# Table of Contents

<table>
<thead>
<tr>
<th>Investment Thesis</th>
<th>Fundamental Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market - Europe</td>
<td>Comparative Analysis</td>
</tr>
<tr>
<td>Market - UK</td>
<td>Valuation</td>
</tr>
<tr>
<td>Company Overview &amp; History</td>
<td>SWOT</td>
</tr>
<tr>
<td>Governance</td>
<td>Proposal</td>
</tr>
</tbody>
</table>
Investment Thesis
Given the more stable macroeconomic environment in Europe coupled with the positive outlook of the beverage industry in Europe, we believe that Diageo is strategically positioned to take advantage of strong EPS growth, operating margin improvement, and tactical pivots of its business in areas where operations can become more profitable.
Market - Europe
European Market

Global Diversification is Important
Performance cycles don’t last forever

Periods of EAFE and U.S. outperformance
Cumulative Performance, MSCI EAFE, MSCI USA

Euro fundamentals are at their best since 2011
The European recovery is on more solid footing

Eurozone composite PMI vs. GDP
Real GDP q/q saar (left), PMI Index level (right)
Cyclical Rebound

Global economic activity is increasingly solid and broad-based.

**Earnings revisions have been stable in Europe**

**Europe’s revenue exposure is the most global...**

Domestic Sales Exposure

- S&P 500
- Japan
- Asia Pacific
- STOXX Europe 600

**... whilst the domestic economy is also thriving**

Contribution to Eurozone real GDP growth, % change year-over-year

Sources: JPMorgan, IBES, Datastream, Haver. Data as of July 17.
Operating Leverage

Revenue momentum, combined with cyclical and structural tailwinds, can lead to significant operating leverage.

**The Gap between US and European margins has widened:**

Net income margins, in all cases excluding financials

Sources: Goldman Sachs Global Investment Research Data as of May 2017
Revenue momentum, combined with cyclical and structural tailwinds, can lead to significant operating leverage.

**Operating leverage in Continental Europe:**
Ratio of pretax income growth to revenue growth

4.5%

- EM
- US
- UK
- Continental Europe

2.25%

0%

1990 through 1999

2000 through 2009

2010 through 2017

Sources: Empirical Research. Data as of February 2017
Valuations are slightly above historical average but...

Price to earnings ratio

Stoxx 600 12months forward multiple

By 2018, U.S. earnings are expected to be 35% above their prior peak level.
In Europe, they will be 5% below.

Sources: IBES, Bloomberg, JPMorgan Private Bank. As of July 17. *ECB=European Central Bank
Market - UK
The pound is at its lowest value since the 1985 Plaza Accord intervention

GBP is now structurally cheap
UK/US FX rate adjusted for inflation

Source: Bruegel, J.P. Morgan Private Bank Economics, 6/29/2017
The weakness in the pound (GBP) is stimulating exports...

UK & Euro Area export orders
% balance

The UK labor market remains tight and is putting upward pressure on wages

UK labor market tighter than pre-crisis
UK Employment rate (16 yrs +), %

Tight labor market stimulating wage growth
Weekly earnings, 16qtr % change annualized

Source: J.P. Morgan Private Bank Economics, 5/31/2017
Europe is beginning to show signs of improvement

Inflation showing signs of life
18m % change annualized

Source: EUROSTAT, J.P. Morgan Private Bank Economics. 8/30/2017
There are signs of drastic economic improvement...

The Euro area is now firing on all cylinders...
New vehicle registrations, % YoY, 3m ma

...and boosting expectations for growth
Bloomberg 2017 consensus Real GDP growth, % YoY
Company Overview & History
Diageo is a British global leading producer and distributor in beverage alcohol, with an unmatched collection of premium brands across liquor and beer
  ○ Produce, Innovate, Market, Sell

- Owns two of the world’s largest spirits brands & 20 of the world’s top 100 spirits brands
- Anchored on 6 global spirits giants
  ○ 41% of net sales
- Local stars & global reserves
- Price tiers

Company Overview
● Market based business model - 21 markets
● Presence in over 180 countries
● Five regions:
  ○ N. America (34.7%)
  ○ Europe (23.4%)
  ○ Africa (13.0%)
  ○ Latin Am (8.7%)
  ○ Asia Pacific (20.2%)
● Established footholds in key EM countries
Although a relatively young company, some Diageo brands have been around for centuries.
Governance
Governance

Ivan Menezes
CEO
CEO since 2013
Executive Director since 2012
Has held several senior level
positions within Diageo &
Guinness

Kathryn Mikells
CFO
CFO since 2015
Has held numerous executive
positions at various firms (Xerox,
ADT, Nalco and UAL Corp.)

David Cutter
President, Global Supply & Procurement
President since 2014
Has held several director level positions
within Diageo
Previous leadership experience at
Frito-Lay & SC Johnson
Fundamental Analysis
Historical Financial Highlights

- Organic Volume Growth +1.1%; Organic Net Sales Growth +4.3%
- Organic Operating Margin expansion +.37%
- Free Cash Flow 2.5 bn (GBP); up 566m
- EPS up 21%
- Raising F17-F19 organic operating margin objective +1.75%
- Share buy-back of up to 1.5 bn (GBP) in F18
4.3% ORGANIC NET SALES GROWTH

Organic volume growth
1.3% 1.1%
(1.3)%

Price/Mix
1.3% 1.5% 3.2%

Organic net sales growth
2.8% 4.3%
0.0%

DIAGEO

F17 FOCUS AREAS:
CONTINUOUS IMPROVEMENT IN SCOTCH AND US SPIRITS. INDIA PERFORMANCE AS EXPECTED

Organic net sales growth
Scotch: 4.7% 3.1% 0.4%
US Spirits: 3.4% 4.7% 1.9%
India: 5.3% 3.4% 1.9%

