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1. Executive Summary

Diageo's progress comes from a stable, defensive and strategic position as they steer innovation and performance towards a lower cost structure and growth in premium core and luxury super-premium brands (Kingham, 2017). Effective ratio analysis is maximised through good governance, consistent calculation methodology and appropriate due diligence around business strategy, economic factors and competitive market conditions. Historic ratios indicate Diageo are not particularly capital intensive or high-risk, but are borrowing and investing in assets in a cyclical nature, with a sensible ROCE ratio facilitating quickly payment of debt. Primary concerns involve short to mid-term cashflow and liquidity as finance activity outflows accelerate faster than operating activity inflows. With goals to improve market value, EPS and cost savings of 500m in Europe between 2017 and 2019 (Gerrard, 2017), Diageo should explore 20 recommendations across 10 internal focus areas. A cashflow and process emphasis will increase profit and retained earnings via stronger debtor & creditor control practices, better marketing efficiency, improved asset (stock) turnover, accelerations in asset productivity and continued development of an internal cash control culture.

2. Introduction

Diageo PLC (LON:DGE) is a British, FTSE 100 alcoholic beverages company, trading on the London Stock Exchange (LSE, 2017), recently ranked the best-governed corporation, grabbing top spot in the 2017 UK 'Good Governance Index' (Carruthers, 2017) – see Appendix 8.1 for notes on the role of governance. The company is relatively young with divisionalised operations split into LATAM (Latin-America), EMEA (Europe, Middle East & Africa) and APAC (Asia-Pacific). Diageo have production facilities in 30 countries, distributing over 200 beer, wine & spirits brands across 180 diverse international markets (Diageo, 2017a). As a global leader, Diageo's business model is built around relationships, innovation and education (Interbrand, 2017). The business generates 90% of its revenue from Europe and North America but has recently lost market value, slipping behind Kweichow Moutai to 2nd position in the distiller rankings (Wang, 2017).

This report will examine Diageo's profit & loss accounts, balance sheets and cashflow reports from 2012/13 to 2016/17 to critically evaluate profitability, efficiency, liquidity, investment and gearing ratios. Appendices 8.1 to 8.4 breakdown Diageo's financial data and calculation methodology, which underpins the ratios identified in section 3. Analysis also considers market comparisons and academic theory, highlighting opportunities to improve future financial management performance.

3. Diageo Ratio Results

Ratio Analysis	2012/13	2013/14	2014/15	2015/16	2016/17	5yr Industry Average
PROFITABILITY						
Gross Profit	60.9%	60.7%	57.4%	59.5%	61.2%	59.9%
Cost of Sales	39.1%	39.3%	42.6%	40.5%	38.8%	-
Marketing ROI	6.39	6.33	6.64	6.71	6.70	-
Duty	26.0%	26.6%	32.3%	33.0%	33.5%	-
Operating Profit	29.9%	26.3%	25.9%	27.1%	29.5%	24.6%
Tax	16.6%	16.5%	15.9%	17.4%	20.6%	-
Contribution of Associates & JV to Operating Profit	6.4%	9.3%	6.3%	7.8%	8.7%	-
Net Profit	22.6%	21.3%	22.8%	22.5%	23.0%	19.3%
Return on Capital Employed	17.4%	14.9%	13.6%	12.7%	16.0%	-
EFFICIENCY						
Asset Turnover	0.45	0.45	0.42	0.37	0.42	0.41
Return On Assets	10.2%	9.5%	9.6%	8.3%	9.6%	8.8%
Non Current Asset Productivity	0.69	0.66	0.60	0.53	0.60	-
Debtors (Receivables) Control	78.7	88.9	82.2	93.5	78.5	54.1
Creditors (Payables) Control	265.5	253.7	233.0	289.5	277.9	-
Stock Turnover In Days	347.7	382.5	362.1	393.2	373.4	351.0
Capital Employed Turnover	0.58	0.57	0.53	0.47	0.54	-
LIQUIDITY						
Current Ratio	1.54	1.54	1.45	1.43	1.30	1.12
Quick Ratio (Acid test)	0.78	0.67	0.59	0.69	0.58	0.63
INVESTMENT						
Revenue Per Share	6.11	6.56	4.74	4.28	4.80	5.97
Earnings Per Share	1.38	1.39	1.08	0.97	1.10	1.04
Cash Per Share	0.95	0.40	0.21	0.45	0.47	0.43
Interest Cover	4.7	4.3	4.3	4.8	6.3	-
Dividend Cover	2.1	1.7	1.7	1.5	1.7	-
Dividend Yield	3.5%	4.5%	3.4%	3.0%	2.8%	2.5%
P/E Ratio	13.6	13.4	17.0	21.6	20.6	27.01
Market Share Price	18.80	18.66	18.41	20.87	22.69	-
GEARING						
Preferred Ratio	50.4%	50.2%	46.1%	44.2%	35.4%	-
LT Debt to Equity	101.6%	100.6%	85.5%	79.3%	54.7%	74.8%
Leverage (Total Debt / Total Equity)	209.0%	202.6%	178.8%	179.9%	139.8%	94.5%

