Company Update Report

Diageo plc

Consumer Staple

Ticker	DGE-GB
Share price	£18
Intrinsic value	£20
Upside/(Downside)	10%
Recommendation	Buy

As at: 14 Nov 2025

Analyst thesis

Our recommendation is based on:

- High margin quality portfolio focused on spirits (~80% of revenue).
- Attractive valuation levels relative to history. Trading at 30-year level lows. Organic operating profit growth is expected to be at low to mid-single digits, which provides some support against a value trap.
- Premiumisation of core products has been a protector of organic growth across some regions.
- Margin levels, cost, and volume pressures seem to be in a cyclically low point and position the company for upside potential in a recovery period.

Latest company and market insights

Key highlights

In this report, we review DGE's 1Q26 trading statement, released in November 2025, and evaluate their implications on our view.

Financial results at a glance:

- Total group net sales for the period were down 2.2% with organic performance being flat and organic volumes growing 2.3%.
- North American revenue (38% of net sales) was down 3.5% with organic growth and organic volumes down 2.7% and 2.1%, respectively. This was related to a negative price mix a negative US performance, and a challenging consumer environment.
- European revenue (25% of net sales) was up 5.1% with organic growth and organic volumes up 3.5% and down 1.9%, respectively. This was driven by a positive price mix, and strong performance by Guinness.
- Asian Pacific revenue (18% of net sales) was down 9.7% with organic performance and organic volumes down 7.5% and up 5.2%, respectively. This was driven by declines in Greater China and a negative price mix.
- Latin American and Caribbean revenue (11% of net sales) was up 11.1% with organic growth and organic volumes up 10.9% and 6.7%, respectively. This was driven by strong growth in Brazil and a positive price mix.
- African revenue (8% of net sales) was down 15.1% with organic growth and organic volumes up 8.9% and 10.7%, respectively. This was driven by East Africa's performance and a negative price mix.
- DGE also highlighted its Accelerate program that should create a more agile operating model and protect margins with a cost saving of $625 million over the next three years.

Management's outlook:

DGE's management has shared some insights related on FY26 full-year outlook. Organic net sales are expected to be slightly down, taking into consideration adverse impacts from China, along with a weaker US consumer (prior net sales guidance was growth similar to FY25's 1.7%). Organic operating profit is anticipated to be supported by positive operating leverage and cost savings from the Accelerate programme. Organic profit growth is expected to be at low to mid-single digits, taking into consideration Chinese demand and a weaker US consumer, including the impacts of tariffs.

Sector outlook

DGE's products speak primarily to the demand dynamics around premium spirits, given the concentration in that product category. The sector concern over the long-term continues to be a potential structural demand change in drinking habits as consumers are becoming more health-conscious and therefore drink less alcohol. However, certain regions have also seen the trend of premiumisation (which tends to also benefit from drinking less but higher quality), which DGE is well placed.

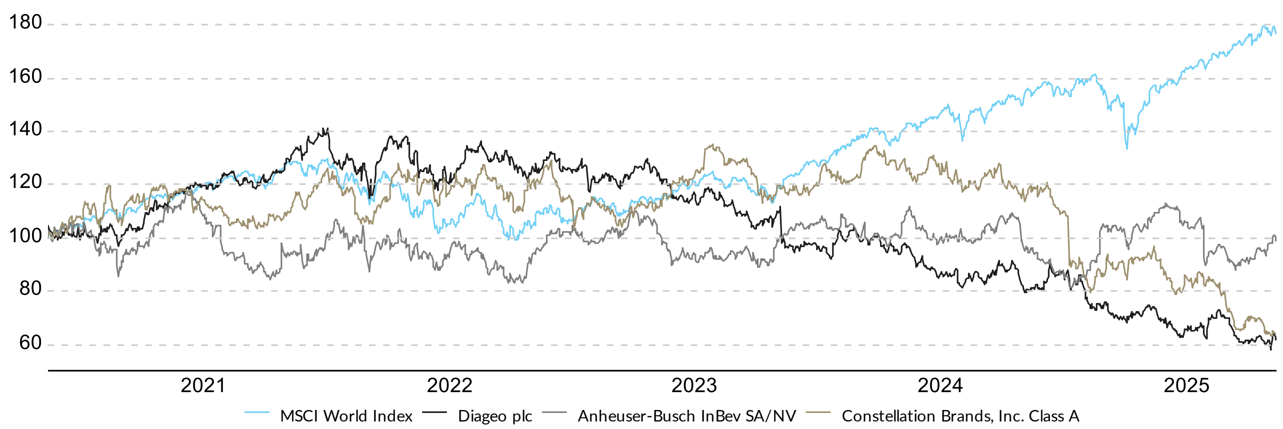
Higher interest rates and inflation pressures also placed pressure on consumers, which in turn placed pressure on the industry as consumers might drink less or choose lower priced drinks. With that said, there might be upside potential if the industry and DGE recovers to normal margin levels from this cyclically low point

Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★☆☆	Expected three-year revenue CAGR is 2.2% and expected three-year EPS CAGR is 20.2%. We expect earnings growth over the next year to be driven by: A positive price mix to counter cost increases, along with volume pressure.
Valuation	★★★★☆	The share price is trading at a 10% discount to the IV. Current NTM P:E of 13.9x is trading at a 40% discount to the five-year average P:E of 23.3x.
Dividend	★★★★☆	LTM dividend yield 4.4%. NTM dividend yield 4.5%.
Issuance	★★★★★	Shares issued have decreased by 5% in the past five years.
Catalyst	Cost control to protect margins through the Accelerate Program. Premiumisation of core products continues to be a driver of organic growth. A turn in volume pressure combined with positive price mixes to boost earnings growth. A turn in drinking habits of consumers over the medium to long term that would positively impact growth.	
Quality of earnings	★★★★☆	Five-year average ROE 38.5%. Five-year average operating margin 29.9%. Seven of the past 10 years had positive earnings growth. One of those negative years was Covid and two of them were the last two years which were normalising to pre-Covid levels.
Moat	★★☆☆☆	Scale, operational efficiency and strong supply chain. Brand strength in the premiumisation of its products.
Management and governance	★★★☆☆	The group has recently had a CEO and CFO change with tenures of less than five years in the roles and the role changes related to performance and not controversy.
Balance sheet	★★★☆☆	Net debt/EBITDA ratio 3.2x, interest coverage ratio 5.3x. Debt/assets ratio 49.5%.
Risks	Concentration in spirits (~80% of revenue) when it comes to product exposure creates a risk if there are any specific negative consumers trends relating to this product category. Being a consumable product its exposed to inflation (cost) risks. Financial pressure on consumers could lead to consumers spending less on spirits. Medium to long-term concern risk on general drinking habits, and the negative impact it could have on future growth. Regulation: Excise costs remain a staple cost of the sector and tariff risks related to exporting to its regions of operations.	

Source: FactSet

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



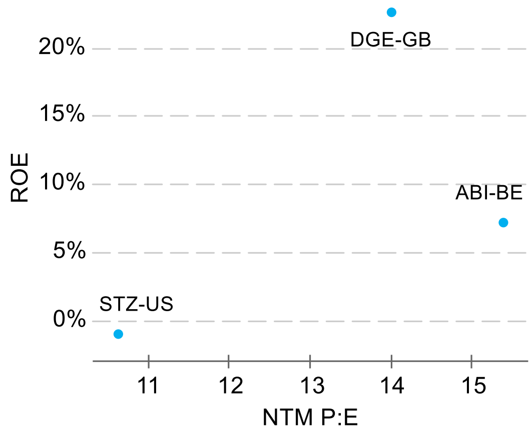
Source: FactSet

Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
DGE-GB	-29.3%	2.5%	-11.5%	-15.5%	-24.2%	-38.1%	-51.0%	-38.2%	-3.0%
ABI-BE	13.4%	3.4%	5.0%	-7.6%	2.1%	-2.6%	2.6%	-1.5%	-51.3%
STZ-US	-41.6%	-1.7%	-23.8%	-30.8%	-46.6%	-46.6%	-47.2%	-36.1%	-2.3%
MSCI world	14.8%	-1.1%	4.5%	13.2%	14.0%	44.9%	61.4%	74.6%	163.0%