DIAGEO

SCHOOL OF BUSINESS INVESTMENT PROGRAM
Breakdown of Revenue

ALL REGIONS DELIVERED TOP LINE GROWTH

DIAGEO

Organic net sales growth

<table>
<thead>
<tr>
<th>Region</th>
<th>Price/Mix</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAM</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>ERT</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>AFRICA</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>LAC</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>APAC</td>
<td>3%</td>
<td>-1%</td>
</tr>
<tr>
<td>DIAGEO</td>
<td>4%</td>
<td>1%</td>
</tr>
</tbody>
</table>

BROAD BASED GROWTH ACROSS OUR CATEGORIES

DIAGEO

Organic net sales growth

<table>
<thead>
<tr>
<th>Category</th>
<th>Price/Mix</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotch</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Vodka (4)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NAM Whiskey</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Rum</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Liqueurs</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>IMFL Whisky</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Gin</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Tequila</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>Beer</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

Category as a % of net sales

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotch</td>
<td>25%</td>
</tr>
<tr>
<td>Vodka (4)%</td>
<td>12%</td>
</tr>
<tr>
<td>NAM Whiskey</td>
<td>9%</td>
</tr>
<tr>
<td>Rum</td>
<td>7%</td>
</tr>
<tr>
<td>Liqueurs</td>
<td>5%</td>
</tr>
<tr>
<td>IMFL Whisky</td>
<td>5%</td>
</tr>
<tr>
<td>Gin</td>
<td>5%</td>
</tr>
<tr>
<td>Tequila</td>
<td>3%</td>
</tr>
<tr>
<td>Beer</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>16%</td>
</tr>
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</table>
Financial Estimates
Comparative Analysis
Performance of the Alcoholic Beverage Industry
Competitors
## Metrics for Competitors

<table>
<thead>
<tr>
<th>Peer Valuation Analysis</th>
<th>Ticker</th>
<th>Fiscal Year Mkt Cap (Smn)</th>
<th>EV/EBITDA</th>
<th>P/BV</th>
<th>P/E</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local peers</td>
<td></td>
<td></td>
<td>FY18E</td>
<td>FY19E</td>
<td>FY18E</td>
<td>FY19E</td>
</tr>
<tr>
<td>Pernod-Ricard SA</td>
<td>PERP.PA</td>
<td>2016/6</td>
<td>36,671</td>
<td>14.2x</td>
<td>13.3x</td>
<td>2.0x</td>
</tr>
<tr>
<td>Remy Cointreau SA</td>
<td>RCOP.PA</td>
<td>2017/3</td>
<td>5,543</td>
<td>15.3x</td>
<td>13.9x</td>
<td>3.5x</td>
</tr>
<tr>
<td>Campari</td>
<td>CPRLMI</td>
<td>2016/12</td>
<td>8,627</td>
<td>16.0x</td>
<td>14.6x</td>
<td>n/a</td>
</tr>
<tr>
<td>Stock Spirits</td>
<td>STCK.L</td>
<td>2016/12</td>
<td>431</td>
<td>8.2x</td>
<td>7.6x</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Global peers</strong></td>
<td></td>
<td></td>
<td>FY18E</td>
<td>FY19E</td>
<td>FY18E</td>
<td>FY19E</td>
</tr>
<tr>
<td>Constellation Brands</td>
<td>STZ</td>
<td>2017/2</td>
<td>38,869</td>
<td>15.5x</td>
<td>14.1x</td>
<td>4.7x</td>
</tr>
<tr>
<td>Suntory Beverage &amp; Food (2587)</td>
<td>2587.T</td>
<td>2016/12</td>
<td>15,189</td>
<td>9.1x</td>
<td>8.5x</td>
<td>2.3x</td>
</tr>
<tr>
<td>United Spirits Limited</td>
<td>UNSP.BO</td>
<td>2017/3</td>
<td>5,992</td>
<td>33.5x</td>
<td>26.8x</td>
<td>13.9x</td>
</tr>
<tr>
<td><strong>Diageo</strong></td>
<td>DGE.L</td>
<td>2017/6</td>
<td>80,855</td>
<td>15.9x</td>
<td>14.6x</td>
<td>6.0x</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td></td>
<td></td>
<td>15.4x</td>
<td>14.0x</td>
<td>4.1x</td>
<td>3.7x</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td></td>
<td></td>
<td>16.0x</td>
<td>14.2x</td>
<td>5.4x</td>
<td>4.5x</td>
</tr>
</tbody>
</table>
Valuation
SWOT Analysis
Strengths:
- Leading global producer of alcohol & spirits
- Diversified globally across 21 geographic markets
- Diversified across price tiers

Opportunities:
- Acquisition of Casamigos
- Growth in EM

Weaknesses:
- Large market share
- Strong growth in 2016

Threats:
- Regulation
- Price/Mix
Investment Proposal
Purchase 90 ADRs at $132.87
Total investment of $11,958.30
PORTFOLIO HOLDINGS AS OF AUGUST 21, 2017

- Target: 24.8%
- CVS: 9.2%
- Pitney-Bowes: 8.4%
- Web MD: 10.7%
- Andeavor: 15.2%
- Boston Scientific: 8.4%
- Nectar Energy: 9.2%

PRO FORMA PORTFOLIO HOLDINGS WITH DIAGEO

- Target: 17.8%
- CVS: 7.8%
- Pitney-Bowes: 5%
- Web MD: 8.4%
- Andeavor: 15.2%
- Boston Scientific: 9.2%
- Nectar Energy: 10.7%

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Questions?