Figure 1 - Diageo (2013, 2014, 2015, 2016, 2017b), Investing.com (2017)

4. Analysis

4.1: Ratio Limitations

Financial ratios help interpret intelligence derived from financial income statements, balance sheets and cashflow reports. McIsaac (2004) reveals these combined statements are a critical indicator of liquidity, leverage, operating performance and cashflow strength. Whilst Atrill (2017, p84) and Stack (2012) outline ratio analysis helps compare businesses with a different scale of operations and acts as a catalyst for investors and managers to ask the right performance-improving questions, they argue there is no generally accepted list of ratios nor a standard method for calculating them. Drawbacks of a lack of standardization include an increased risk of distortion and inconsistency. Analysis must also consider competition, economic environment, business strategy and relativity to other measures (Collier, 2015). Collier discusses other problems that can limit ratio usefulness, including how information derived from time-sensitive, retrospective results provides no guarantee on future performance. Costs, inflation rates, operational structures, product or services mixes and data aggregation practices can change across review periods, leading to creative accounting irregularities and ratio outputs that yield misleading conclusions. Mohr (no date)

believes ratios in isolation do not provide answers over the quality of leadership or the cause of change, therefore business owners need to dig deep to supplement data with underlying information.

4.2: PROFITABILITY

a) Gross Profit

Gross Profit is healthy, above the 59.9% industry average. Declines in 2015 and 2016 relate to duty increases (+11.2% CAGR) and deteriorations in cost of sales (to over 42%). Cost increases will require further root-cause investigation, but may relate to factors such as inflation, wages, materials, logistics or investments into property, plant & equipment. Despite a 2016/17 cost efficiency recovery, Diageo should conduct a post mortem on the drivers of cost increases to identify learnings and avoid future poor practice. Furthermore, political lobbying may play a role in freezing or reducing tax and duty contributions, increasing profit to be reinvested back into driving growth in volume and net sales (Eads, 2017).

b) Operating Profit & Net Profit

Operating profit is consistently above the 24.6% industry average. The key driver of fluctuation relates to a +3.7% CAGR in operating expenses, requiring further root-cause investigation. Marketing spend delivers consistent efficiency (a £6.30 to £6.70 return on net sales for every £1 invested), but there's potential to break the status quo by revamping long-term Advertising, Marketing & Promotions (AMP) strategy based on country-channel tiering classifications. Competitive benchmarks reveal Diageo's marketing ROI is mid range with an opportunity for higher yields; Brown-Forman (2017) ROI is ~8:1 and Campari (2017) ROI is ~10:1.

Net profit remains steady around 23%, outperforming the 19% industry average. Savings in net finance charges (-4.2% YoY / -5.8% CAGR) and improvements in results from joint ventures and associates (+39.8% YoY / +9.2% CAGR) have offset losses from taxation (+47.6% YoY / +9.6% CAGR) and a decline in earnings from non-operating items (-83.7% YoY). Overall, this suggests sound financial management with earlier investments in non-current assets coming to fruition. Given the growing contribution of earnings from joint ventures to operating profit (6.4% in 2012/13 to 8.7% in 2016/17), Diageo could accelerate gains from this income pool alongside deep diving into the reasons why earnings from other non-operating items have plummeted.

c) Return On Capital Employed

A decline to 12.7% in 2015/16 was driven by non-current liabilities (borrowing and post employment benefit assets) and accelerations in non-controlling interests outperforming growth in operating profit. However, ROCE rebounded to 16% in 2016/17 as the result of a

strong progression in retained earnings (+45% YoY) coming from reductions in net finance charges (-4.2% YoY), improvements in cost of sales, improvements in results from joint ventures and associates, a (-18.4% YoY / -5.4% CAGR) reduction in long-term borrowings, a (-65.7% YoY / -32.8% CAGR) reduction in long-term payables and a (-23.4% YoY / -5.1% CAGR) reduction in other long-term liabilities. Shareholders will be pleased with the turnaround in YoY performance but mindful of a need for ongoing frugality and deeper comparison against competitors and industry averages to increase return.

4.3: EFFICIENCY

a) Non-Current Asset Productivity, Asset Turnover & Return On Assets

Non-current asset productivity decline is driven by faster growth in non-current assets (+5.2% CAGR) vs slower growth in net sales (+1.6% CAGR). The change in non-current assets relates to a rise in property plant & equipment (+4% CAGR), cyclical investments into associates & joint ventures (+2.9% CAGR) and a surge in the value of intangible assets (+8.7% CAGR). It may be fair to assume increased profit contributions from associates & joint ventures could be driving accelerations in the value of intangible assets (IP and Goodwill that will inevitably come through brand development and portfolio expansion). Such investments have also created a downwards trend in the "Asset Turnover" ratio, but I would suggest there is little to worry about as Diageo's output of 0.42 is still inline with the 0.41 industry average and "Return On Assets" remains healthy at 9.6% (above the 8.8% industry average). Comparatively speaking, Diageo's operational efficiency is greater than the competition.

