



More capital. Less value per person.

Between FY19 and FY25, Diageo and Pernod Ricard each added about a quarter more real capital for every employee. Both got less real gross profit per employee in return.

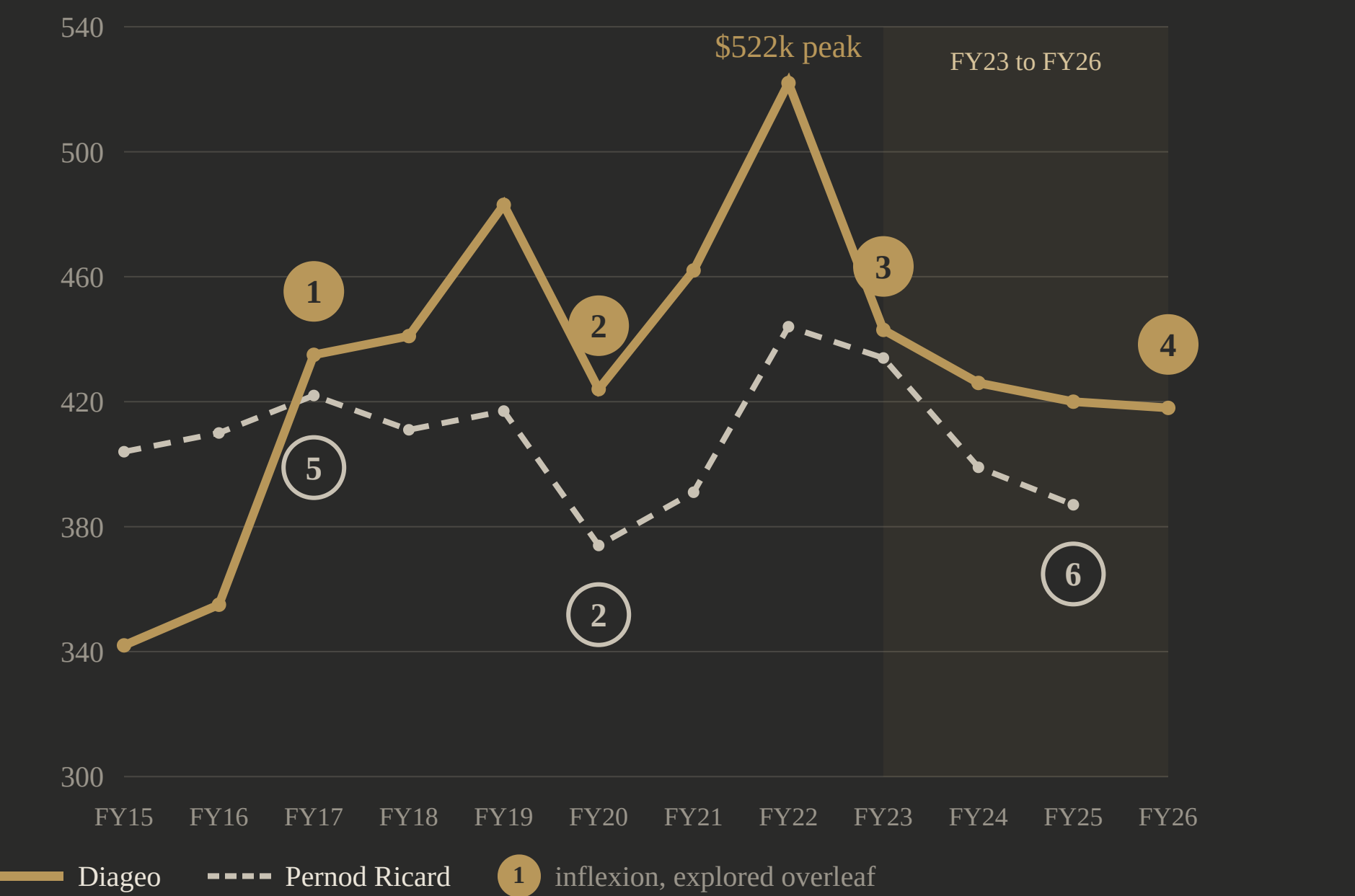
What did the investment cases assume?

