

Company Update Report

Diageo plc

Consumer Staple

Analyst thesis

Ticker	DGE-GB
Share price	£17.62
Intrinsic value	£20.01
Upside/(Downside)	14%
Recommendation	Buy

As at: 19 October 2026

Our recommendation is based on:

- The portfolio includes some of the world's most recognised spirits brands, alongside Guinness as a leading beer brand. Together with its premium positioning and premiumisation as a growth driver going forward, this further strengthens Diageo's (DGE) brand moat.
- High, stable profit margins reflect DGE's premium positioning, although recent declines have been driven by tariffs, higher input costs, and marketing expenditure. Tariff pressures have eased, commodity pricing is being addressed through pricing and cost savings, and marketing expenditure is being reduced and more tightly targeted to improve efficiency and support demand, as seen in the recent results.
- DGE trades at a 25.0% discount to its five-year average NTM P:E. Considering the quality of the portfolio of brands and current margins, along with stronger performance from regions outside the US and China expected to offset weaker performance in these two markets, DGE is attractively priced.

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Key highlights

In this report, we review DGE's FY26 results released in August 2026, and assess the impact on our outlook.

Financial results at a glance:

- Group net sales declined by 3.0%, with like-for-like (LFL) net sales falling by 2.0%. North American LFL net sales decreased by 8.4%, while LFL volumes fell by 6.7%, reflecting weaker US demand, partly offset by Canada. European LFL net sales rose 3.4% on flat volumes, as Guinness offset weaker spirits performance. Asia Pacific LFL net sales fell 6.3%, with volumes down 2.4% due to weakness in Chinese White Spirits (CWS), partly offset by India. Latin American and Caribbean LFL net sales increased 7.7%, with volumes up 3.1%, driven by strong beer, Scotch and vodka sales. African LFL net sales grew 13.3%, with volumes rising 14%, supported by strong spirits and ready-to-drink sales.
- Group gross profit declined by 4.0% (margin down 66bps to 59.5%), driven by lower topline growth and an increase in costs.
- Group operating profit fell by 27.2% (margin down 535bps to 16.1%), with LFL operating profit up 2.0% (margin up 116bps to 28.9%), which excludes exceptional items. Reported group operating profit was lower, driven by brand impairment and other related charges increasing from \$910 million to \$1 489 million due to hyperinflation and the write down of some brands.
- North American LFL operating profit fell 10.0%, with margins down 66bps to 35.9%, reflecting weaker volumes and tariffs, partly offset by lower agave prices and productivity savings. European LFL operating profit rose 15.7%, with margins up 328bps to 31.6%, driven by cost efficiencies and targeted marketing. Asia Pacific LFL operating profit declined 5.4%, although margins increased 26bps to 25.4%, as lower marketing spend partly offset weaker Chinese White Spirits (CWS) demand and lower sales. Latin American and Caribbean LFL operating profit grew 15.8%, with margins up 210bps to 27.1%, supported by improved marketing efficiencies. African LFL operating profit rose 43.5%, with margins up 458bps to 21.7%, driven by productivity savings, improved fixed-cost absorption and targeted marketing. Group marketing costs fell 13.1%, reflecting more focused promotions and improved efficiencies
- Reported basic EPS was declined 26.3%, primarily due to higher exceptional charges, while adjusted EPS rose 0.7%.

Management outlook

For FY27, management expects LFL net sales to be flat, with North American net sales declining by a mid-single-digit percentage, reflecting an expected 3.0% contraction in the North American market. LFL operating profit is expected to grow by a low- to mid-single-digit percentage, benefiting from cost-saving initiatives. Over the medium term (FY27-FY29), management has highlighted that it expects LFL net sales to grow by a low-single-digit percentage, anticipating that the North American market should stabilise and grow by then. LFL operating profit is forecast to grow by a mid-single-digit percentage, reflecting benefits from its cost-saving initiatives. EPS is projected to grow ahead of LFL operating profit on a currency-neutral basis.



Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★★☆	The expected three-year revenue CAGR is 5.5%, while expected three-year EPS CAGR is 18.4%. We expect earnings growth over the next three years to be driven by: Easing volume pressure as markets outside the US and China experience stronger demand, while demand in the US is improving over the medium term. Cost-control initiatives should improve operational efficiency and support margins and earnings.
Valuation	★★★★☆	The share price is trading at a 14.0% discount to the IV. The current NTM P:E of 13.7x is trading at a 25.0% discount to the five-year average P:E of 18.3x.
Dividend	★★★★☆	LTM dividend yield is 3.6%. NTM dividend yield is 2.4%.
Issuance	★★★★☆	Shares issued have decreased by 4% in the past five years.
Catalyst		Cost-control initiatives under the Accelerate Program should be margin and earnings accretive. Premiumisation of core products, supported by an established portfolio of quality brands. Volume pressure pivot as demand in in markets outside the US and China offsets the weakness in the two regions, while the US is expected to see better demand dynamics over the medium term.
Quality of earnings	★★★★☆	Five-year average ROE of 33.9%. Five-year average operating margin of 29.8%. The group has recorded positive earnings growth in six of the past 10 years. The negative periods primarily reflected Covid-19, the subsequent normalisation after the pandemic-related spike, increased competition and volume pressures in the US, and weaker demand in China amid lower consumer confidence.
Moat	★★★★☆	Brand/Intangible assets: DGE owns some of the world's most established spirits and beer brands, enabling it to command premium pricing globally. DGE's scale supports sales growth and helps defend its brands against smaller competitors, reinforcing its brand moat. Licensing requirements in the alcoholic-beverages sector may also create barriers to entry, as licences can be costly and difficult for new entrants to obtain. Scale and distribution: DGE's scale in procurement and distribution helps lower input costs and supports the distribution of its brand portfolio, enabling it to secure shelf space and distribution networks globally.
Management and governance	★★★★☆	The group has experienced recent CEO and CFO changes, with Sir John Lewis appointed CEO in January 2026 and Joanne Wilson expected to step in as CFO in 2027. Both tenures are under five years, with the changes linked to performance rather than controversy. Against a backdrop of shifting consumer drinking habits and weaker volumes at DGE, management changes present an execution risk. However, the new CEO has an extensive track record of turning businesses around
Balance sheet	★★★★☆	The latest net debt/EBITDA ratio is 3.2x. The adjusted ratio is expected to improve by a further 0.25x following the sale of the Royal Challengers Bengaluru and East African Breweries subsidiaries. The interest coverage ratio is 5.3x. The debt/assets ratio is 47.4%.
Risks		High exposure to spirits creates a risk if consumer trends turn against the category. Exposure to soft-commodity inflation, including increases in barley or agave prices. Changing drinking habits over the medium to long term could weigh on future growth. Regulation: Excise duties remain a structural cost for the sector, alongside tariff risks associated with exports to the regions in which DGE operates