Key opportunities include:

- Investigating productivity/cashflow improvement through leasing and the sale of older "Property, Plant & Equipment"
- Deep-dives to accelerate inventory turnover
- Driving higher returns from associates & joint ventures, conducting competitive benchmarks to understand relative innovation efficiency.
- Eurobonds (Atrill, 2017, p255) may be an attractive, long-term asset productivity driver given the nosedive in return from bonds (Appendix 8.4), offering fixed return rates with no overseas regulation restrictions.

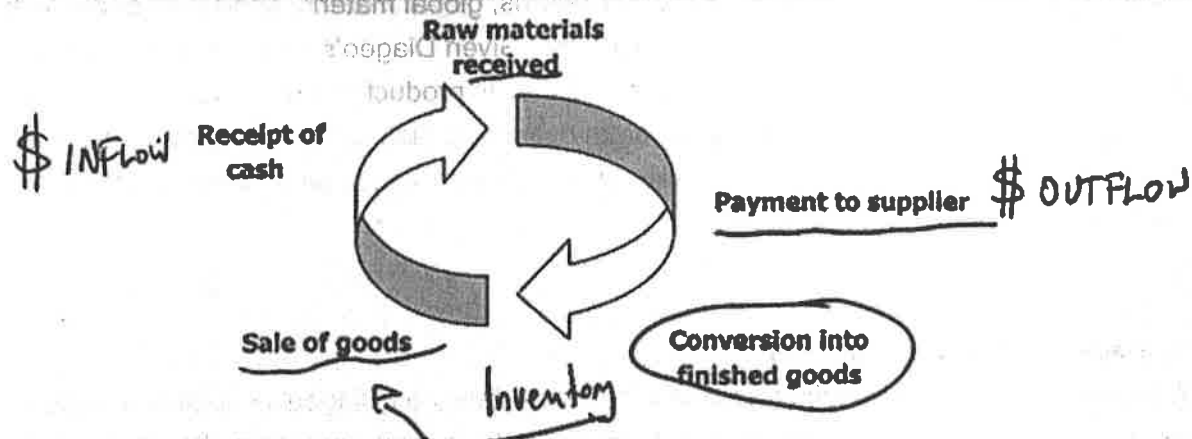
b) Debtors (Receivables)

Diageo's ratio is concerning, highlighting inefficiency against the industry average (78.5 days vs 54.1 days). An emphasis on efficiency within the cash conversion cycle (Figure 2) minimises the time it takes to switch from cash outflow to cash inflow, thus releasing capital to improve liquidity. On average it's taking Diageo 24 additional days to receive funding, damaging the free cash flow position and increasing the risk of poor long-term financial management. However, it is worth exploring relationships and the reasons behind a

consistent lag to see whether the business is receiving other trade-off incentives. Timely invoices, quick-pay discounts, late payment penalties, credit limit freezes/reductions, blacklisting defaulters, tendering and legal action may offer appropriate corrective actions in some markets.

Atrill (2017, p273) explains how debt-factoring can also be used as a mid/long-term finance solution through outsourcing collection of trade receivables, resulting in credit management savings and quick cash advances of up to 95% of approved receivables. However, advances are subject to rates of interest comparable to those used for bank overdrafts.

Figure 2: Cash Conversion Cycle



TheEXPGroup (2012)

c) Creditors (Payables)

Payables has fallen from 290 to 278 days in 2016/17. Comparative YoY performance cannot be assessed without industry average insights, although this may become available through qualitative research. At the very least, Diageo should look to extend payables windows at the point of contract renewal, unless they benefit from quick pay discount incentives. From personal experience, the spirits industry is highly regulated in tracking shipments (produced and transported) to and depletions (received and sold) within each market, so Diageo should explore switching payments from shipments to a depletions based approach with creditors, requesting payment on a sale or return basis. This will enhance cashflow and improve reliability of forecasts if planning is based more sensitively around trends in consumption rather than ambitious shipment growth targets which can result in overstocks, fraud and illegal stock loading of markets (Edwards, 2015).

d) Stock Turnover

Stock turnover has declined since 2012, sitting 20 days above the industry average as Diageo invested more heavily into inventory. The rise may also be attributed to uncertain economic conditions and currency volatility in markets like Russia & Greece, forcing distribution partners to rethink their intake (Diageo, 2017b, p31). Socio-Economic/Political contingency plans are critical in such scenarios. Given portfolio homogeneity, EOQ decision models or ERP software applications (Atrill, 2017 pp 437-441) could both be used in conjunction with depletions based forecasting to optimise inventory health. Holding cost is a key EOQ variable where logistical efficiency could be refined through customs warehousing networks (Gov, 2017), offering duty and tax-free storage facilities that also improve stock turnaround time and reduce European liabilities. However, inventory calculations would still need to evaluate external factors like seasonality, promotions, deeper in-market customer penetration, damages, liquidations, customer returns, global material shortages and a lack of data for new products that come into the portfolio. Given Diageo's core focus on innovation, it would also be prudent to conduct regular audits of its product mix (high velocity and slow velocity brand portfolios), developing a margin optimizing plan for the best performing ranges and a volume optimizing (clearance) strategy for poor performers with subsequent exit strategies for brands with lowest ROI.