Twelve years of published accounts, adjusted for inflation.



A decade in real terms

Gross profit per head in \$k, adjusted for inflation. Where the lines turn, something changed.



Back to the FY22 peak of \$522k would be worth about \$2.9bn more gross profit a year at FY26 headcount.

FY19 to FY25, real terms

Gross margin	×	Asset turnover	×	Capital per head	=	GP per head	
↓ 2.1 pts		↓ 28%		↑ 25%		↓ 13%	Diageo
↓ 2.0 pts		↓ 24%		↑ 26%		↓ 7%	Pernod Ricard



What is it worth?

From FY26: \$19.6bn of net sales, \$11.7bn of gross profit, 59.5% margin, \$16.6bn of capital, 1.18x turnover, 27,938 people, \$418k per head.

\$2.9bn

a year in extra gross profit if value per head returned to the FY22 peak of \$522k, at FY26 headcount

\$0.9bn

a year for a more modest target of \$450k per head

Lever	Worth	Effect per head
Gross margin +1 point	+\$196m gross profit a year	+\$7k per head
Asset turnover +0.1x, as more sales	+\$1.0bn gross profit a year	+\$35k per head
Asset turnover +0.1x, as less capital	\$1.3bn of capital released	per head unchanged
1,000 fewer people, same gross profit	no change to gross profit	+\$16k per head

No single lever reaches the peak. Margin +1pt, turnover +0.1x and 1,000 fewer people together give about \$490k. Margin 61%, turnover 1.35x and 26,000 people reach it.

In reverse: what new capital must earn

To hold value per head, every \$1 of net new capital needs to generate about \$1.18 of sales and \$0.70 of gross profit a year. Guinness’s \$920m therefore needs about \$1.1bn of annual sales once the capacity is used; the \$700m going into maturing stock needs about \$0.8bn. With inflation near 3%, gross profit must grow about that much a year just to stand still in real terms.



What we know. What to ask.

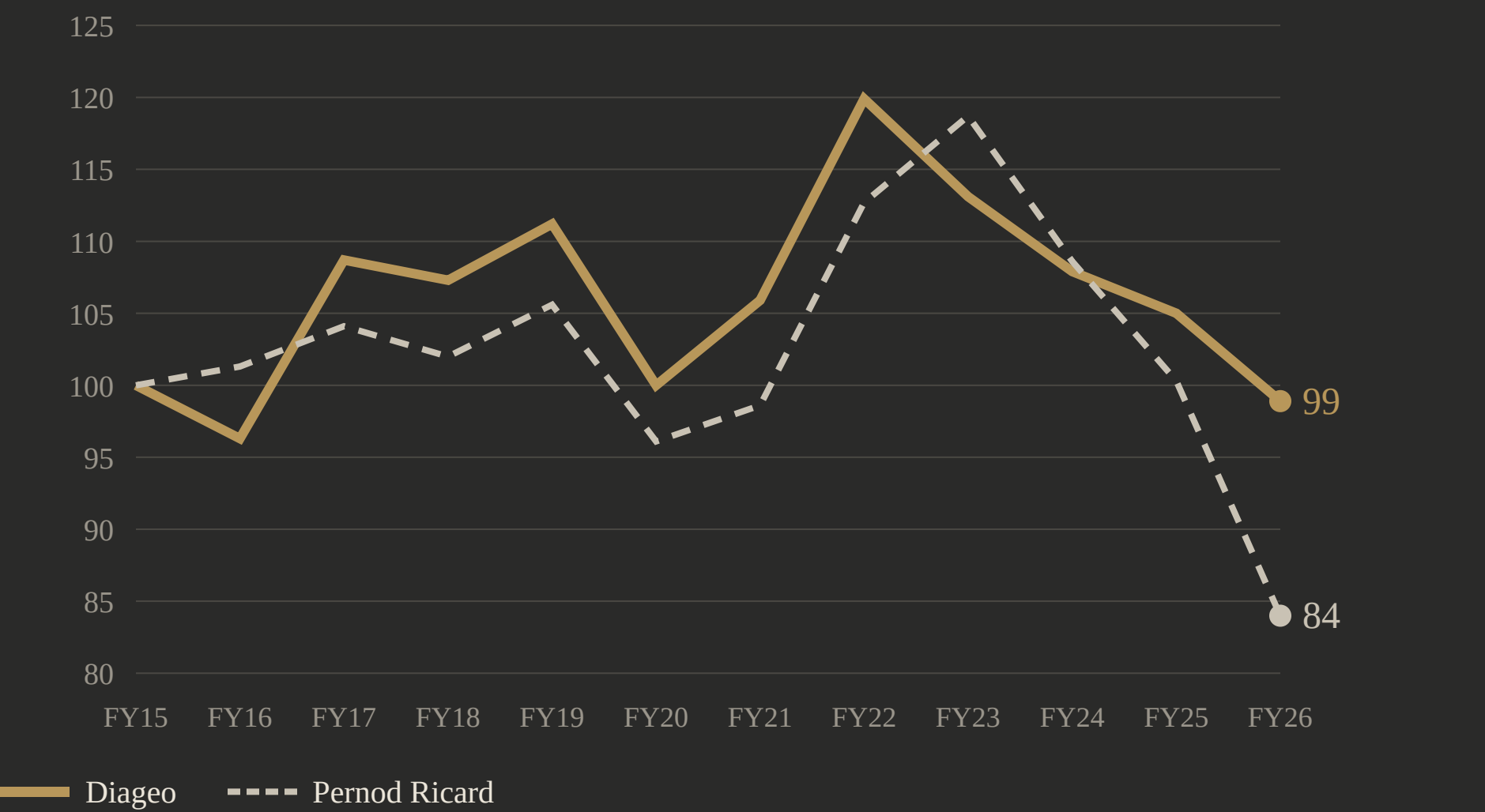
The accounts show where it turned. Some of why is public. The rest sits inside.