Source: FactSet

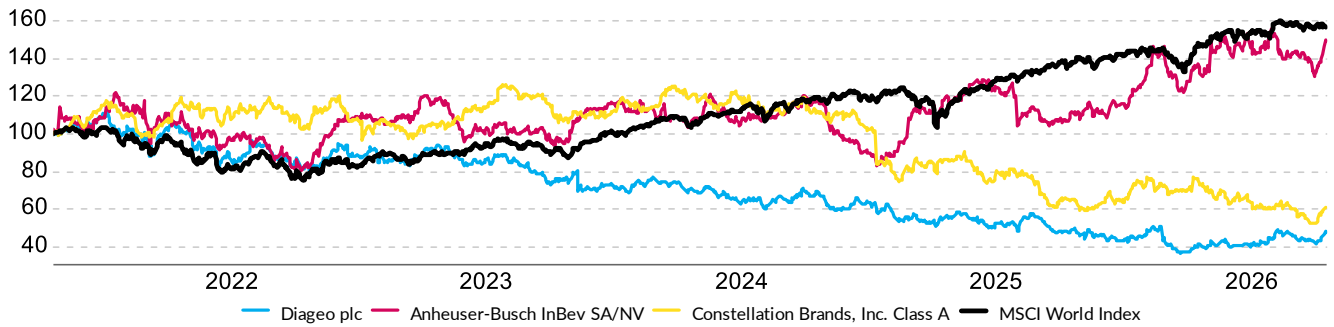
Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
DGE-GB	9.9%	8.5%	11.9%	15.9%	-3.6%	-33.6%	-43.4%	-51.2%	-19.2%
ABI-BE	34.4%	13.0%	3.8%	14.2%	38.3%	21.5%	46.0%	54.6%	-37.2%
STZ-US	-5.0%	15.9%	-1.4%	-19.2%	-6.7%	-45.7%	-43.8%	-39.4%	-21.7%
MSCI world	11.6%	0.3%	2.6%	6.8%	13.8%	30.8%	72.0%	61.3%	193.8%

Source: FactSet

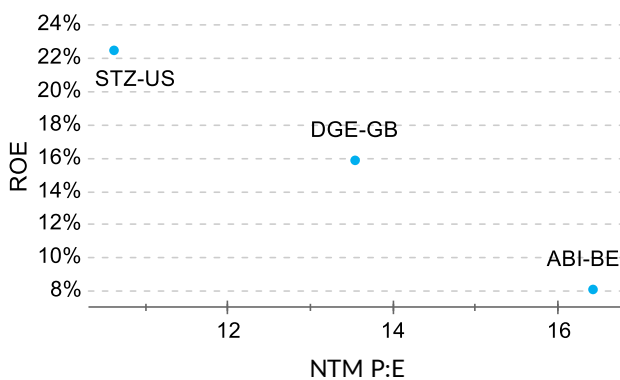


Graph 1: Five-year price (indexed to 100)



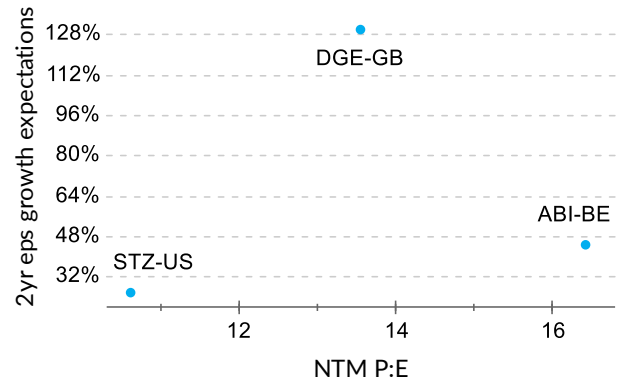
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs EPS 2Y growth forecast



Source: FactSet

Valuation

We value DGE using a 12-month forward EBITDA forecast applied to EV:EBITDA multiples. We expect volume pressure to ease in the medium term as volumes improve in markets outside the US and China. We expect margins to improve as cost-saving initiatives ease cost pressures. Pricing and premiumisation should also support growth, given the quality of DGE's brand portfolio.

The scenario weighting favours the bear case (30%) over the bull case (20%), reflecting current valuation levels and the expected short- to medium-term impact of more health-conscious consumers moderating their alcohol consumption. On a probability-weighted basis, our valuation implies 14.0% upside to intrinsic value and supports a buy recommendation.

