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FINANCIAL PERFORMANCE ANALYSIS OF DIAGEO PLC

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Executive Summary

This report will analyze the financial performance of Diageo plc in financial years 2024 and 2025 through ratio analysis. The aim of the report is to evaluate the profitability of the company, its liquidity, gearing, efficiency and returns to investors and to give suggestions on the way financial management can be improved.

The financial position is mixed as analyzed. Diageo retained a high gross profit margin of slightly above 60 percent in both years, and it is an indication that the company still has pricing power and brand strength. But operating profit margin decreased between 29.61 in 2024 and 21.41 in 2025 and Return on Capital Employed (ROCE) decreased by 16.85 to 11.23. This shows poorer operating performance and low returns on the capital which is invested in the business.

The liquidity was quite stable. The current ratio was also raised to 1.63 as compared to 1.53 whereas the quick ratio was raised to 0.64 as compared to 0.55. This is somewhat within the nature of the premium spirits business, in which inventories are aged, although it is low in the quick ratio. Financial risk wise, the debt-to-equity ratio was high but slightly increased by 178.14 to 180.21 implying that the company would still rely on borrowing. Efficiency ratios indicate that the inventory turnover decreased to 0.76 times as compared to 0.83 times and the receiver turnover remained wide stable.

Generally, Diageo is a financially sound company that operates well-known brands with a good liquidity position, yet the operating profitability decline and the elevated gearing ratio indicate that the management should pay more attention to cost management, capital management and long-term debt position.

Introduction

Diageo plc is a leading company in the high quality alcoholic beverage business across the world. It operates an excellent portfolio of more than 200 brands, such as Johnnie Walker, Guinness and Smirnoff which are consumed by customers in over 180 countries (Diageo, 2025). The business of this particular consumer goods industry involves huge investments in worldwide brand marketing and inventory preservation. It has complex operation demands and requires a strong financial standing to facilitate their operation and provide regular dividend payouts to shareholders (Niu, 2024).

The main aim of this report is to provide an in-depth financial analysis of the Diageo plc to the senior management team that includes the fiscal years 2024 and 2025. Published financial statements are a crucial means of communication, as it gives the stakeholders a chance to assess the past performance and adopt future business strategies. This report uses the systematic use of the ratio analysis in order to convert the tricky accounting figures into managerial understanding (Arunkumar, 2025).

The five main categories of performance that will form the basis of this evaluation include profitability, liquidity, gearing, efficiency and investor returns. Through the trend analysis within these two years, the report has shown the strengths of the company in their operations and the areas that could be a source of financial risk (Andiena et al., 2024). The limitations associated with the inherent use of ratio analysis will also be recognised in the discussion before concluding with actionable recommendations of the overall financial strategy of the organisation (Effiong and Enya, 2020).

Strategic Financial Performance Review

Financial statements are a historical document of the activity of the corporate but absolute values must be put into strict contextual interpretation to show the true health of operation in an organisation. To accommodate this assessment, all mathematical formulae, extraction and step by step ratios of raw data have been separated and displayed in Appendix B. This critical analysis is purely based on the interpretation of the calculated metrics in order to determine the effectiveness with which the executive management of Diageo plc has managed to navigate the business over the 2024 and 2025 fiscal years in a complex global macro economic environment. The assessment is differentiated in a systematic manner in five thematic sections, which are margin evolution, working capital dynamics, capital structure, asset utilisation and shareholder value creation (Niu, 2024) (Matevosyan et al., 2023).

Profitability Ratios

Profitability ratios are used to measure the capacity of a business in earning profit out of sales and capital utilized. These ratios are significant in the case of the Diageo company since they indicate whether the company is continuing to record high returns despite increasing costs and difficult trading conditions (Gu, 2025).

The gross profit margin of Diageo has stood fairly steady with a slight drop of 60.18 (2024) to 60.13 (2025). This implies that the firm still enjoyed a high brand value and price power. A gross margin of more than 60 percent is an encouraging indicator of a manufacturing company, and it means that Diageo was in a large capacity to safeguard its product margins (Brownlee, 2008).