e) Capital Employed Turnover

A 5-year view shows a marginal decline in sales efficiency as Diageo's capital base evolved. Competitive benchmarks are necessary to assess relative performance in the absence of an industry average. Long-term debt has been taken out to support growth and complacent financial management procedures are setting in. Given the surge in finance activity outflows (Appendix 8.4), Diageo will only deliver sustainable growth if they can focus on strategic plans, improve processes and further boost turnover and productivity of assets that are not (yet) materialising at maximum yield. Deloitte (no date) outlines the importance of developing, adopting and communicating processes relating to financial discipline and a clear working capital optimization strategy. Efficiency levers can be improved by creating a cash management control culture where best practice is facilitated through centres of excellence that enforce standards, drive automation/process efficiency and monitor performance against KPI's.

4.4: LIQUIDITY

a) Current ratio

Diageo's current ratio has been relatively normal around 1.5, recently dipping to 1.3 in 2016/17 as short-term liabilities accelerated by +7.6% YoY, the business reduced dead working capital (-25.3% YoY / -9.7% CAGR) with heavier inventory investments and the value of current assets declined by -2.3% YoY. However, this is still above the industry average of 1.12. A +9.4% YoY rise in cash and a +4.6% YoY growth in inventory has only

partially offset a -83.6% loss in the value of other financial assets (needs to be investigated). Acceleration in current liabilities is driven by increased short-term borrowings (+19.5% YoY / +7.3% CAGR), increases in trade payables (+5.7% YoY / +2.6% CAGR) and an increase in corporation tax from 16.6% to 20.6% of PBT in 2016/17.

b) Quick ratio:

Recent acid-test ratios are below the industry average, declining from 0.78 to 0.58 in 2016/17. Diageo have an obvious opportunity to improve liquidity through management of asset productivity, debtor receivables, stock turnover and payables. Furthermore, interest and repayment terms on short-term borrowings could be renegotiated with banks, or (partially) written off in return for an equity stake with shareholder approval, however dilution would need to be considered in light of likely declines in P/E, Dividend Yield and EPS ratios.

4.5: INVESTMENT

a) Revenue/Earnings/Cash Per Share

RPS, EPS & CPS have all declined over 5 years, due to increased tax contributions (+47.6% YoY / +9.6% CAGR), a deteriorating ROCE ratio and a +13% CAGR in shares attributed to non-controlling interests. Stock remains attractive to investors despite the decline in returns as EPS is still tracking above the industry average. Better asset productivity, marketing efficiency and cash conversion processes with debtors and creditors will increase liquidity to support an acceleration in net sales, net profit and EPS.

b) Interest Cover

Diageo's ratio is secure with strong YoY improvement in Operating Profit (+25.3%) supported by successive reductions in Net Finance Charges helping increase the ratio from 4.8 to 6.3. No major concerns as gearing ratios are also all on the right trajectory, showing lower reliance on long-term debt. An industry comparison would be desirable nonetheless.

c) Dividend Cover & Dividend Yield

Dividend cover reduced from 2.1 to 1.7 over 5 years, suggesting willingness to share a greater proportion of profit with shareholders. However, dividend yield has gradually declined from 4.5% to 2.8% as the result of an increased share price, a +13% CAGR in non-controlling shares and a +7.7% CAGR in dividends paid to equity shareholders. Volatility needs monitoring to help investors assess portfolio objectives, but when compared to the 2.5% industry average yield, Diageo are performing well, adjusting to be closer to the market, perhaps introducing a more structured dividend strategy. Overall, dividend yield is conservative, reflecting a lower risk, lower reward investment for shareholders.

d) P/E Ratio & Market Share Price

An increasing market share price and P/E ratio signifies improved investor confidence and growth potential despite falling dividend yield. The gap between Diageo's P/E ratio and industry average highlights opportunity for ongoing competitive benchmarking and efficiency.

4.6: GEARING

Preferred Ratio, LT Debt to Equity & Leverage

A decline from 50% to 35% in the preferred ratio is positive, demonstrating ability to quickly pay off debt, progressing from medium to low risk. The business is profitable, performing well above the industry average (23% net margin vs 19.3%), has strong growth in retained earnings (+33.2% CAGR) and becoming less dependent on long-term debt to form the basis of its capital structure. Whilst substantially improved, the Leverage ratio is still significantly above the industry average of 94.5%, suggesting Diageo's total liabilities and cashflow outlook remains a slight concern, vulnerable to VUCA events and some banks/investors may be wary about further lending in the short-term, despite an improving interest cover ratio.