Table 3: Valuation table

	Bear	Base	Bull	Weighted	Consensus
Scenario	30%	50%	20%	100%	-
12-month forward EBITDA (USDmn)	5 267	5 267	5 267	5 267	-
EV/EBITDA NTM	13.0x	15.0x	18.0x	15.0x	-
Intrinsic value (USD)	21.72	26.45	33.56	26.45	-
Intrinsic value (GBP)	16.43	20.01	25.39	20.01	20.27
Share price (GBP)	17.62	17.62	17.62	17.62	17.62
Upside/(Downside)	-7%	14%	44%	14%	15%

Sources: PSG Wealth Research, FactSet

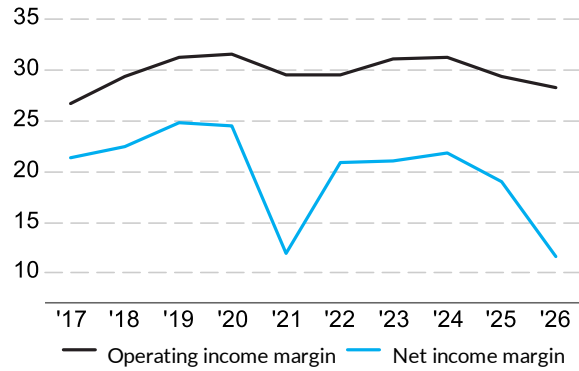


Graph 4: NTM P:E relative to benchmark



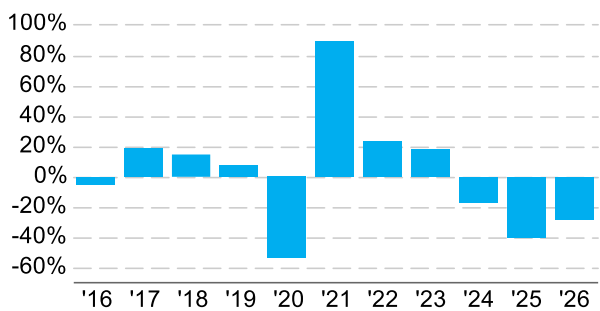
Source: FactSet

Graph 5: Profit margins (%)



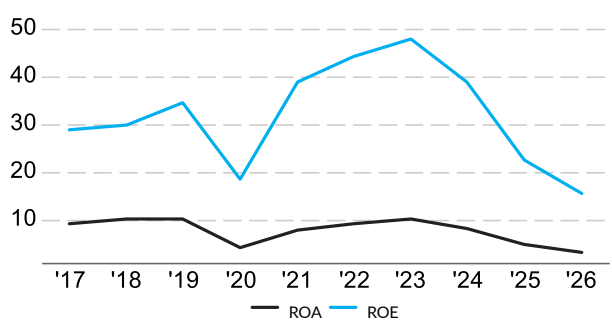
Source: FactSet

Graph 6: 10Y EPS year-on-year change



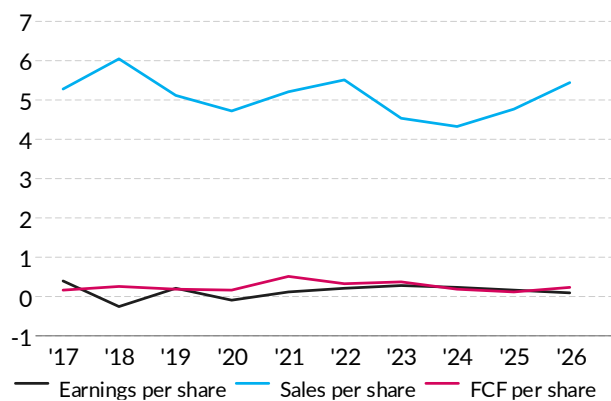
Source: FactSet

Graph 7: ROA and ROE (%)



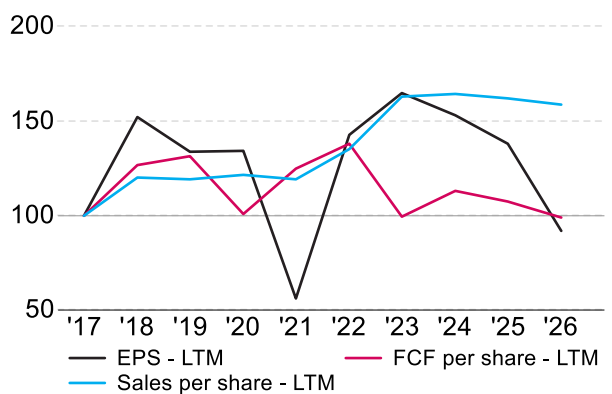
Source: FactSet

Graph 8: Sales, earnings and FCF per share (\$)