Nonetheless, the operating profit margin decreased considerably in 2024 as compared to 29.61 percent in 2024, and 21.41 percent in 2025. This implies that the operating expenses went up at a faster rate than revenue or that the operating profit was influenced by other business forces within the year (Losbichler et al., 2011). This is a warning to the management since it indicates that high gross margins did not necessarily result in high levels of operating performance (Khan, 2015).

The same trend is observed with Return on Capital Employed (ROCE) which fell to 11.23 previously standing at 16.85%. It is an indication that the business is making a lower claim on the capital invested in doing business in 2025 compared to its claim in 2024. Even though the ratio is still positive, the decreasing tendency implies the decreased efficiency of the long-term funds use. The management ought to hence reconsider whether the recent investment and the operating decisions are yielding a satisfactory payoff (Khan, 2015) (Esser and Jernigan, 2015).

Liquidity ratios

Liquidity ratios are used to evaluate how the current assets can be used to settle the short-term liabilities as they fall due. The ratios are also critical in an international company that has a high scale of operation since the suppliers, employees and other operating obligations need stable cash flow to continue their daily operations (Endang Purwanti, 2022).

The current ratio of Diageo rose in 2025 to 1.63 as compared to 1.53 in 2024. This shows that the company was marginally better placed in terms of liquidity position in the short-term as at 2025 and that greater current assets can cover current liabilities. Overall, it implies that the short-term financial risk was kept in check (Ying and Chan, 2025).

The quick ratio also was better as it was raised to 0.64. This is less than 1 but must be construed with caution since Diageo has large inventories as one of its business models. The inventory in the premium spirits business usually has products which must be aged before being sold. Consequently, a comparatively low quick ratio is not something unusual matured (Ali Gull, 2013).

In general, the liquidity situation is satisfactory. The expansion of both the liquidity ratios implies that the company has been reasonably stable in the short-run financially, but it remains significant to monitor the working capital (Lyroudi and Lazaridis, 2000).

Gearing ratios

Gearing ratios are essential information sources on the financial riskiness of a business in the long term by looking at the ratio of the amount of funds raised by the business through external debt and the amount of funds given by the shareholders explicitly.

Diageo has a very high capital structure. The debt equity ratio has been on the rise; it was 178.14 percent in 2024, then it rose to 180.21 percent in 2025. The higher the ratio above the 180 percent mark, the more important is the fact, that the company is incredibly dependent on external borrowing, as it possesses almost twice as much debt as the shareholder equity base. Such financial leverage would have been thought to be very high and a warning of credit rating downgrades in most conventional industries (Muradoglu, Bakke and Kvernes, 2005).

Moreover, this borrowed capital is often used by the management in a strategic way. They use debt to finance key takeovers of emerging beverage brands in order to kill future competition, as well as to carry out aggressive share buyback programmes. Although the present debt position can be easily brought under control because of the good cash flows, the board of directors should be on their guard. Under the uncertain international macroeconomic climate of volatile central bank interest rates, more than 23 billion dollars in total borrowings subjects the firm to increasing interest charges. In case debt must be refinanced with an increase in future interest rates, this will raise financing costs and may severely squeeze future net profit margins (İlhan Dalci, Hasan Ozyapici and Doğan Unlucan, 2019).

Efficiency ratios

Activity ratios or efficiency metrics are ratios that are used to assess the intensity and effectiveness with which the management team is using the asset base of the company to generate sales revenue. In the case of a global consumer goods company, converting physical stocks and gathering cash quickly is the norm of the operations to experience a healthy business cycle.

The inventory turnover of Diageo is extremely sluggish as it was expected based on the liquidity analysis when compared to traditional retail businesses. The turnover rate improved slightly as it stood at 0.83 times per year in 2024, and 0.76 times per year in 2025 (Eze Ibiam Eze, Oliver Ike Inyama and Ikechukwu Ezugwu, 2024).