5. Conclusion

Higher market share price and improved investor confidence is likely to be driven through strong gains in cash (+9.4% YoY) and retained earnings (+33.2% CAGR), increased investment in (and return from) associates & joint ventures, a £1bn reduction in 'dead' working capital, low but steady growth in profit, improved gearing and for many other core ratios, above average performance compared to the industry as a whole. Whilst Diageo are unlikely to be an attractive proposition for short-term, high-yield returns, they are building for future sustainability and long-term rewards.

Upon reviewing the ratio outputs and financial statements, I believe Diageo have short/mid-term opportunities to strengthen their cashflow management and liquidity position. Cashflow from operating activities highlights a respectable +11.4% CAGR, compared to a much faster +87.7% CAGR in cash outflow attributed to financing activities (bond repayment & dividends). Assuming Diageo have adopted other basic SME cashflow management basics (Niven, 2013), they should now primarily monitor future growth from investments, scrutinising profitability and retained earnings as substantial long-term loans and tax deferrals continue to convert to short-term debt. Debtor & creditor control processes, marketing efficiency, pricing strategy, asset (stock) turnover, asset productivity and the sale of inefficient assets must become a stronger area of focus as investments mature. Diageo must accelerate the revenue line by breaking away from industry average norms and with a dependency on innovation to boost their quest for long-term competitive advantage, Diageo should look towards cash control culture and process improvement to increase cashflow, build shareholder value, improve liquidity and reduce the risk of short-term financial distress.

6. Recommendations

Area of Focus	#	Action	Priority
Marketing Efficiency	1	Strategy review, breaking Diageo's 180 markets into 4 tiers based on growth potential and size of prize; - FOCUS: driving major portfolio volume - BUILD: moderate growth, some brand investment - SUPPORT: limited growth, selective investment on key initiatives - BAU: minimal or no support Perform in a bottom up manner to increase sensitivity analysis and reduce forecast inaccuracies at the channel level (On-Trade, Off-Trade, Travel Retail and Online)	Business Critical
	2	Develop contingency plans for socio-economic and political issues with distribution partners.	Business Critical
Stock Turnover & Cost Control	3	Explore and adapt EOQ models or ERP applications to optimise inventory health.	Business Critical
	4	Reduce Inventory holding costs, transportation costs and tax liabilities through efficiency improvements provided by customs warehousing networks.	Business Critical
Creditor Control	5	Renegotiate payables windows at the point of contract renewal	Business Critical
	6	Switch from shipment based payments to depletions based payments	Business Critical
Debtor Control	7	Conduct a global review of debtor receivables, analyzing timeliness of invoicing and payment terms with on-trade, off-trade, travel retail and online customers.	Business Critical
	8	Explore quick-pay discounts, late-payment penalties, credit limit freezes/reductions, blacklisting, tendering and legal action where appropriate	Very High
	9	Consider debt-factoring for quick cash injections	High
Asset Productivity & ROI	10	Accelerate associates & joint venture partnerships with robust financial plans, integrated relationships, better performance management and skillset development	Business Critical
	11	Assess potential for leasing and sale of older plant, property and equipment	Business Critical
	12	Evaluate feasibility of Eurobond Investments with fixed rates of return	Very High
	13	Keep assessing the brand portfolio, selling off 'dogs' and 'question marks' that deliver lowest ROI	Very High
Pricing Strategy	14	Audit the product mix, developing margin optimised pricing for high velocity and volume optimised strategies for slow velocity lines	Very High
Governance & Culture	15	Develop, adopt and communicate a clear working capital optimisation strategy and Internal cash management control culture	Business Critical
	16	Continue transparent disclosure to offer a smoother path to asset return and maximise potential for ongoing capital investment from investors	High
Competitive Benchmarking	17	Conduct a regular review of business activities, innovation strategy and key financial ratios against rival companies in the same sector (e.g. Bacardi, Beam, Brown-Forman, Campari, Pernod Ricard, A-B InBev)	High
Business Insights	18	Conduct a post mortem analysis on drivers and learnings from previous operating cost increases.	Medium
	19	Investigate why earnings from non-operating items and the value of other financial assets has plummeted.	Medium
Political Lobbying	20	Push for freezes or reductions in tax and excise duty rates. Savings can pass on to wholesalers and consumers to boost growth in volume and net sales	Medium

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8. Appendices

8.1: Explanatory notes on governance and the calculation of ratios

The link between governance and financial performance is widely debated due to different market peculiarities and legal frameworks. PWC (no date) suggests FTSE organisations need to pay more attention to starting conditions, management information and corporate performance management programs. Transparency facilitates better disclosure, accountability and fairness (Atrill, 2017, pp 18-19), in-turn driving growth and greater financial efficiency with a smoother path to capital gains and dividends for firms in capital market economies facing increasing levels of leverage and complexity (Sadka, 2004; Dellas & Hess, 2005). This seems credible in light of increased pressures around compliance, resilience, innovation and productivity where organisations seek competitive advantage by doing more with less resource. Davos (2016) reveals how corporate governance can eradicate legal breaches, prevent stock market failure, prevent mismanagement and facilitate discussion within boards that make it easier for investors to understand the business mix, engage with others, diversify their interests and drive support for new causes. It seems fair to assume improved reliability of intelligence cultivates stronger internal culture, better investor relations and market confidence from within, also reducing competition for capital. However, Adiloglu & Vuran (2012) argue that firms with lower governance scores in emerging markets can have higher return on equity, higher profit margins and higher valuations because of less constraint and increased appetite for higher risk projects. Diageo's governance approach is robust and works for driving performance and investment within complex capital market economies that drive 90% of global revenue, but may ultimately need to diversify to drive asset productivity where they have partnerships and controlling interests in associates and joint ventures in developing, overseas markets.

