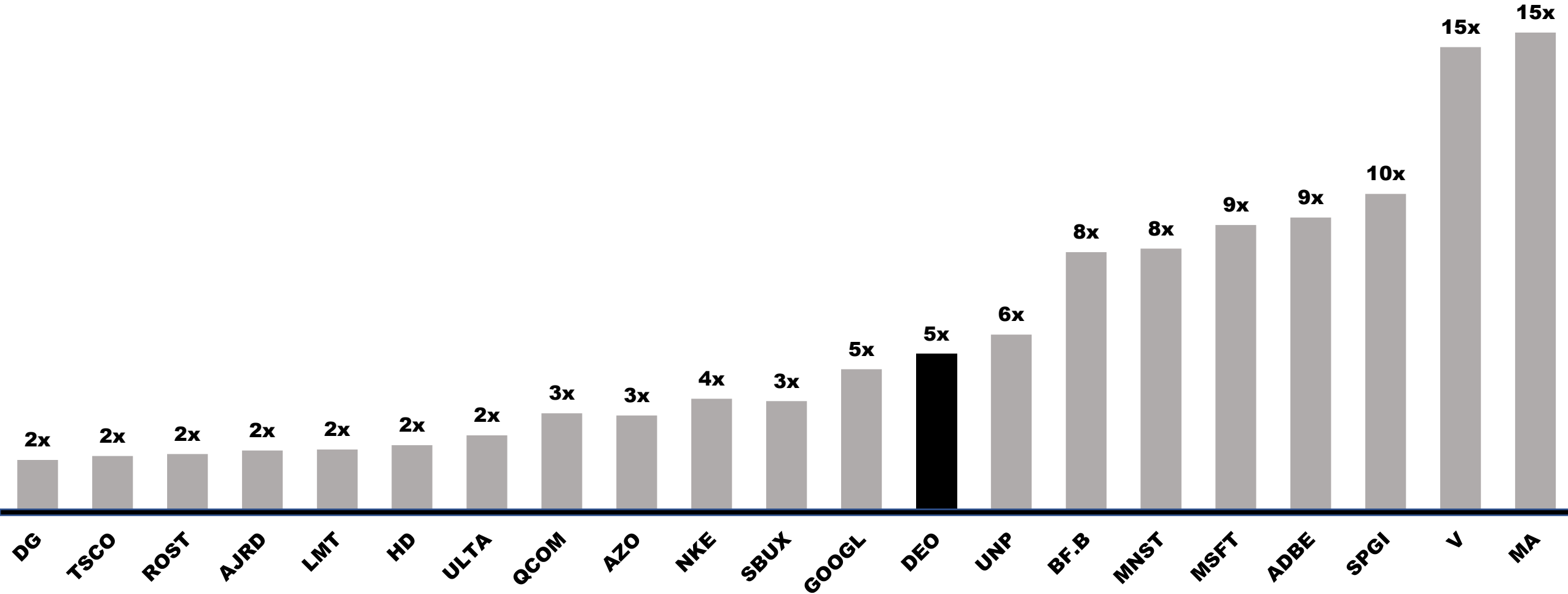
Forward EV to EBITDA

Diageo

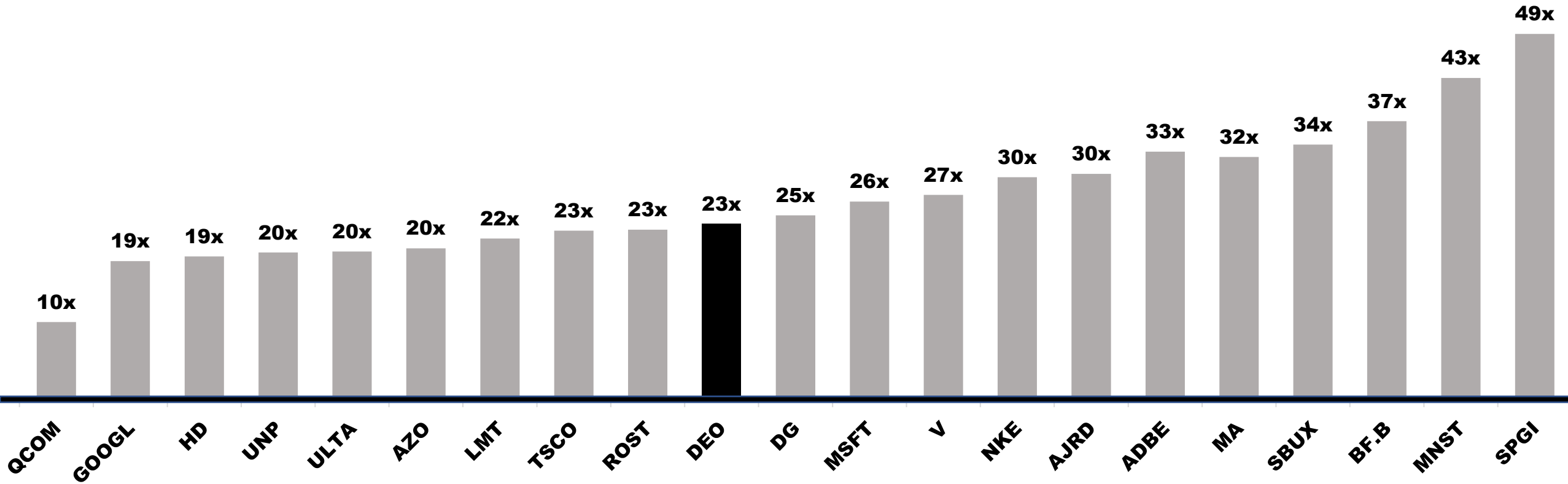


Price to Sales

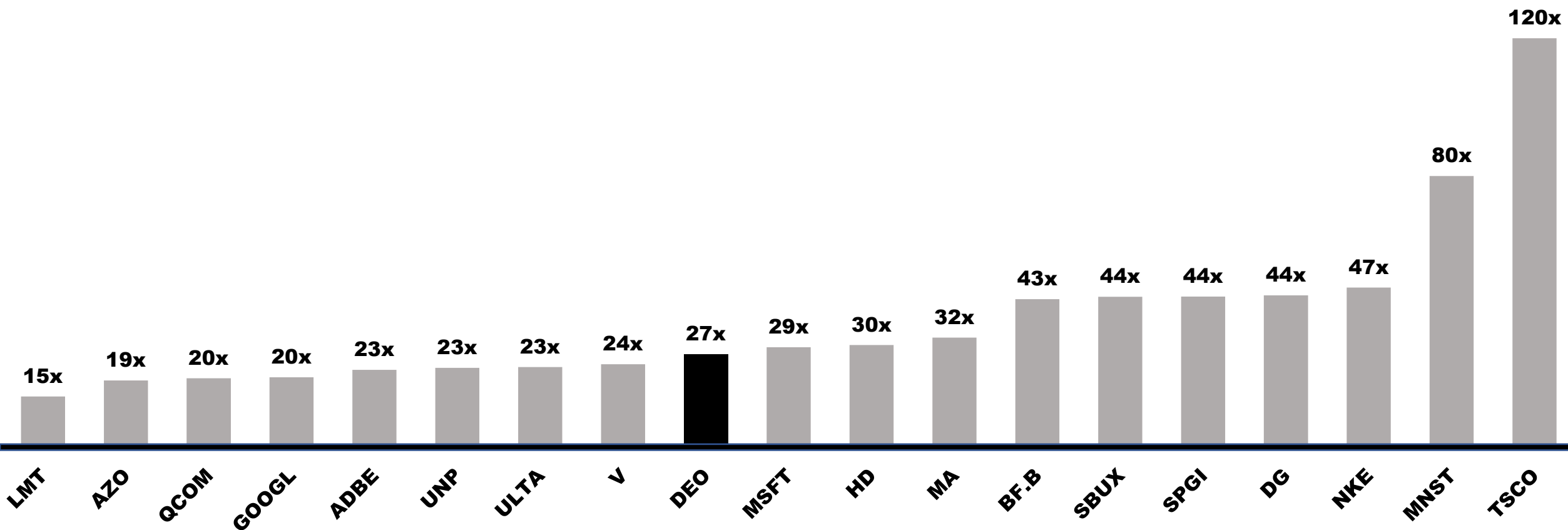
Diageo



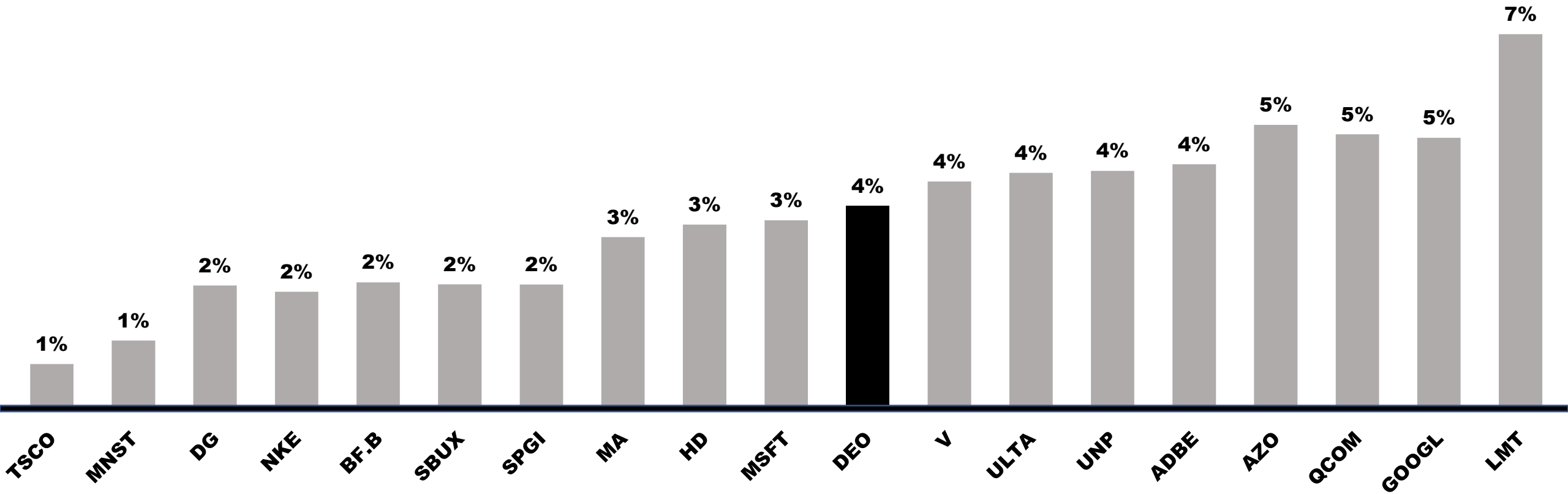