		Public record	Ask internally
1	Diageo, FY17 Up 23%	Sterling fell after the 2016 referendum, lifting sterling-reported results. Headcount down 5%.	<i>How much was underlying productivity, and what actually changed in how work was done?</i>
2	Both, FY20 Down 12% and 10%	Covid closed the on-trade.	<i>Which losses were reversible, and which exposed something structural?</i>
3	Diageo, FY23 Down 15%	FY22 was lifted by restocking and pricing. About 2,250 FTEs added as 5–7% growth was guided.	<i>What were the new roles hired to deliver, and against which assumption?</i>
4	Diageo, FY23–26 Flat at ~\$420k	US slowdown; forecasts ran ~10% too high. FY26 inventory provision, mainly North American maturing stock.	<i>Which approval conditions were tripped, when, and who saw them?</i>
5	Pernod, FY15–19 Flat at ~\$415k	Headcount and capital held steady.	<i>Was stability a deliberate choice or a default?</i>
6	Pernod, FY22–25 Down 13%	Cognac weakness in China, US destocking. Investment tapered from FY25.	<i>What triggered the taper, and was that trigger set at approval?</i>



Margin held. Real sales didn't.

Net sales adjusted for inflation, indexed to FY15 = 100.



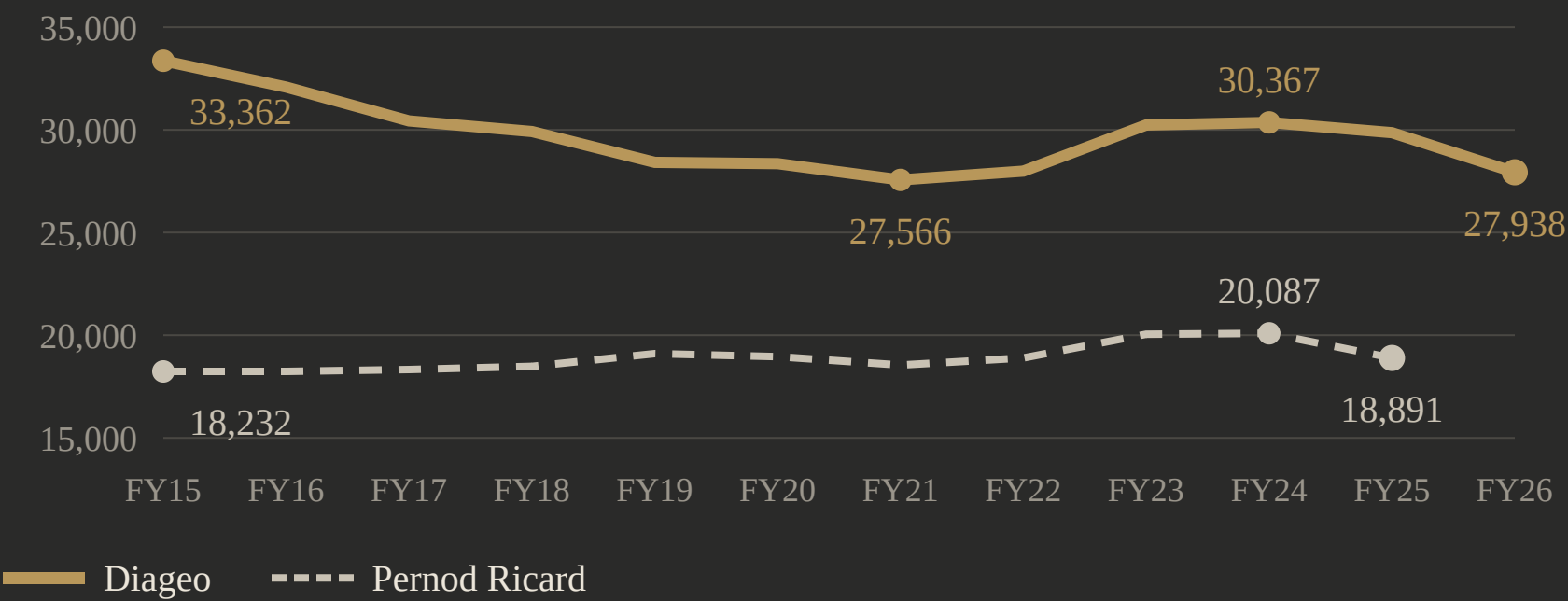
Gross margin	FY15	FY19	FY22	FY25	FY26
Diageo	57.4%	62.2%	61.3%	60.1%	59.5%
Pernod Ricard	60.2%	61.5%	60.5%	59.5%	58.4%

Margins stayed within a few points. In nominal terms Diageo grew about a third; in real terms it's back where it started, and Pernod is 16% below. The problem isn't value capture.



More from less. Then less from more.

Average headcount. Axis starts at 15,000.



Cycle	Headcount	Real GP	GP per head	What it looks like
Diageo				
FY15–19	–15% –4,942 people	+21%	+41%	More from less
FY19–25	+5% +1,440 people	–9%	–13%	Less from more
FY25–26	–6% –1,922 people	–7%	Flat	Less from less
Pernod Ricard				
FY15–19	+5% +866 people	+8%	+3%	More from more
FY19–25	–1% –207 people	–8%	–7%	Less from less
FY25–26	n/a	–18%	n/a	Awaiting FY26 headcount

Diageo has done more from less before. Its FY26 cuts tracked the fall in value; most savings land in FY27–28. Pernod held its people while value fell.

Whatever the cycle: what share of roles drive revenue, and is it rising?