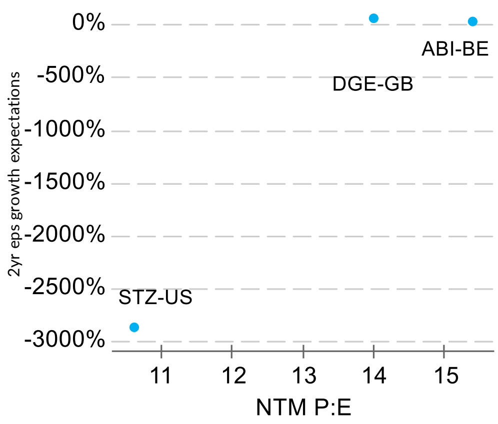
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs consensus EPS 2Y CAGR forecast



Source: FactSet

Valuation

We value DGE using an NTM EV/EBITDA multiple applied to FY26's EBITDA forecast. We have taken into consideration the downgrade in net sales for FY26 from similar growth levels to FY25 to a guidance of between flat and slightly down. Although the company is experiencing pressure on demand and costs translating to pressured margins, valuation levels remain severely depressed relative to history when analysing the EV/EBITDA history.

Current EV/EBITDA levels are at a 34% discount to one standard deviation down from the 10-year average. In our Bear, Base and Bull case we applied an 8x, 13x and 16x multiple with the Bull case representing a level slightly below the 10-year average to illustrate depressed valuation levels. We anticipate a slight EBITDA margin expansion in FY26 as the Accelerate program benefits take impact along with general cost control as the business tries to protect margins.

Taking the above elements into consideration, we generate an intrinsic value of £20 with a 10% upside and recommend a buy on DGE based on valuation.

Table 3: Valuation

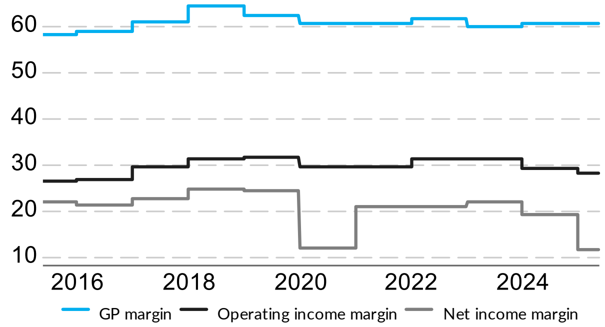
	Bear	***Base***	***Bull***	***Weighted***
Scenario	20%	60%	20%	100%
FY26 est EBITDA	6 459	6 459	6 459	6 459
EV/EBITDA	**8.0x**	**13.0x**	**16.0x**	**12.6x**
Enterprise Value	51 669	83 963	103 339	81 379
Cash	2 724	2 724	2 724	2 724
Debt	24 401	24 401	24 401	24 401
Equity Value	29 992	62 286	81 662	59 702
Shares Outstanding	2 222	2 222	2 222	2 222
Intrinsic value (USD)	13.50	28.03	36.75	26.87
GBPUSD	0.76	0.76	0.76	0.76
Intrinsic value (GBP)	**9.89**	**20.53**	**26.92**	**19.68**
Share price (GBP)	17.94	17.94	17.94	17.94
Upside/(Downside)	**-45%**	**14%**	**50%**	**10%**

Source: FactSet, PSG Wealth analysis

Graph 4: NTM P:E relative to benchmark

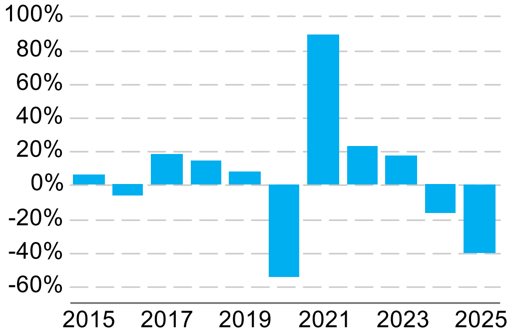
Source: FactSet

Graph 5: Profit margins (%)