Price to Earnings



Price to Free Cash Flow

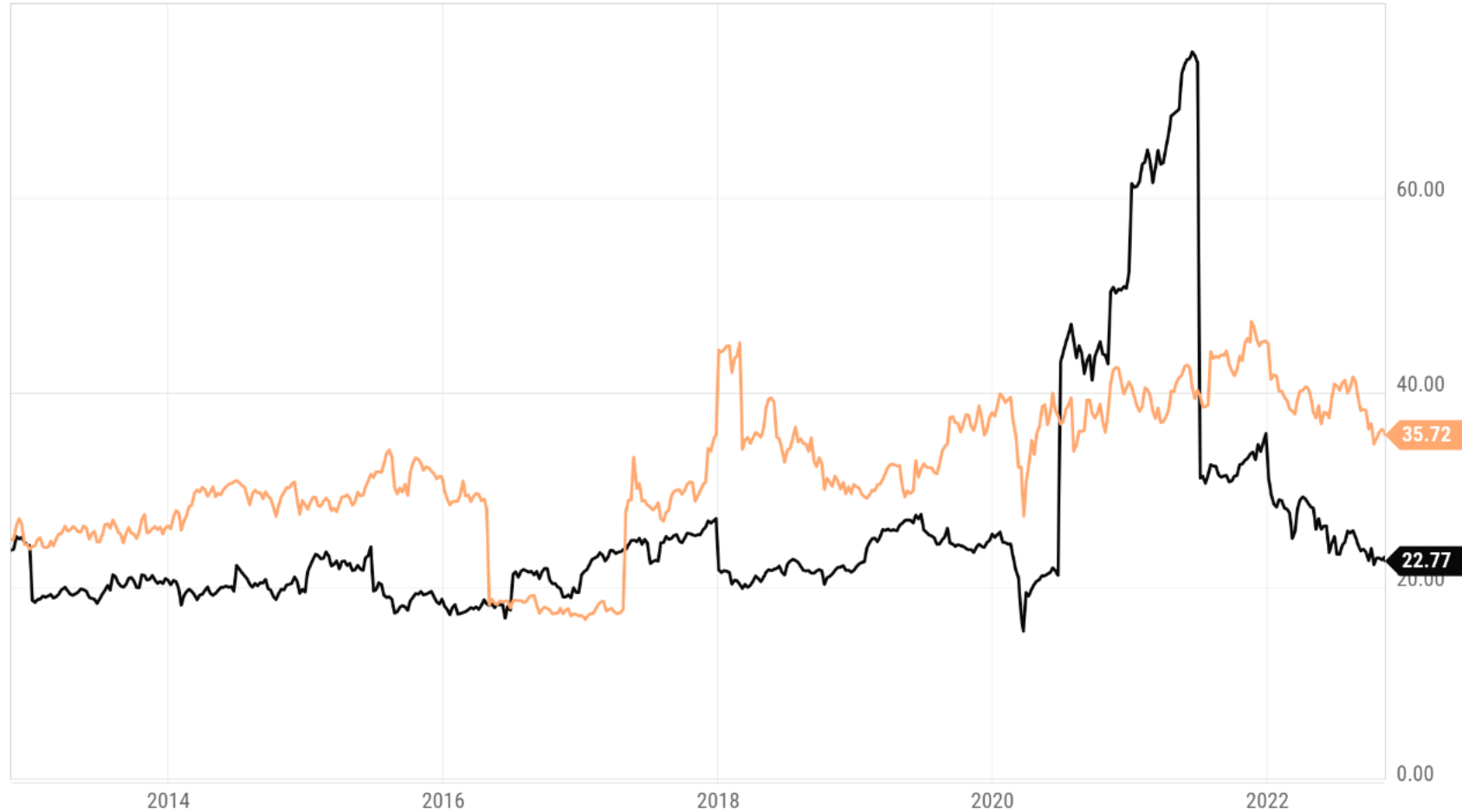


Free Cash Flow Yield



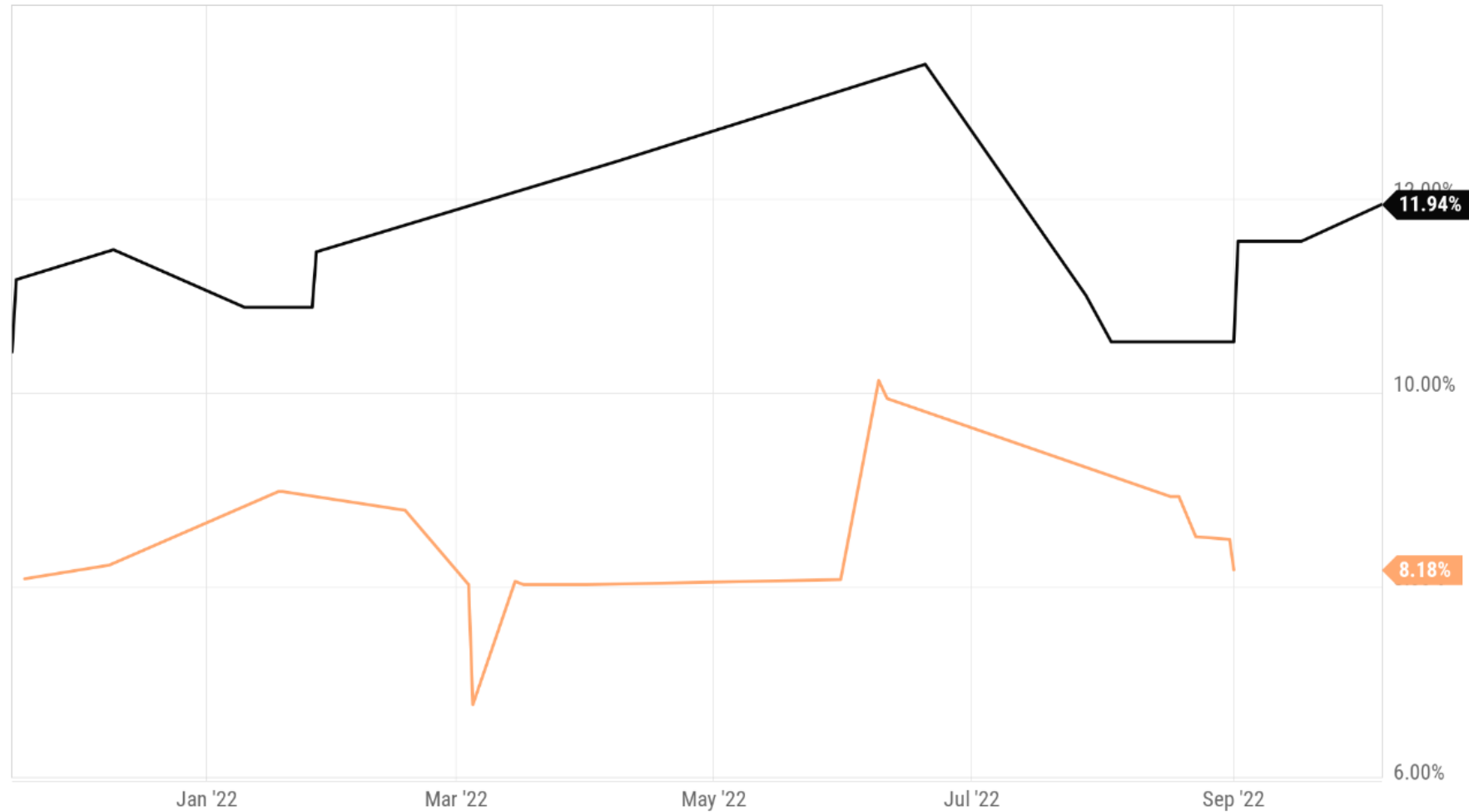
Brown Forman Trading At a Premium

- Diageo PLC (DEO) PE Ratio
- Brown-Forman Corp (BF.B) PE Ratio



Diageo Projected to Grow Faster

- Diageo PLC (DEO) EPS LT Growth Estimates
- Brown-Forman Corp (BFB) EPS LT Growth Estimates