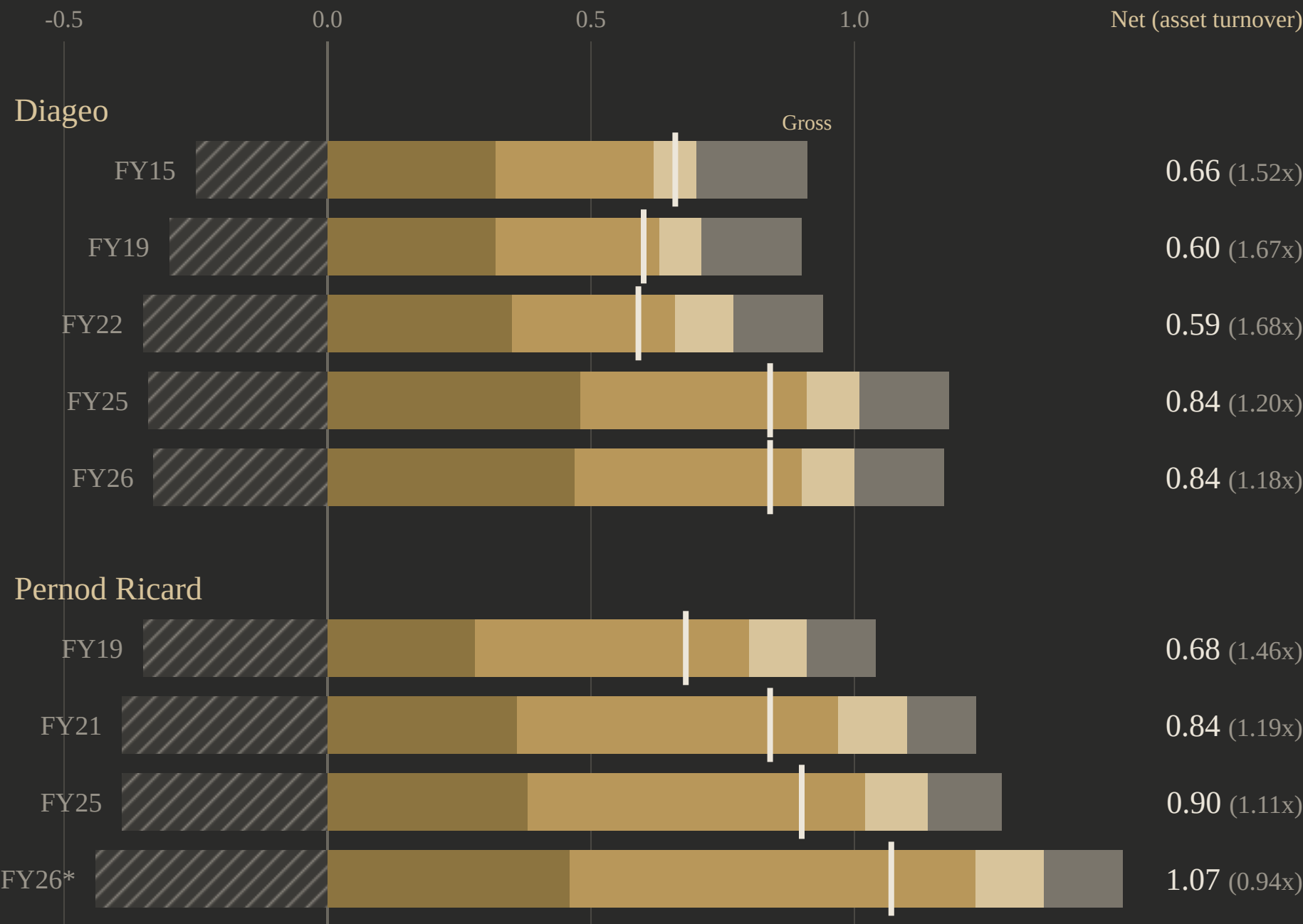


Where the capital went

Tangible capital per unit of net sales, broken into its parts.

■ PP&E ■ Ageing stock ■ Other inventory ■ Receivables ▨ Payables (offset)

White line: net capital after payables ($1 \div \text{asset turnover}$)