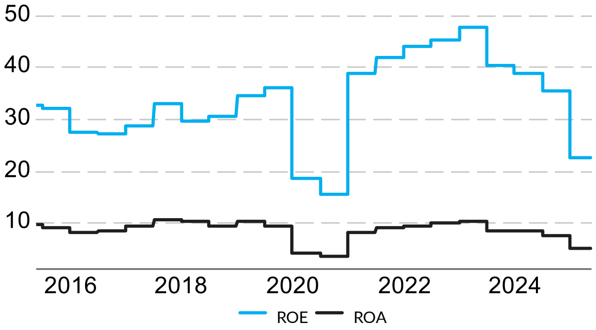
Source: FactSet

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



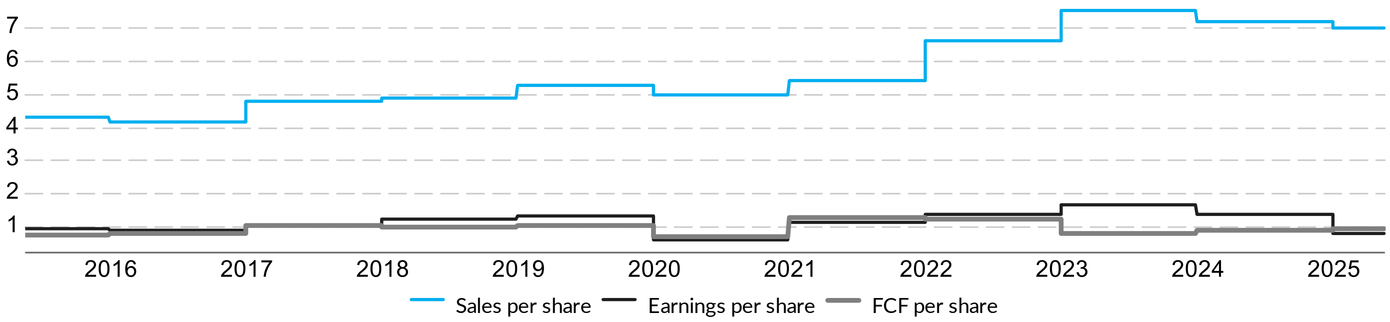
Source: FactSet

Graph 7: ROE and ROA (%)