Note: Whilst Diageo are reported to have the UK's best governance practices in 2017 and all company ratios are calculated with consistent methodology in this report, industry average data was difficult to obtain (55% ratio coverage) and the source used for comparison in section 3 is likely to have employed a different calculation methodology to that listed below.

Key Profitability Ratios

- **Gross Profit** = Gross Profit / Net Sales
- **Cost of Sales** = Cost of Sales / Net Sales
- **Marketing ROI** = Marketing / Net Sales
- **Operating Profit** = Operating Profit / Net Sales
- **Net Profit** = Profit For The Year / Net Sales
- **Return On Capital Employed (ROCE)** = Operating Profit / (Non-Current Liabilities + Share Capital + Share Premium + Other Reserves + Retained Earnings + Non-Controlling Interests)

Key Efficiency Ratios

- **Asset Turnover** = Net Sales / Total Assets
- **Return On Assets** = Profit For The Year / Total Assets
- **Non-Current Asset Productivity** = Net Sales / Non-Current Assets
- **Debtors (Receivables) Control** = (Trade and Other Receivables / Net Sales) x 365
- **Creditors (Payables) Control** = (Trade and Other Payables / Cost of Sales) x 365
- **Stock Turnover In Days** = (Inventories / Cost of Sales) x 365
- **Capital Employed Turnover** = Net Sales / (Non-Current Liabilities + Share Capital + Share Premium + Other Reserves + Retained Earnings + Non-Controlling Interests)

Key Liquidity Ratios

- **Current Ratio** = Current Assets / Current Liabilities
- **Quick Ratio** = (Current Assets – Inventories) / Current Liabilities

Key Investment Ratios

- **Revenue Per Share** = Net Sales / (Share Capital + Non-Controlling Interests)
- **Earnings Per Share** = Profit For The Year / (Share Capital + Non-Controlling Interests)
- **Cash Per Share** = Cash & Cash Equivalents / (Share Capital + Non-Controlling Interests)
- **Interest Cover** = Operating Profit / Net Finance Charges
- **Dividend Cover** = Profit For The Year / (Equity Dividends Paid + Dividends Paid To Non-Controlling Interests)
- **Dividend Yield** = ([Equity Dividends Paid + Dividends Paid To Non-Controlling Interests] / [Share Capital + Non-Controlling Interests]) / Market Share Price
- **P/E Ratio** = Market Share Price / Earnings Per Share

Key Gearing Ratios

- **Preferred Ratio** = Borrowings / (Borrowings + Share Capital + Share Premium + Other Reserves + Retained Earnings + Non-Controlling Interests)
- **Long Term Debt To Equity** = Borrowings / (Share Capital + Share Premium + Other Reserves + Retained Earnings + Non-Controlling Interests)
- **Leverage** = Total Liabilities / Total Equity

8.2: Diageo 5-Year Income Statement

Diageo Income Statement: 2013-2017							YoY	5yr CAGR
Sales	2012/13 £million	2013/14 £million	2014/15 £million	2015/16 £million	2016/17 £million		15.8%	4.4%
Excise Duties	15,267	13,980	15,966	15,641	18,114		17.6%	11.2%
Net Sales	-3,973	-3,722	-5,153	-5,156	-6,064		14.9%	1.6%
Cost of Sales	11,303	10,258	10,813	10,485	12,050		10.1%	1.5%
Gross Profit	6,887	6,229	6,203	6,234	7,370		18.2%	1.7%
Marketing	-1,769	-1,620	-1,629	-1,562	-1,798		15.1%	0.4%
Other Operating Expenses	-1,738	-1,902	-1,777	-1,831	-2,013		9.9%	3.7%
Operating Profit	3,380	2,702	2,797	2,841	3,559		25.3%	1.3%
Non-Operating Items	-83	140	373	123	20		-83.7%	N/A
Finance Income	259	241	244	262	235		-10.3%	-2.4%
Net Finance Charges	-716	-629	-656	-589	-564		-4.2%	-5.8%
Share of after tax results of associates and joint ventures	217	252	175	221	309		39.8%	9.2%
Profit before taxation	3,057	2,711	2,933	2,858	3,559		24.5%	3.9%
Taxation	-507	-447	-466	-496	-732		47.6%	9.6%
Profit from Continuing Operations	2,550	2,264	2,467	2,362	2,827		19.7%	2.6%
Discontinued Operations	0	-83	0	0	-55		N/A	N/A
Profit for the year	2,550	2,181	2,467	2,362	2,772		17.4%	2.1%
Other Comprehensive profit/(loss), net of tax, for the year	131	-1,254	-57	109	651		497.2%	49.3%
Total Comprehensive Income for the year	2,681	927	2,410	2,471	3,423		38.5%	6.3%