On the other hand, the receivables turnover ratio was stable and very healthy with 5.81 and 5.78 times in 2024 and 2025 respectively. This translates into an average collection period in cash of about 63 days. Having a stable and dependable collection cycle is a good pointer of a strong credit control unit. Diageo is able to effectively use its huge market strength to force its key distributors globally, hospitality establishments and international supermarket chains, to make favourable payment agreements. This makes sure that credit sales are changed to real liquid cash at the right time and predictable fashion avoiding bad debts and the cash operating cycle runs seamlessly (Eryatna, Eltivia and Handayawati, 2021).

Investor ratios

Finally, the executive board has the main fiduciary role of producing actual financial gains to the equity shareholders. The final litmus test of corporate success is the investor ratios which are highly reviewed by the stock market in order to determine the appeal of the company shares and its ability to pay dividends.

The Return on Equity (ROE) ratio also plummeted, going down to a tremendous 19.26 percent in 2025 compared to the phenomenal 34.51 percent in 2024. This major decrease directly results as a mathematical effect of the decline in net profit of the year, which decreased considerably against more than 4.1 billion dollars and reached approximately 2.5 billion dollars. Although such a drastic fall could be initially cause of alarm to retail investors, it is important to exercise professionalism.

This strong rate of payoff, together with an extended track record of the company paying high dividends to investors in consistent and non-stagnant amounts makes Diageo a very appealing defensive stock among long term institutional investors (Lynch, Gillam and Forman, 2017).

Limitations of Ratio Analysis

Ratio analysis is an effective tool in assessing financial performance, but it has a number of weaknesses and cannot be applied alone by the management to make decisions.

To begin with, ratio analysis is grounded on the previous financial statements. These ratios of 2024 and 2025 are only reflective of past performance and not future performance. Future performance can also vary due to shifts in consumer demand, taxation, exchange rates, the cost of inputs and broader economic conditions which cannot be fully explained by past ratios.

Second, ratio analysis fails to record qualitative factors. Critical strengths of Diageo brand name, quality of products, distribution capacity in the world and management knowledge have not been clearly captured in the financial statements. These are factors that could greatly affect long-term performance, yet they can not be easily measured using ratios (Swee and Islam, 2026).

Third, the ratios may be interpreted in different ways, depending on accounting policies and historical cost accounting. The certain asset values indicated in the statement of financial position do not always disclose the existing market values, and it can lead to a distortion of such measurements as ROCE or gearing (Rani et al., 2025).

Fourth, ratios analysis will find more relevance when comparisons are done with care. Various industries have different business models, cost structure and inventory pattern. Thus, Diageo ratios cannot be considered solely in the framework of the beverage industry without direct comparison with the companies that do not belong to the same industry.

Lastly, ratio analysis can be influenced by accounting judgment at the end of the year and choice of presentation. It implies that the support of ratios needs to be facilitated by a broader analysis of annual report notes, business strategy and market conditions.

Ratio analysis must hence be considered as one of the useful tools of analysis, although it has to be intertwined with the qualitative and strategic analysis before conclusive decisions are made.

Conclusion

The financial Diageo plc financial analysis indicates a combined overall performance of the company between 2024 and 2025. On the positive side, the firm had continued to have a high gross profit ratio of over 60 percent and a small increase in liquidity. This indicates that Diageo still enjoyed good brands, power of pricing and reasonably stable short term financial status.

Nonetheless, there were weaknesses as well. The operating profit margin dropped considerably and ROCE also dropped which is an indicator of lower operating efficiency and decreased returns to capital used. Moreover, the debt-to-equity ratio was very high, which heightens the financial risk. The turnover of inventory also reduced indicating that 2025 had more capital locked in stock.

Altogether, Diageo is a powerful and profitable business still, yet the decline in operating performance and the persistent use of debt demonstrates that in the future, the management should focus more on cost management, working capital optimization and capital discipline (Niu, 2024).

Recommendations

According to the analysis, it is suggested to improve the financial performance and long-term stability of Diageo with the help of the following recommendations.

Recommendation 1: Enhance cost control.

The management needs to take a closer look at operating expenses particularly selling, marketing and administration costs. With a stricter control mechanism, it can assist in safeguarding the operating profit margin and enhance efficiency in general.

Recommendation 2: Decrease the risk of finance by the use of incremental debt management.