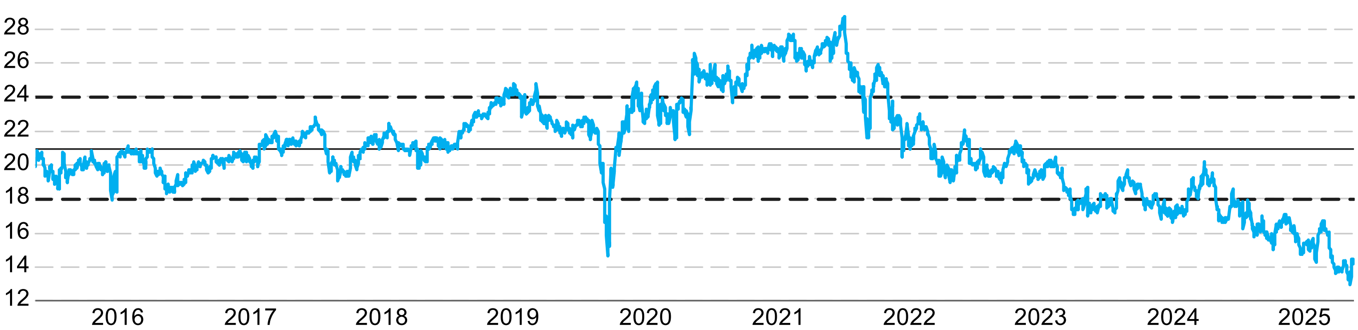
Source: FactSet

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



Source: FactSet

Graph 9: NTM P:E



Source: FactSet

Table 4: Financials and ratios

Income statement ($Mn)	Jun 21	Jun 22	Jun 23	Jun 24	Jun 25	1Y Growth	3Y CAGR	5Y CAGR
Revenue	12 733	15 452	17 113	16 101	15 649	-3%	0%	6%
Cost of sales	4 998	5 930	6 846	6 357	6 182	-3%	1%	6%
Gross income	7 735	9 522	10 267	9 745	9 467	-3%	0%	6%
EBIT	3 768	4 810	5 344	4 729	4 425	-6%	-3%	5%
EBITDA	4 215	5 299	5 840	5 267	5 003	-5%	-2%	5%
Net income	2 660	3 249	3 734	3 074	1 820	-41%	-18%	5%
EPS ($)	1	1	2	1	1	-40%	-16%	6%
Balance sheet ($Mn)	**Jun 21**	**Jun 22**	**Jun 23**	**Jun 24**	**Jun 25**	**1Y Growth**	**3Y CAGR**	**5Y CAGR**
Total assets	31 953	36 516	35 621	35 973	35 992	0%	0%	2%
Total shareholders equity	8 431	9 514	9 292	9 548	9 617	1%	0%	3%
Total liabilities	23 522	27 002	26 329	26 425	26 376	0%	-1%	1%
Ratios	**Jun 21**	**Jun 22**	**Jun 23**	**Jun 24**	**Jun 25**	**5Y Avg**		
Net debt/EBITDA	2.9	2.6	2.6	3.0	3.2	2.9		
Interest coverage	8.1	10.1	7.0	5.5	5.3	7.2		
Debt/assets	47.2	45.2	47.6	47.3	49.5	47.3		

Source: FactSet

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
ABI	Anheuser-Busch InBev SA/NV
DGE	Diageo plc
EPS	Earnings per share
EV/EBITDA	Enterprise value to earnings before interest, tax, depreciation and amortisation
FCF	Free Cash Flow
FY	Financial year
GP	Gross profit
LTM	Last twelve months (also knows as trailing)
M	Month
MTD	Month to date
NTM	Next twelve months (also known as forward)
P:E	Price to earnings
ROA	Return on assets
ROE	Return on equity
STZ	Constellation Brands
Y/y	Years (s)
YTD	Year to date

Contact details

Fisokuhle Mbutho
Junior Equity Analyst
+27 (11) 996 5200
Fisokuhle.Mbutho@psg.co.za

Pierre Muller, CA(SA), CFA
Head of Equity Solutions
+27 (11) 996 5200
Pierre.Muller@psg.co.za

The purpose of this document is to provide information and is not available for external distribution.

About PSG Wealth recommendations

PSG Wealth provides medium- to long-term recommendations based on the premium or discount that a company trades at, relative to our estimation of intrinsic value. We expect companies to rerate towards their intrinsic value over a one- to three-year period. The long-term valuation is a quantitative-based valuation based on the fundamental performance of each company in the past, as well as their future forecasts. The fundamental features used are based on profitability and includes EPS growth and return on equity (ROE).

House view guidance: House view guidance is indicative only. Each client's circumstances are different, and it remains critical that indicative guidance is discussed with your portfolio manager or financial adviser.

Date and share price: The date the report was reviewed and approved by the portfolio committee is likely to precede the release date and price on the report.

*Share price as at closing.

Disclaimer

Analyst certification

The research analyst who prepared this report certifies that the view expressed herein accurately reflects the research analyst's personal views about the subject, security and issuer and that no part of their compensation was, is or will be directly or indirectly related to specific recommendations or opinions contained in this report.

FSP

PSG Investment Management (Pty) Ltd is an authorised financial services provider. FSP: 44306

PSG Securities Limited is an authorised member of the JSE and authorised financial services provider. FSP: 42996