5-year Valuation Model Inputs

	Bear Case	Base Case	Bull Case
TTM EPS	\$7.33	\$7.33	\$7.33
Growth Rate	6%	9%	12%
Exit Multiples	15x	22x	25x

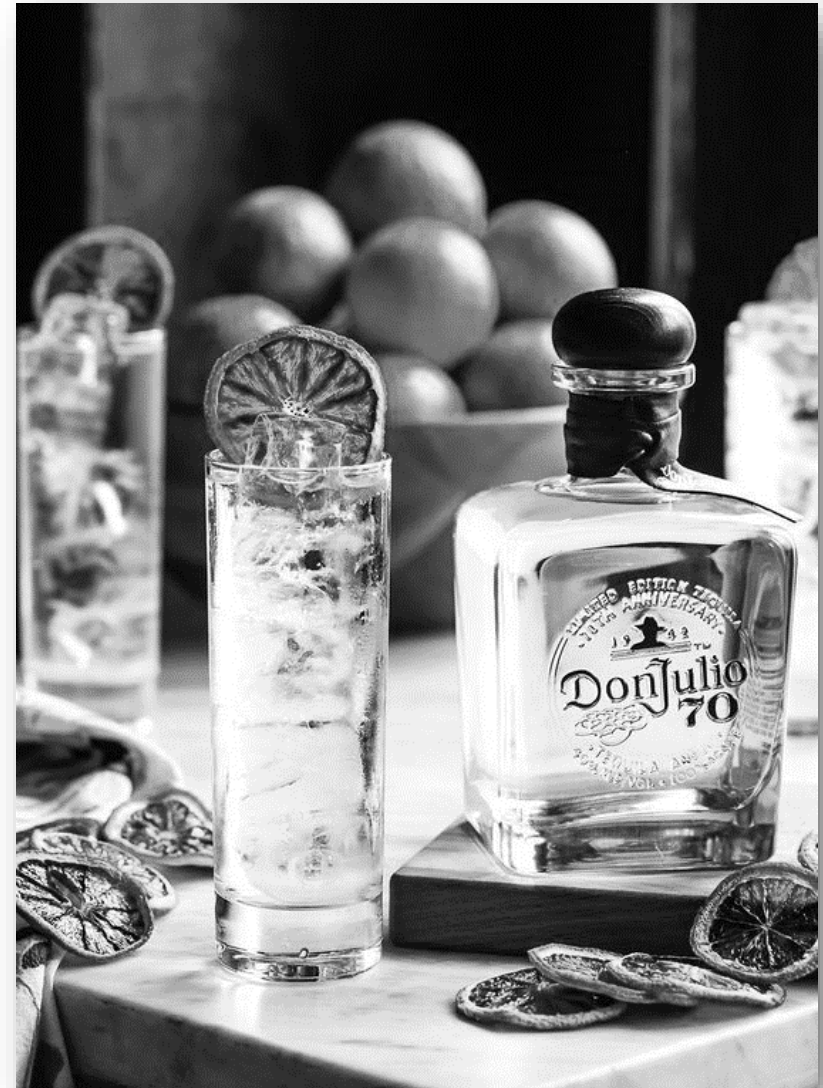
5-year Expected Rate of Return

		Est. EPS Growth Rates		
		6%	9%	12%
P / E	15.0x	(2.9)%	0.6%	2.7%
	22.0x	4.9%	8.6%	10.8%
	25.0x	7.6%	11.5%	13.7%

Price: \$167



Conclusion



Conclusion

- **Easily understandable**
- **Eat the, Drink them, Smoke them...**
- **Iconic & recognizable brands**
- **Predictable & Consistent**
- **Wide moat**
- **Adapted portfolio**
- **Fairly valued**



Recommendation

- **3% of the portfolio**
- **Write 2 put option contracts**
- **BF.B + DEO = 5% of the portfolio**
- **Strike price \$160**
- **Premium \$3.20**
- **Termination Date: December 16, 2022**
- **Cost Average: \$156.85**





The Groovy Investors



Appendix

Ticker: DEO		5 Year EPS Forecast										
Price: \$166.93							P/E		Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	15.0x	\$144.32	\$89.61	(13.5)%	(2.9)%
		\$7.33	\$7.92	\$8.39	\$8.81	\$9.25	\$9.62	22.0x	\$211.67	\$131.43	26.8%	4.9%
			8%	6%	5%	5%	4%	25.0x	\$240.54	\$149.36	44.1%	7.6%
Base	EPS	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	15.0x	\$172.22	\$106.93	3.2%	0.6%
		\$7.33	\$8.21	\$9.03	\$9.84	\$10.63	\$11.48	22.0x	\$252.59	\$156.84	51.3%	8.6%
			12%	10%	9%	8%	8%	25.0x	\$287.03	\$178.22	72.0%	11.5%
Bull	EPS	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	15.0x	\$190.26	\$118.14	14.0%	2.7%
		\$7.33	\$8.36	\$9.36	\$10.39	\$11.53	\$12.68	22.0x	\$279.05	\$173.27	67.2%	10.8%
			14%	12%	11%	11%	10%	25.0x	\$317.11	\$196.90	90.0%	13.7%

Management Compensation

Group financial measures¹

Measure	Weighting	Threshold	Target ⁶	Maximum	Actual	Payout (% of total AIP opportunity)
Payout opportunity (% maximum)		25%	50%	100%		
Net sales (% growth) ²	26.6%	5.2%	8.2%	11.2%	21.4%	26.6%
Operating profit (% growth) ²	26.6%	8.0%	14.0%	20.0%	26.3%	26.6%
Operating cash conversion ³	26.6%	94.0%	99.0%	104.0%	105.1%	26.6%
Full year performance for 1 July 2021 - 30 June 2022	80.0%					80.0%

net sales (% growth) (26.67% weighting): a key performance measure of year-on-year top line growth;

operating profit (% growth) (26.67% weighting): stretching profit targets drive operational efficiency and influence the level of returns that can be delivered to shareholders through increases in share price and dividend income not including exceptional items or exchange;

operating cash conversion (26.67% weighting): ensures focus on efficient cash delivery by the end of the year; and

individual business objectives (20% weighting): measurable deliverables that are specific to the individual and are focussed on supporting the delivery of key strategic objectives.

