

<b>Company: DIAGEO</b>		<b>Ticker: DEO Current Price: \$173.91</b>			<b>Industry:</b> Consumer Staples		
Target Price: 191.16 Stop Loss: 160.00 52 Week High/Low: 223.14/160.09	TTM P/E: 24.08 Forward P/E: 27.0 EPS: 6.57	Beta: 0.37 Credit Rating: A- Rating Outlook: A-			Market Cap: 99.98B Avg Vol: 3.25m Dividend Yield: 2.04		
<b>Company Background:</b>							
Diageo is a major distributor of premier alcoholic beverages with collections of brands from spirits and beers. The company leverages acquisitions, in order to gain traction within beverage types and revenue growth.							
<b>Industry Outlook:</b>							
Although inflation has negatively impacted many financially, consumers are still choosing to pay for luxury alcoholic brands served by Diageo. Experts suggest that even during a recession, alcohol sales will not be as volatile as others since consumer behavior points to influx in spending habits.							
<b>Investment Thesis:</b>							
We believe that Diageo is an undervalued stock and is a strong investment opportunity for the future. We believe this because Diageo is virtually recession proof, has strong revenue growth for 2022, and positive impacts from management programs.							
<b>Investment Risks:</b>							
Possible new lockdowns, Leveraging new and current companies, Inventory cost, Currency risk, Laws.							
<b>3-5 Takeaways from last quarter investor call transcripts</b>							
<ul style="list-style-type: none"> <li>Net sales in 2022 is £15,452b, 21.4% movement</li> <li>Operating profit in 2022 is £4,409m, 18.17% increasing than 2021</li> <li>Net cash from operating activities in 2022 is £3,935m, increase of £281m</li> <li>Acquired 21Seeds, a rapidly growing tequila brand, and Mezcal Union, an artisanal mezcal brand.</li> </ul> <p>They strategically disposed of Meta Abo Brewery in Ethiopia and Picon Brand and franchises in India.</p> <ul style="list-style-type: none"> <li>Increased basic EPS by 23.2% to 140.2 pence and increased recommended final dividend by 5% to 46.82 pence per share.</li> <li>Delivered strong cash generation through an increase in net cash flow through operating activities by £0.3b to £3.9b.</li> </ul>							
<b>Financial Performance</b>				<b>Discounted Cash Flow</b>			
	2020	2021	2022	2023 E	2024 E	2025 E	
Price/Earnings (x)	23.5	29.3	25.7	21.6	19.5	17.7	
Price/Book Value (x)	8.9	11.7	10.7	10.4	9.0	7.8	
Return on Assets (ROA) (%)	4.4	8.4	9.1	10.8	11.3	11.7	
Return on Equity (ROE) (%)	37.7	39.9	41.5	48.1	46.0	44.2	
Dividend Yield (%)	2.7	2.1	2.1	2.1	2.3	2.5	
				<b>Implied Share Price Calculation</b>			
				Sum of PV of FCF			24,090
				Growth Rate			4%
				WACC			5.2%
				Terminal Value			552,220
				PV of Terminal Value			429,188
				Enterprise Value			453,278
				(+ ) Cash			3,080
				(- ) Debt			20,032
				Equity Value			436,326
				Shares Outstanding (mm)			2273.0
				<b>Implied Share Price</b>			<b>191.96</b>
<b>Relative Valuation</b>				<b>Total Return %</b>			

	Price	Mkt Cap (M)	PE (NTM)	PEG (NTM)	ROE (%)
<b>Diageo ADR</b>	173.7	97,742.5	20.5	2.1	45.5
<b>Constellation Brands A</b>	243.4	44,919.6	20.0	2.1	1.0
<b>Brown-Forman B</b>	69.3	33,292.6	33.9	4.0	31.2
<b>Heineken</b>	89.7	51,661.0	16.3	1.0	21.1
<b>Anheuser-Busch InBev</b>	55.0	93,416.2	17.2	1.9	5.5
<b>Molson Coors Beverage B</b>	52.1	11,346.0	12.7	13.1	3.7
<b>Pernod Ricard</b>	191.3	49,143.2	18.6	1.7	13.0

ROA: 9.1%

ROE: 41.5%

	DEO	Consumer Staple	S&P 500
<b>YTD</b>	-20.3%	-4.6%	-16.2%
<b>1 Year</b>	-14.4%	0.5%	-14.8%
<b>Last 2 Years</b>	13.2%	8.9%	11.3%
<b>Last 5 Years</b>	29.0%	34.3%	54.8%