Attributable to:

Equity shareholders of the parent company - continuing operations	2,547	1,114	2,261	2,183	3,330	52.5%	6.9%
Equity shareholders of the parent company - discontinued operations	0	0	0	0	-55	N/A	N/A
Non-controlling interests	134	-187	149	288	148	-48.6%	2.5%
Total Comprehensive Income for the year	2,681	927	2,410	2,471	3,423	38.5%	6.3%

Diageo (2013, 2014, 2015, 2016, 2017b)

8.3: Diageo 5-Year Balance Sheet

Diageo Balance Sheet: 2013-2017							YoY	5yr CAGR
Assets	2012/13 £million	2013/14 £million	2014/15 £million	2015/16 £million	2016/17 £million			
Intangible Assets	9,013	7,891	11,231	12,370	12,566		1.6%	8.7%
Property, Plant & Equipment	3,425	3,433	3,690	3,881	4,014		3.4%	4.0%
Biological Assets	36	53	65	10	21		110.0%	-12.6%
Investments in Associates and Joint Ventures	2,521	3,201	2,076	2,528	2,824		11.7%	2.9%
Other Investments	412	63	109	31	31		0.0%	-47.6%
Other Receivables	127	107	107	46	58		26.1%	-17.8%
Other Financial Assets	393	250	292	420	267		-36.4%	-9.2%
Deferred Tax Assets	242	246	189	298	134		-55.0%	-13.7%
Post Employment Benefit Assets	312	251	436	55	281		410.9%	-2.6%
Non-Current Assets	16,481	15,495	18,134	19,639	20,156		2.8%	3.2%
Inventories	4,207	4,222	4,574	4,579	4,788		4.6%	3.3%
Trade and Other Receivables	2,437	2,499	2,435	2,686	2,592		-3.5%	1.6%
Assets held for sale	51	8	143	3	0		-100.0%	-100.0%
Other Financial Assets	65	118	46	495	81		-83.6%	5.7%
Cash & Cash Equivalents	1,750	622	472	1,089	1,191		9.4%	-9.2%
Current Assets	8,510	7,469	7,670	8,852	8,652		-2.3%	0.4%
Total Assets	24,991	22,964	25,804	28,491	28,848		1.3%	3.7%
Liabilities								
Borrowings and Bank Overdrafts	-1,852	-1,576	-1,921	-2,058	-2,459		19.5%	7.3%
Other Financial Liabilities	-122	-146	-156	-280	-215		-23.2%	15.2%
Trade and Other Payables	-3,212	-2,800	-2,943	-3,372	-3,563		5.7%	2.6%
Liabilities held for sale	0	0	-3	0	0		N/A	N/A
Corporate Tax Payable	-224	-197	-162	-340	-294		-13.5%	7.0%
Provisions	-109	-132	-105	-137	-129		-5.8%	4.3%
Current Liabilities	-5,519	-4,851	-5,290	-6,187	-6,660		7.6%	4.8%
Borrowings	-8,217	-7,638	-7,917	-8,071	-6,583		-18.4%	-5.4%
Other Financial Liabilities	-473	-447	-443	-500	-383		-23.4%	-5.1%
Other Payables	-118	-94	-69	-70	-24		-65.7%	-32.8%
Provisions	-256	-253	-238	-253	-286		13.0%	2.8%
Deferred Tax Liabilities	-1,467	-1,365	-1,896	-1,982	-2,112		6.6%	9.5%
Post Employment Benefit Assets	-853	-726	-695	-1,248	-772		-38.1%	-2.5%
Non-Current Liabilities	-11,384	-10,523	-11,238	-12,124	-10,160		-16.2%	-2.8%
Total Liabilities	-16,903	-15,374	-16,548	-18,311	-16,820		-8.1%	-0.1%
Net Assets	8,088	7,590	9,256	10,180	12,028		18.2%	10.4%
Working Capital	2,991	2,618	2,380	2,665	1,992		-25.3%	-9.7%
Share Capital	797	797	797	797	797		0.0%	0.0%
Share Premium	1,344	1,345	1,346	1,347	1,348		0.1%	0.1%
Other Reserves	3,154	2,243	1,994	2,625	2,693		2.6%	-3.5%
Retained Earnings	1,741	2,438	3,634	3,761	5,475		45.6%	33.2%
Equity attributable to equity shareholders of the parent company	7,036	6,823	7,771	8,530	10,313		20.9%	10.0%
Non-Controlling Interests	1,052	767	1,485	1,650	1,715		3.9%	13.0%
Total Equity	8,088	7,590	9,256	10,180	12,028		18.2%	10.4%