	Number of options	Weighted average exercise price (£)	Exercise period
Ivan Menezes	549,044	30.67	2020-2031
Lavanya Chandrashekar	99,824	33.73	2021-2031
Other ¹	1,349,935	30.14	2015-2031

¹ Other members of the Executive Committee

Performance conditions for long-term incentive awards to be made in the year ending 30 June 2023

	Performance shares								Share options		
	Organic net sales (CAGR)	Organic profit before exceptional items and tax (CAGR)	Environmental, social & governance (ESG)					Vesting schedule	Relative Total Shareholder Return	Cumulative free cash flow (£m)	Vesting schedule
			Greenhouse gas reduction ¹	Water efficiency	Positive drinking	% Female leaders	% Ethnically diverse leaders				
Weighting (% total)	40%	40%	5%	5%	5%	2.5%	2.5%	100%	50.0%	50.0%	100%
Maximum	8.5%	12.0%	17.6%	12.1%	4.0m	47%	44%	100%	3rd and above	£9,450	100%
Midpoint	6.5%	8.5%	14.2%	9.2%	3.3m	46%	43%	60%	–	£8,550	60%
Threshold	4.5%	5.0%	10.7%	6.3%	2.6m	45%	42%	20%	9th and above	£7,650	20%

1. Further context for the 2022 long-term incentive greenhouse gas reduction targets is set out on page 31.

	Ordinary shares or equivalent ^{1,2}			Share req. (%)
	26 July 2022	30 June 2022 (or date of departure, if earlier)	30 June 2021 (or date of appointment if later)	
Chairman				
Javier Ferrán ^{7,9}	307,522	307,288	254,242	
Executive Directors				
Ivan Menezes ^{4,5,7}	1,078,566	1,078,566	1,145,894	
Lavanya Chandrashekar ^{6,7}	6,228	6,228		

Management

M&A History

Mergers and acquisitions are at its core. Diageo was created by the merger of Grand Metropolitan and Guinness.

The firm appears to have a fairly disciplined financial approach to acquisitions, and the Mey Icki deal, struck by previous CEO Paul Walsh in 2011 at 10 times enterprise value/EBITDA, is well below other emerging-market pure-play transactions in the alcoholic beverage industry in recent years. Management also took a hard line in negotiations to acquire Jose Cuervo, walking away from a full acquisition but ultimately taking full ownership of Don Julio from Cuervo, the premium tequila brand that provided the best fit with Diageo's strategy. On the other hand, the consolidation of Shui Jing Fang was executed at an unfortunate time, coinciding with the Chinese government's crackdown on gifting to government officials. After several years of decline, however, premium Chinese spirits are growing again, and we expect a high-single-digit annual growth rate within the premium and above segments over the next few years, and this should ensure the deal creates long-term value. In addition, Diageo's due diligence failed to identify corporate governance and financial issues at United Spirits, including significant related-party loans, during the process to acquire a majority stake in the leading Indian distiller

Ivan Menezes succeeded Walsh as CEO in 2013. The most significant capitalallocation decision of Menezes' tenure has been the asset swap with Cuervo, in which Diageo swapped Bushmills Irish whiskey in return for full control of Don Julio. Despite our initial concerns, however, the asset swap now appears to have been a sensible move, as Bushmills has gained little traction under its new owner, while Don Julio is still growing.

Growth Rates

- **Management guidance FY23-FY25**

- **Sales 5%-7%**
- **EBIT 6%-9%**

- **Goldman Sachs FY22-FY25 average**

- **Revenue**
- **EBIT**
- **EPS**
- **Shares outstanding**

- **Value Line FY22-27**

- **Revenue 5%**
- **Earnings 10%**

Growth & Margins (%)

	6/22	6/23E	6/24E	6/25E
Total revenue growth	21.4	17.6	5.1	4.6
EBITDA growth	26.0	12.3	8.6	6.8
EBIT growth	28.1	18.3	9.1	7.1
Net inc. growth	22.1	23.6	8.4	7.3
EPS growth	29.2	19.4	10.1	8.9
DPS growth	5.0	5.0	5.0	5.0

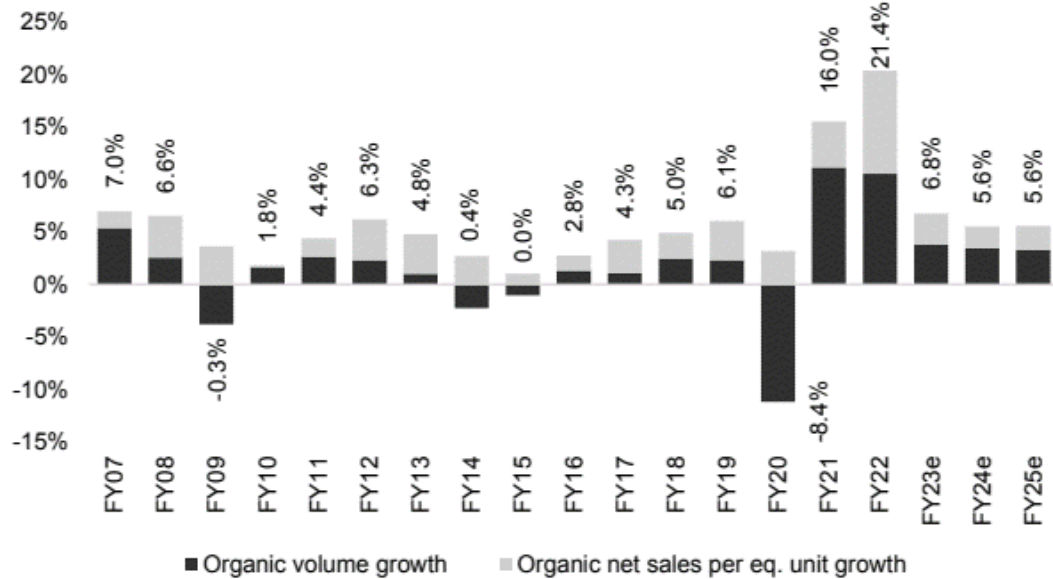
Income Statement (£ mn)