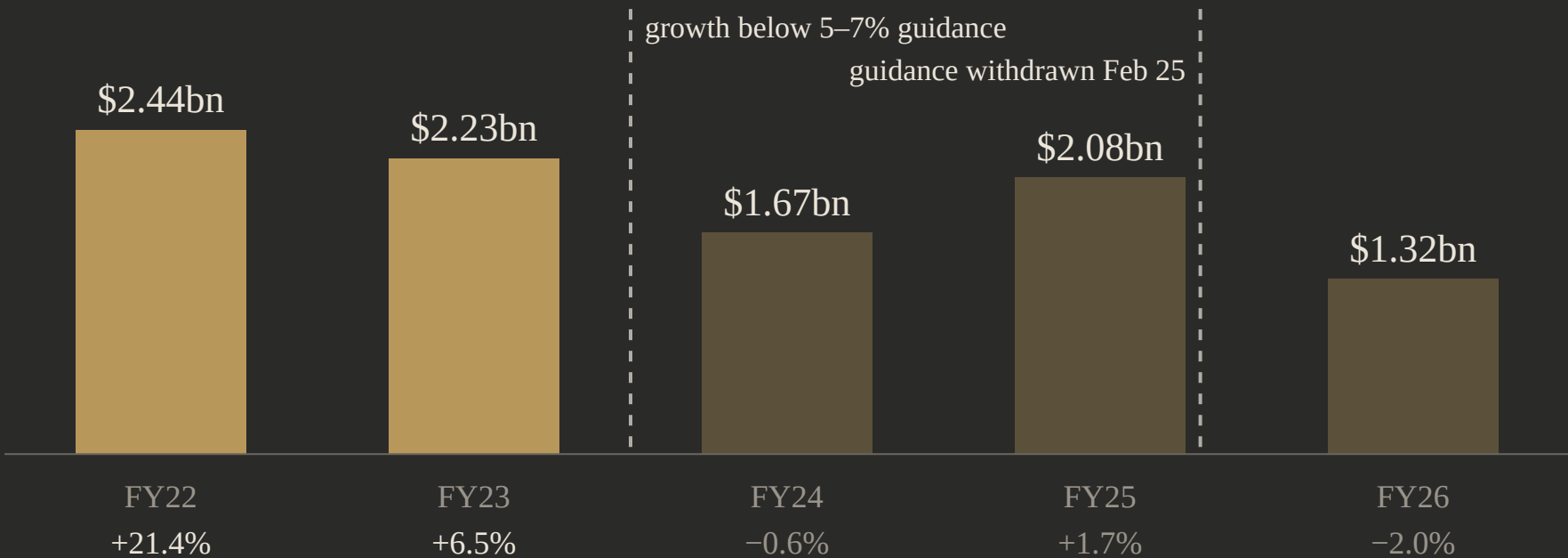
Diageo leaned out for seven years, then added 0.25 of capital per dollar of sales in three. Pernod’s ageing stock rose from half of sales to three-quarters.



Same miss. Different responses.

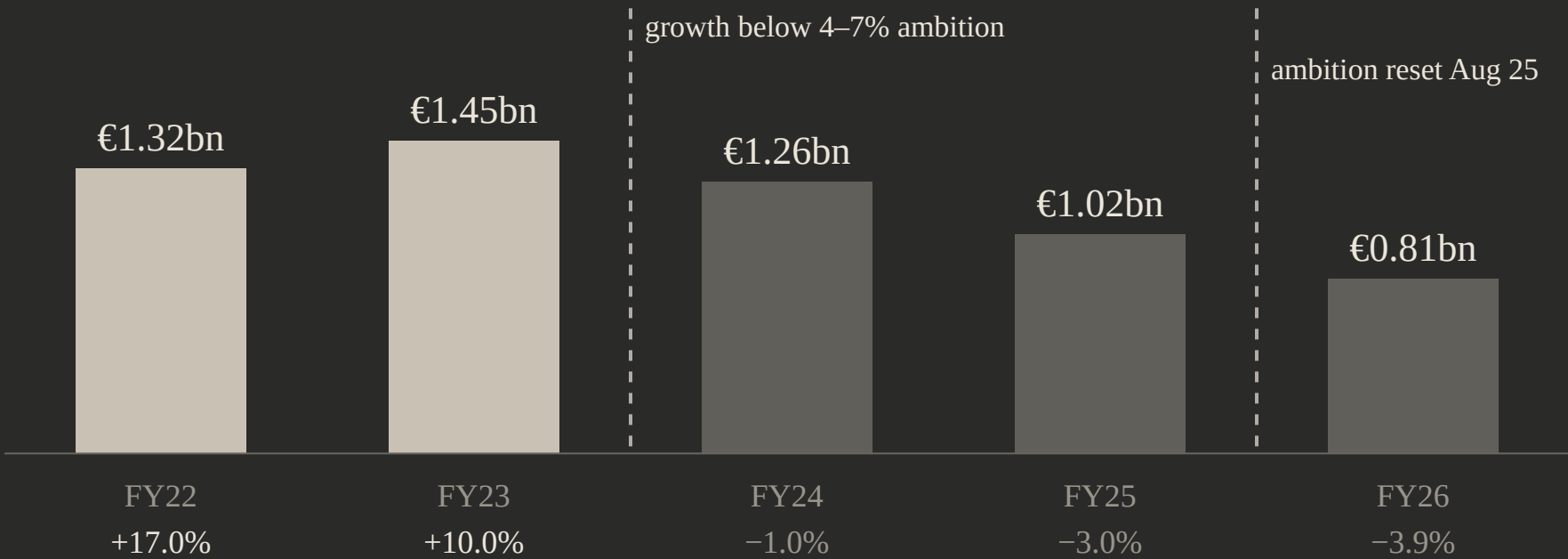
Cash invested in capacity and stock. Faded: growth below guidance.