Diageo (2013, 2014, 2015, 2016, 2017b)

8.4: Diageo 5-Year Cashflow

Diageo Cash Flows: 2013-2017							YoY	5yr CAGR
Cash flows from Operating Activities								
	2012/13	2013/14	2014/15	2015/16	2016/17			
	£million	£million	£million	£million	£million			
Profit for the year	2,550	2,181	2,467	2,362	2,772	17.4%	N/A	2.1%
Discontinued Operations	0	83	0	0	55	N/A	N/A	N/A
Taxation	507	447	466	496	732	47.6%	47.6%	9.6%
Share of after tax results of associates and joint ventures	-217	-252	-175	-221	-309	39.8%	39.8%	9.2%
Net Finance Charges	457	388	412	327	329	0.6%	0.6%	-7.9%
Non-Operating Items	83	-140	-373	-123	-20	-83.7%	-83.7%	N/A
Operating Profit	3,380	2,707	2,797	2,841	3,559	25.3%	25.3%	13%
Increase in Inventories	-268	-229	-204	-95	-159	67.4%	67.4%	-12.2%
Decrease/(increase) in trade and other receivables	-350	-276	274	-86	89	-203.5%	-203.5%	N/A
Increase in trade and other payables and provisions	66	-92	47	128	221	72.7%	72.7%	35.3%
Net decrease/(increase) in working capital	-552	-597	117	-53	151	-384.9%	-384.9%	N/A
Depreciation, amortisation and impairment	398	629	440	473	361	-23.7%	-23.7%	-2.4%
Dividends received	220	228	183	173	223	28.9%	28.9%	0.3%
Post employment payments less amounts included in operating profit	-487	-196	-70	-59	-111	88.1%	88.1%	-30.9%
Other items	45	-80	-11	-15	-6	-60.0%	-60.0%	N/A
Other Operational Activities	176	581	542	572	467	-18.4%	-18.4%	27.6%
Cash Generated from Operations	3,004	2,691	3,456	3,360	4,177	24.3%	24.3%	8.6%
Interest Received	130	143	183	174	180	3.4%	3.4%	8.5%
Interest Paid	-557	-575	-599	-479	-493	2.9%	2.9%	-3.0%
Taxation	-544	-469	-489	-507	-732	44.4%	44.4%	7.7%
Net Cash from Operating Activities	2,033	1,790	2,551	2,548	3,132	22.9%	22.9%	11.4%
Cash Flows from Investing Activities								
Disposal of property, plant & equipment and computer software	39	80	52	57	46	-19.3%	-19.3%	4.2%
Purchase of property, plant & equipment and computer software	-636	-642	-638	-506	-518	2.4%	2.4%	-5.0%
Movements in loans and other investments	16	7	-2	-2	3	-250.0%	-250.0%	-34.2%
Sale of businesses	-16	2	978	1062	-52	-104.9%	-104.9%	34.3%
Acquisition of businesses	-644	-536	-1284	-15	-31	106.7%	106.7%	-53.2%
Net Cash (outflow)/inflow from Investing Activities	-1,241	-1,089	-894	596	-552	-192.6%	-192.6%	-18.3%
Cash Flows from Financing Activities								
Proceeds from Issue of share capital	0	1	1	1	1	0.0%	0.0%	N/A
Net purchase of own shares for share schemes	-11	-113	-8	-1	-41	4000.0%	4000.0%	38.9%
Dividends paid to non-controlling interests	-100	-88	-72	-101	-83	-17.8%	-17.8%	-4.6%
Disposal of non-controlling interests	0	0	1	0	0	N/A	N/A	N/A
Purchase of shares of non-controlling interests	-200	-37	0	-21	0	-100.0%	-100.0%	-100.0%
Proceeds from bonds	2,100	1,378	791	0	0	N/A	N/A	-100.0%
Repayment of bonds	-869	-1,471	-1,492	-1,003	-1,234	23.0%	23.0%	9.2%
Net movements on other borrowings	7	-64	386	-233	414	-277.7%	-277.7%	177.3%
Equity dividends paid	-1,125	-1,228	-1,341	-1,443	-1,515	5.0%	5.0%	7.7%
Net Cash (outflow)/inflow from Financing Activities	-198	-1,622	-1,734	-2,801	-2,853	-112.2%	-112.2%	87.7%
Net cash and cash equivalents at beginning of the year	1,015	1,645	532	382	809	111.8%	111.8%	-5.5%
Net increase/(decrease) in net cash and cash equivalents	594	-921	-77	343	122	-64.4%	-64.4%	-32.7%
Exchange differences	36	-192	-73	84	-14	-116.7%	-116.7%	N/A
Net cash and cash equivalents at end of the year	1,645	532	382	809	917	13.3%	13.3%	-13.6%
Cash and cash equivalents	1,750	622	472	1,089	1,191	9.4%	9.4%	-9.2%
Bank overdrafts	-105	-90	-90	-280	-274	-2.1%	-2.1%	27.1%

Diageo (2013, 2014, 2015, 2016, 2017b)