	6/22	6/23E	6/24E	6/25E
Total revenue	15,452.0	18,174.5	19,095.7	19,975.2
Total operating expenses	-	-	-	-
R&D	-	-	-	-
Other operating inc./exp.)	-	-	-	-
EBITDA	5,703.0	6,401.9	6,952.4	7,425.9
Depreciation & amortisation	(906.0)	(727.0)	(763.8)	(799.0)
EBIT	4,797.0	5,674.9	6,188.6	6,626.9
Net interest inc./exp.)	(422.0)	(496.6)	(569.2)	(595.6)
Income/(loss) from associates	417.0	471.8	517.4	558.8
Profit/(loss) on disposals	-	-	-	-
Total other net	-	-	-	-
Pre-tax profit	4,792.0	5,650.1	6,136.8	6,590.1
Provision for taxes	(1,080.0)	(1,327.8)	(1,460.5)	(1,581.6)
Minority interest	(192.0)	(215.0)	(232.2)	(248.5)
Preferred dividends	-	-	-	-
Net inc. (pre-exceptionals)	3,520.0	4,107.3	4,444.0	4,760.0
Post-tax exceptionals	(271.0)	(90.0)	(90.0)	(90.0)
Net inc. (post-exceptionals)	3,249.0	4,017.3	4,354.0	4,670.0
EPS (basic, pre-exception) (p)	151.86	181.33	199.72	217.44
EPS (basic, post-exception) (p)	140.16	177.36	195.68	213.33
Wtd avg shares out. (basic) (mn)	2,318.0	2,265.0	2,225.1	2,189.0

* Value Line using FY22 results and VL's projections for FY27

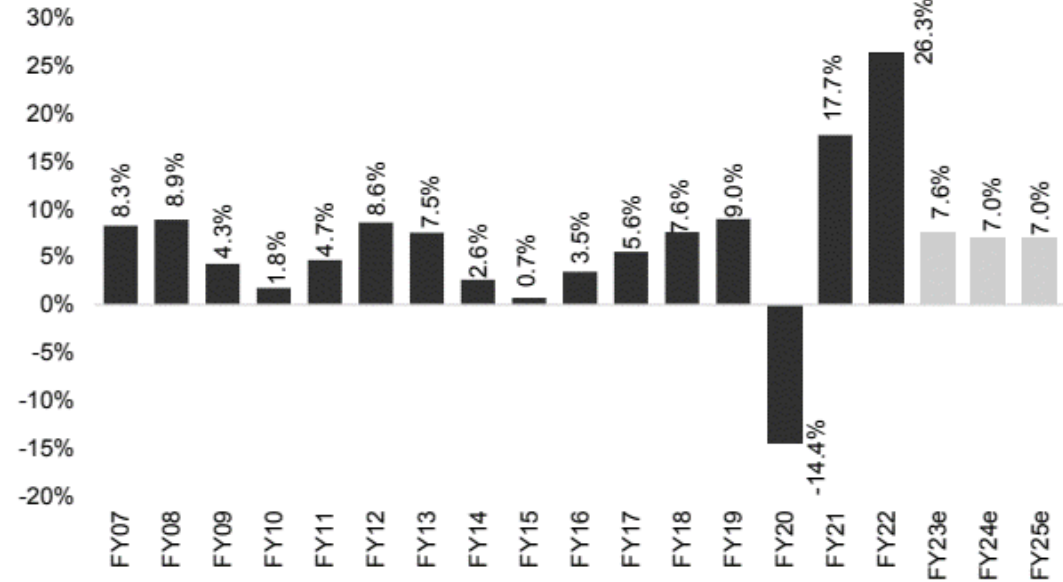
Goldman Sachs

Exhibit 1: We forecast c.6% organic sales growth in the mid-term
Organic sales growth



Source: Company data, Goldman Sachs Global Investment Research

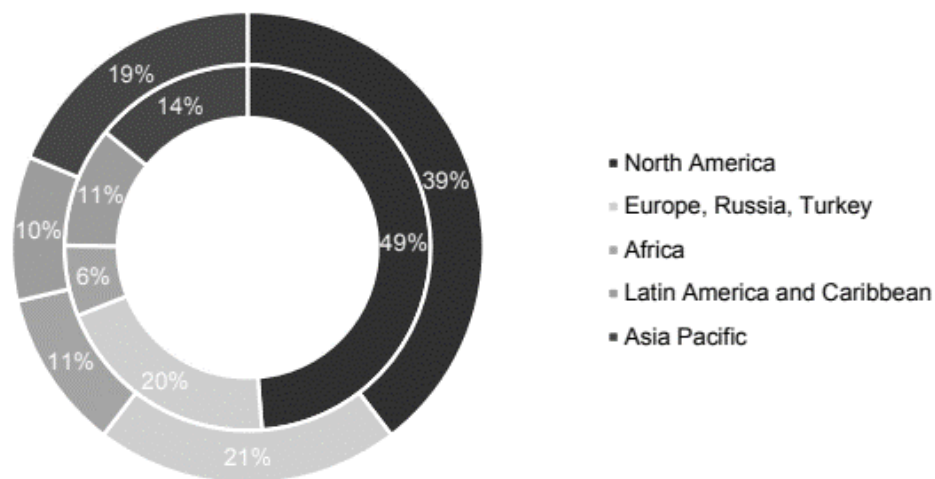
Exhibit 2: We forecast c.7% organic EBIT growth in the mid-term
Organic EBIT growth