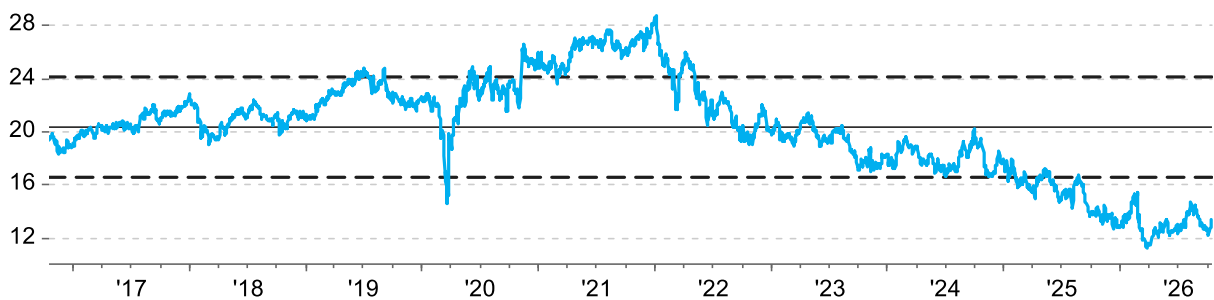
Source: FactSet

Graph 9: Sales, earnings and FCF per share indexed



Source: FactSet

Graph 10: NTM P:E



Source: FactSet



Table 4: Financials and ratios

Income statement (\$Mn)	Jun 22	Jun 23	Jun 24	Jun 25	Jun 26	1Y Growth	3Y CAGR
Net revenues	20 516	20 555	20 269	20 245	19 643	-3%	-2%
Cost of sales	7 923	8 289	8 071	8 072	7 962	-1%	-1%
Gross income	12 593	12 266	12 198	12 173	11 681	-4%	-2%
EBIT	5 897	5 547	6 001	4 335	3 156	-27%	-17%
Net income	4 410	4 479	4 166	2 538	1 958	-23%	-24%
EPS (\$)	184.6	196.3	173.2	106.0	78.1	-26%	-26%
Balance sheet (\$Mn)	Jun 22	Jun 23	Jun 24	Jun 25	Jun 26	1Y Growth	3Y CAGR
Total assets	44 183	44 883	45 474	49 322	46 845	-5%	1%
Total shareholders' equity	11 511	11 709	12 070	13 178	12 954	-2%	3%
Total liabilities	32 672	33 174	33 404	36 144	33 891	-6%	1%
Ratios	Jun 22	Jun 23	Jun 24	Jun 25	Jun 26	5Y Avg	
Net debt/EBITDA	2.6	2.6	3.0	3.2	3.2	2.9	
Interest coverage	10.1	7.0	5.5	5.3	5.3	6.6	
Debt/assets	45.2	47.6	47.3	49.5	47.4	47.4	

Source: FactSet

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
ABI	Anheuser-Busch InBev SA/NV
Bps	Basis points
CAGR	Compound annual growth rate
DGE	Diageo plc
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FCF	Free cash flow
FY	Financial year
GP	Gross profit
IV	Intrinsic value
LTM	Last 12 months (also known as trailing)
M	Month
Mn	Millions
MTD	Month-to-date
NTM	Next 12 months (also known as forward)
P:E	Price-to-earnings ratio
ROA	Return on assets
ROE	Return on equity
STZ	Constellation Brands, Inc.
US/USA	United States of America
YoY	Year-on-year
YTD	Year-to-date



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