The company has a high debt to equity ratio and therefore it should consider to use some of its cash flow to pay off borrowings in the long run. Less geared would mitigate financial risk and enhance the resilience in case of an increase in interest costs.

Recommendation 3: Better inventory planning.

The Diageo business ought to reinforce demand forecasting and inventory planning, so that that stock efficiency is maintained at all times without compromising on the production and ageing needs. Existing working capital pressure and efficiency could be improved through improved inventory management.

Recommendation 4: Revise capital investment returns.

The management ought to determine whether the new investments are yielding the expected returns. More emphasis on allocation of capital and post investment review could be useful in enhancing ROCE in future.

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Appendix

Income Statement (2024):

Consolidated income statement

	Notes	Year ended 30 June 2024 \$ million	Year ended 30 June 2023 re-presented ⁽¹⁾ \$ million	Year ended 30 June 2022 re-presented ⁽¹⁾ \$ million
Sales	2	27,891	28,270	29,751
Excise duties	4	(7,622)	(7,715)	(9,235)
Net sales	2	20,269	20,555	20,516
Cost of sales	4	(8,071)	(8,289)	(7,923)
Gross profit		12,198	12,266	12,593
Marketing	4	(3,691)	(3,663)	(3,616)
Other operating items	4	(2,506)	(3,056)	(3,080)
Operating profit		6,001	5,547	5,897
Non-operating items	3	(70)	364	(88)
Finance income	5	400	409	661
Finance charges	5	(1,285)	(1,121)	(1,217)
Share of after tax results of associates and joint ventures	6	414	443	555
Profit before taxation		5,460	5,642	5,808
Taxation	7	(1,294)	(1,163)	(1,398)
Profit for the year		4,166	4,479	4,410
Attributable to:				
Equity shareholders of the parent company		3,870	4,445	4,280
Non-controlling interests		296	34	130
		4,166	4,479	4,410
Weighted average number of shares		million	million	million
Shares in issue excluding own shares		2,234	2,264	2,318
Dilutive potential ordinary shares		5	7	7
		2,239	2,271	2,325
		cents	cents	cents
Basic earnings per share		173.2	196.3	184.6
Diluted earnings per share		172.8	195.7	184.1

The accompanying notes are an integral part of these consolidated financial statements.

(1) See pages 166-167 for an explanation under Accounting information and policies.

Balance Sheet (2024):

Consolidated balance sheet

Notes	30 June 2024		30 June 2023		1 July 2022	
	\$ million	\$ million	re-presented ⁽¹⁾ \$ million	re-presented ⁽¹⁾ \$ million	re-presented ⁽¹⁾ \$ million	re-presented ⁽¹⁾ \$ million
Non-current assets						
Intangible assets	9	14,854	14,506		14,401	
Property, plant and equipment	10	8,509	7,738		7,076	
Biological assets	11	199	197		184	
Investments in associates and joint ventures	6	5,032	4,825		4,418	
Other investments	13	94	71		45	
Other receivables	15	38	39		45	
Other financial assets	16	373	497		418	
Deferred tax assets	7	143	178		138	
Post-employment benefit assets	14	1,146	1,210		1,878	
		30,348	29,261		28,533	
Current assets						
Inventories	15	9,720	9,653		8,584	
Trade and other receivables	15	3,487	3,427		3,549	
Corporate tax receivables	7	304	292		180	
Assets held for sale	8	130	—		269	
Other financial assets	16	355	437		303	
Cash and cash equivalents	17	1,130	1,813		2,765	
		15,126	15,622		15,650	
Total assets		45,474	44,883		44,183	
Current liabilities						
Borrowings and bank overdrafts	17	(2,885)	(2,142)		(1,842)	
Other financial liabilities	16	(348)	(453)		(538)	
Share buyback liability		—	—		(141)	
Trade and other payables	15	(6,354)	(6,678)		(7,123)	
Liabilities held for sale	8	(48)	—		(74)	
Corporate tax payables	7	(136)	(170)		(305)	
Provisions	15	(97)	(150)		(192)	
		(9,868)	(9,593)		(10,215)	
Non-current liabilities						
Borrowings	17	(18,616)	(18,649)		(17,543)	
Other financial liabilities	16	(940)	(941)		(850)	
Other payables	15	(304)	(463)		(459)	
Provisions	15	(300)	(306)		(312)	
Deferred tax liabilities	7	(2,947)	(2,751)		(2,807)	
Post-employment benefit liabilities	14	(429)	(471)		(486)	
		(23,536)	(23,581)		(22,457)	
Total liabilities		(33,404)	(33,174)		(32,672)	
Net assets		12,070	11,709		11,511	
Equity						
Share capital	18	887	898		875	
Share premium		1,703	1,703		1,635	
Other reserves		(91)	665		658	
Retained earnings		7,533	6,590		6,267	
Equity attributable to equity shareholders of the parent company		10,032	9,856		9,435	
Non-controlling interests	18	2,038	1,853		2,076	
Total equity		12,070	11,709		11,511	