Source: Company data, Goldman Sachs Global Investment Research

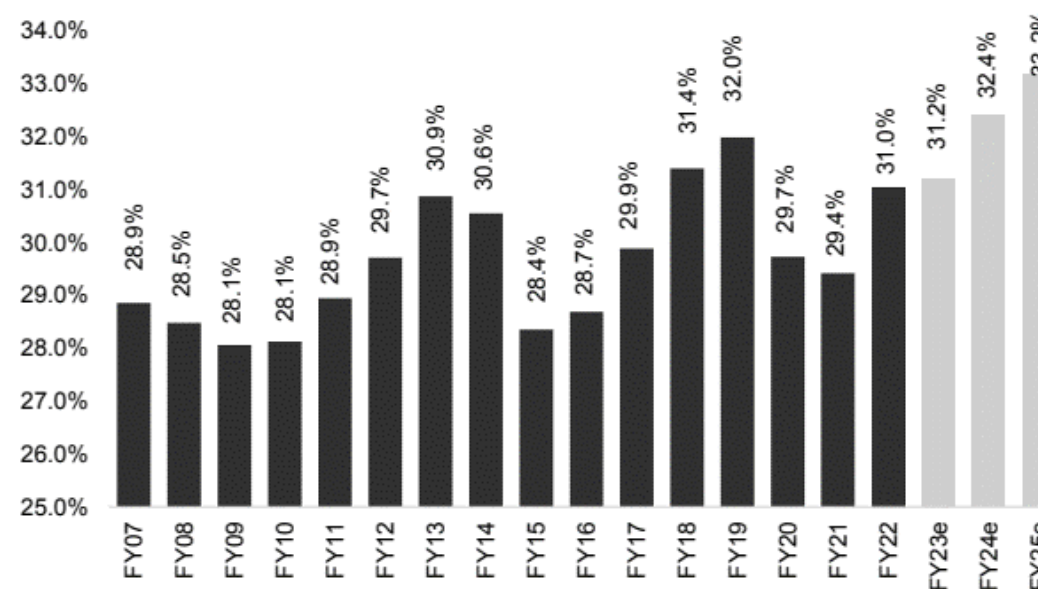
Goldman Sachs

Exhibit 3: North America accounts for 39% of sales and 49% of EBIT
Diageo sales (outer circle) / EBIT (inner) split by region, FY22



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: We forecast that EBIT margin will reach c.33% by FY25
EBIT margin



Source: Company data, Goldman Sachs Global Investment Research

Goldman Sachs

Top Diageo Brands

Global Giants	Reserve	Local Stars
37% of Sales	27% of Sales	19% of Sales
Johnnie Walker	Don Julio	Crown Royal
Guinness	Casamigos	Shui Jing Fong
Smirnoff	Scotch Malts	McDowell's
Baileys	Ciroc Vodka	Buchanan's
Captain Morgan	Ketel One	JeB
Tanqueray	Bulleit	Old Parr
Local Stars		Black & Whie
		Yeni Raki
		Windsor
		Bundaberg
		Ypioca

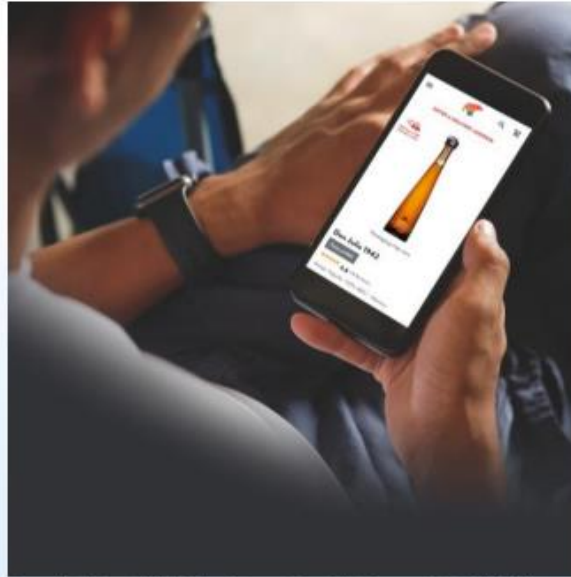
OPENING SESSION

E-commerce

#1 on Amazon
in Europe

#1 on Drizly
in the US

26% of Whisky
RSV on Tmall



DIAGEO 26 | Capital Markets Day 2021

Sources: ¹Edge by Ascential Market Share Data covering Great Britain, Germany, Spain, Italy (H1 F21);
²Drizly reported data to Diageo; ³Smartpath

* Highly Confidential Diageo Recipients Only *

Another consumer trend that has accelerated meaningfully during the pandemic is e-commerce. By increasing the visibility and ease of purchase for our brands online, we have driven strong performance with some of our largest e-commerce customers.