Diageo



Investment dipped in FY24, rose again in FY25 while guidance still stood, then fell 37% in FY26. Fills are now reviewed monthly to twice yearly.

Pernod Ricard



Investment held through FY24 as planned, then tapered from FY25, before the ambition was reset. FY26 was 44% below the FY23 peak.

Was the exit trigger designed in at approval, or discovered later?



The right cycle. Now make it learned.

Diageo’s turnaround plan, mapped to the terms that drive gross profit per head.

Term	The plan	Our read	To ask
Gross margin	Broader portfolio; 60%+ margin held through mix, volume and productivity	Price pilots grew volume 26% but gross profit 5%	<i>Does volume-led growth raise GP per head, or just fill capacity?</i>
Asset turnover	Barrel fills cut by over half; stock days under 85 by FY28; sites impaired	The flow is fixed; the stock remains	<i>With maturing stock at ~0.45 of sales, when does turnover recover?</i>
Capital per head	\$920m for 50%+ more Guinness capacity by FY29	High return today, but only Irish-brewed markets can fill it	<i>What are the success criteria, and what is plan B if rate of sale falls short?</i>
Headcount	Overheads from over 14% to 10.5% of sales; more customer-facing roles	The functionality shift is under way	<i>Will the share of revenue-driving roles be reported?</i>

~0.45

Maturing stock as a share of sales through FY29 on Diageo’s own plan. The capital returns through sales, not the balance sheet.

3% vs 1.5%

US inflation against guided organic growth. Real sales decline unless share gains beat the plan.



Is this the cycle you chose?

Every business moves between building capacity and making it productive. Building ahead of demand is a legitimate choice. The risk is committing capital without a way to tell when the assumptions have stopped holding.

An investment health check, for every proposal

- 1 What will it do to gross margin, asset turnover, capital per head and headcount?
- 2 By when, and on which assumptions: growth, rate of sale, price?
- 3 What does success look like, and which signal, sustained over what period, says it isn't coming?
- 4 What is plan B, and how much can be slowed, redeployed or reversed?

Diageo's new FY27 guidance names its assumption: a North American market down about 3%. Stated assumptions can be tracked.

What would tell you it's time to leave the cycle?

Bought, or learned?

Method. Gross profit per head = gross margin × asset turnover × tangible operating capital per head. Tangible operating capital = PP&E (incl. biological assets) + inventories + trade receivables – trade and other operating payables.

Sources. Diageo Form 20-F FY16–FY26 (sterling to FY22, joined at FY22 restatement) and 2026 Capital Markets Day; Pernod Ricard Registration Documents FY16–FY25 and FY26 results release. Real terms: US CPI-U (BLS) for Diageo, EU HICP (Eurostat) for Pernod, fiscal-year averages in FY26 prices; FY25–26 European inflation estimated. Pernod converted to US dollars at \$1.09/€ for level comparisons; gross margin is after logistics costs; FY15–17 adjusted for IFRS 15. Reported figures include disposals and currency effects.