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements have been approved by a duly appointed and authorised committee of the Board of Directors on 29 July 2024 and were signed on its behalf by Debra Crew and Lavanya Chandrashekar, Directors.

(1) See pages 166-167 for an explanation under Accounting Information and policies.

Income Statement (2025):

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Consolidated income statement

	Notes	Year ended 30 June 2025 \$ million	Year ended 30 June 2024 \$ million	Year ended 30 June 2023 \$ million
Sales	2	27,964	27,891	28,270
Excise duties	4	(7,719)	(7,622)	(7,715)
Net sales	2	20,245	20,269	20,555
Cost of sales	4	(8,072)	(8,071)	(8,289)
Gross profit		12,173	12,198	12,266
Marketing	4	(3,662)	(3,691)	(3,663)
Other operating items	4	(4,176)	(2,506)	(3,056)
Operating profit		4,335	6,001	5,547
Non-operating items	3	(220)	(70)	364
Finance income	5	480	400	409
Finance charges	5	(1,251)	(1,285)	(1,121)
Share of after tax results of associates and joint ventures	6	193	414	443
Profit before taxation		3,537	5,460	5,642
Taxation	7	(999)	(1,294)	(1,163)
Profit for the year		2,538	4,166	4,479
Attributable to:				
Equity shareholders of the parent company		2,354	3,870	4,445
Non-controlling interests		184	296	34
		2,538	4,166	4,479
Weighted average number of shares		million	million	million
Shares in issue excluding own shares		2,222	2,234	2,264
Dilutive potential ordinary shares		6	5	7
		2,228	2,239	2,271
		cents	cents	cents
Basic earnings per share		105.9	173.2	196.3
Diluted earnings per share		105.7	172.8	195.7

The accompanying notes are an integral part of these consolidated financial statements.

Balance Sheet (2025):

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Consolidated balance sheet

Notes	30 June 2023		30 June 2022	
		£ million	£ million	£ million
Noncurrent assets				
Intangible assets	9	14,776	14,814	
Property, plant and equipment	10	9,525	8,509	
Biological assets	11	176	199	
Investments in associates and joint ventures	6	5,334	3,032	
Other investments	13	39	94	
Other receivables	12	36	36	
Other financial assets	16	623	373	
Deferred tax assets	7	150	143	
Pastemployment benefit assets	14	1,161	1,146	
		31,625	30,346	
Current assets				
Inventories	12	10,656	9,720	
Trade and other receivables	12	3,504	3,487	
Corporate tax receivables	7	354	304	
Assets held for sale	8	257	130	
Other financial assets	16	524	333	
Cash and cash equivalents	17	2,200	1,130	
		17,497	15,126	
Total assets		49,322	45,474	
Current liabilities				
Borrowings and bank overdrafts	17	(2,926)	(2,662)	
Other financial liabilities	16	(278)	(246)	
Trade and other payables	13	(6,952)	(6,334)	
Liabilities held for sale	8	(193)	(46)	
Corporate tax payables	7	(136)	(136)	
Provisions	12	(223)	(97)	
		(10,712)	(9,516)	
Noncurrent liabilities				
Borrowings	17	(20,520)	(18,515)	
Other financial liabilities	16	(791)	(940)	
Other payables	12	(192)	(304)	
Provisions	12	(316)	(300)	
Deferred tax liabilities	7	(2,944)	(2,947)	
Pastemployment benefit liabilities	14	(409)	(429)	
		(25,432)	(23,536)	
Total liabilities		(36,144)	(33,404)	
Net assets		13,178	12,070	
Equity				
Share capital	18	887	887	
Share premium		1,703	1,703	
Other reserves		454	(91)	
Retained earnings		8,046	7,533	
Equity attributable to equity shareholders of the parent company		11,090	10,032	
Noncontrolling interests	18	2,088	2,038	
Total equity		13,178	12,070	