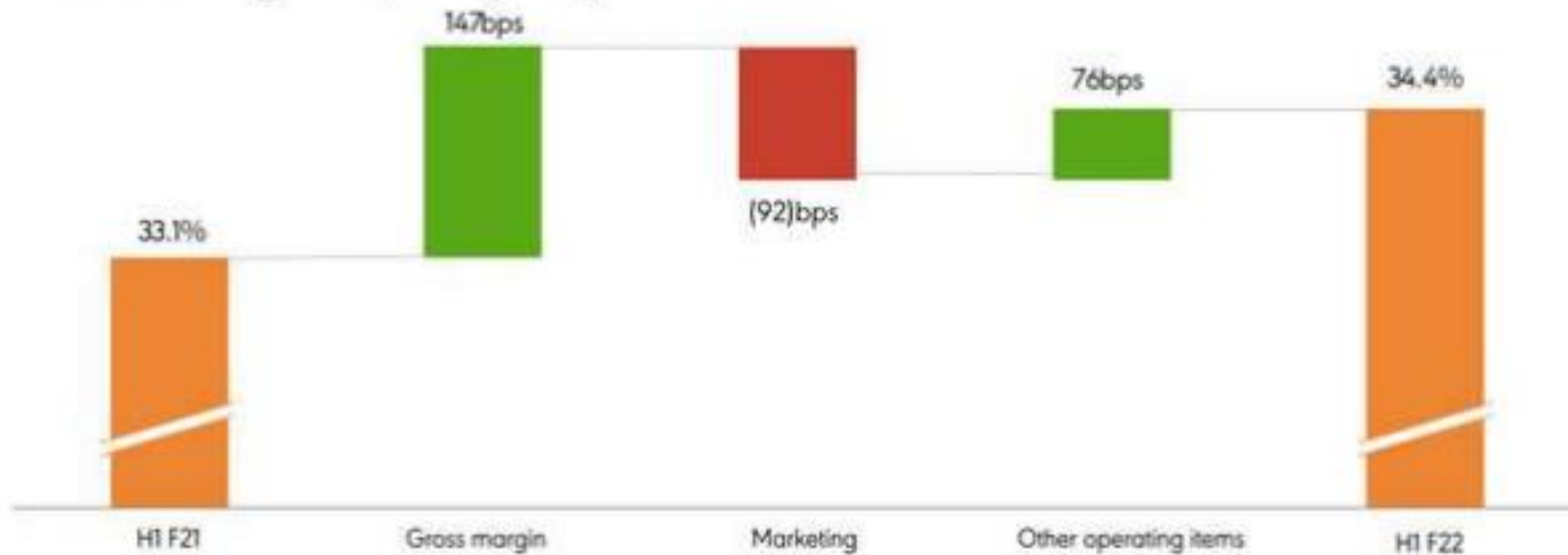
Diageo is the number one in spirits retail sales on Amazon in Europe, the number one in spirits retail sales on Drizly in the US, and in China, we've maintained our leadership in whisky with a 26% share of whisky retail sales on Tmall. In addition to building on our partnerships with e-retailers and traditional trade channels, we are also developing our own e-commerce channels. In fiscal 21, we launched nine new sites, bringing the total to 28. In our measured markets, including China, the UK and Germany in F21 we grew our spirits e-commerce share by almost two percentage points.

Company History

- <https://www.diageo.com/en/our-business/our-history>

Strong improvement in operating margin despite increased cost inflation and upweighted marketing

Movement in organic operating margin



Foreign Exchange

- **The company is benefiting from foreign exchange translations while others suffer**

Highlight on the USA Spirits market (35% of group sales in FY21)

The US accounted for 35% of Diageo sales and 45% of group EBIT in FY21. We estimate that c.62% of Diageo's products in the US are imported from Mexico, Canada, Europe or the UK. For Diageo's US portfolio, we estimate that 53% of COGS are linked to products which are imported. *Crown Royal*, Diageo's largest brand in the US, is produced in Canada; *Johnnie Walker* and *Tanqueray* gin are produced in the UK in GBP; *Ketel One* (Netherlands), *Ciroc* (France), and *Baileys* (Ireland) all have COGS denominated in EUR. Diageo's US tequila portfolio – *Don Julio* and *Casamigos* – accounts for 19% of sales and is growing quickly. 47% of Diageo COGS in the US are denominated in USD and this relates to many brands that are produced in the US, the most significant of which are Smirnoff (10% of sales), Captain Morgan (8%) and Bulleit Whiskey (4%). Since 2018, Diageo has brewed beer in the US at its Baltimore brewery.

Given the weakness in GBP versus USD, EUR and most EM currencies, we expect Diageo's sales and EBIT to benefit from translational FX immediately in FY23 and from a transactional FX impact in FY24 as its hedges roll off over 12-24 months.

The US accounted for 35% of Diageo sales and 45% of group EBIT in FY21. We estimate that 47% of Diageo's COGS in the US are linked to products imported from Mexico, Europe or the UK.

Diageo has also the largest exposure to Scotch which accounts for 24% of group sales and c.37% of profit. With the UK only accounting for 6% of sales, the rest is exported and the weak GBP offers further transactional FX impact which Diageo could decide to reinvest in marketing.

We expect a £461m positive FX impact on FY23 EBIT using £/\$1.12x (vs. consensus £315m) and a further £93m transactional FX impact in FY24e (vs. consensus £33m) based on our model which is conservative.

**North America
40% OPM**

**Latin America & Car.
35% OPM**

**Europe
27% OPM**

**Asia Pacific
24% OPM**

**Africa
19% OPM**

Reported net sales by market (%)



- US Spirits
- DBC USA
- Canada
- Other (principally Travel Retail)

Reported net sales by market (%)



- PUB
- Mexico
- CCA
- Andean
- PEBAC
- Other (principally Travel Retail)

Reported net sales by market (%)



- Great Britain
- Northern Europe
- Southern Europe
- Ireland
- Eastern Europe
- Turkey
- Other (principally Travel Retail)

Reported net sales by market (%)



- India
- Greater China
- Australia
- South East Asia
- North Asia
- Other (principally Travel Retail Asia and Middle East)

Reported net sales by market (%)



- East Africa
- Africa Regional Markets
- Nigeria
- South Africa
- Other (principally Travel Retail)

Reported net sales by category (%)



- Spirits
- Beer
- Ready to drink
- Other

Reported net sales by category (%)



- Spirits
- Beer
- Ready to drink
- Other

Reported net sales by category (%)



- Spirits
- Beer
- Ready to drink
- Other

Reported net sales by category (%)



- Spirits
- Beer
- Ready to drink
- Other

Reported net sales by category (%)



- Spirits
- Beer
- Ready to drink
- Other

Revenue Breakdown by Category

Category	Diageo
Ready to Drink	4%
Rum	5%
Liqueurs	5%
Other	8%
Tequila	10%
Vodka	10%
Whiskey	13%
Beer	16%
Scotch	24%

Category	Brown-Forman
Tequila	9%
Vodka	3%
Whiskey	78%
Wine	6%
Non-Branded and Bulk	2%
Rest of Portfolio	2%

Category	Pernod Ricard
Specialty Brands	6%
Strategic International Brands	63%
Strategic Local Brands	18%
Strategic Wines	5%
Other	8%

Category	Beck's
Non-Alcoholic & Other	3%
Ready to Drink	11%
Non-Tequila	22%
Tequila	64%