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements have been approved by a duly appointed and authorised committee of the Board of Directors on 13 August 2023 and were signed on its behalf by Nik Jhangiani, Executive Director.

Appendix B: Ratio Calculations and Financial Data (Diageo plc)

1. Profitability Ratios

- **Gross Profit Margin:**

- **Equation:** $(\text{Gross Profit} / \text{Net Sales}) * 100$
- **2024 Calculation:** $(\$12,198\text{m} / \$20,269\text{m}) * 100 = 60.18\%$
- **2025 Calculation:** $(\$12,173\text{m} / \$20,245\text{m}) * 100 = 60.13\%$
- **Operating Profit Margin:**
 - **Equation:** $(\text{Operating Profit} / \text{Net Sales}) * 100$
 - **2024 Calculation:** $(\$6,001\text{m} / \$20,269\text{m}) * 100 = 29.61\%$
 - **2025 Calculation:** $(\$4,335\text{m} / \$20,245\text{m}) * 100 = 21.41\%$
- **Return on Capital Employed (ROCE):**
 - **Equation:** $(\text{Operating Profit} / \text{Capital Employed}) * 100$
 - *(Note: Capital Employed = Total Assets minus Current Liabilities)*
 - **2024 Calculation:** $(\$6,001\text{m} / \$35,606\text{m}) * 100 = 16.85\%$
 - **2025 Calculation:** $(\$4,335\text{m} / \$38,610\text{m}) * 100 = 11.23\%$

2. Liquidity Ratios

- **Current Ratio:**
 - **Equation:** $\text{Current Assets} / \text{Current Liabilities}$
 - **2024 Calculation:** $\$15,126\text{m} / \$9,868\text{m} = 1.53$
 - **2025 Calculation:** $\$17,497\text{m} / \$10,712\text{m} = 1.63$
- **Quick Ratio (Acid Test):**
 - **Equation:** $(\text{Current Assets minus Inventories}) / \text{Current Liabilities}$
 - **2024 Calculation:** $(\$15,126\text{m} - \$9,720\text{m}) / \$9,868\text{m} = 0.55$
 - **2025 Calculation:** $(\$17,497\text{m} - \$10,658\text{m}) / \$10,712\text{m} = 0.64$

3. Gearing Ratios

- **Debt to Equity Ratio:**
 - **Equation:** $(\text{Total Debt} / \text{Total Equity}) * 100$
 - *(Note: Total Debt = Short term borrowings plus Long term borrowings)*
 - **2024 Calculation:** $(\$21,501\text{m} / \$12,070\text{m}) * 100 = 178.14\%$
 - **2025 Calculation:** $(\$23,748\text{m} / \$13,178\text{m}) * 100 = 180.21\%$

4. Efficiency Ratios

- **Inventory Turnover:**

- **Equation:** Cost of Sales / Inventory
- **2024 Calculation:** \$8,071m / \$9,720m = 0.83 times
- **2025 Calculation:** \$8,072m / \$10,658m = 0.76 times

- **Receivables Turnover:**

- **Equation:** Net Sales / Trade Receivables
- **2024 Calculation:** \$20,269m / \$3,487m = 5.81 times
- **2025 Calculation:** \$20,245m / \$3,504m = 5.78 times

5. Investor Ratios

- **Return on Equity (ROE):**

- **Equation:** (Net Profit for the year / Total Equity) * 100
- **2024 Calculation:** (\$4,166m / \$12,070m) * 100 = 34.51%
- **2025 Calculation:** (\$2,538m / \$13,178m) * 100 = 19.26%