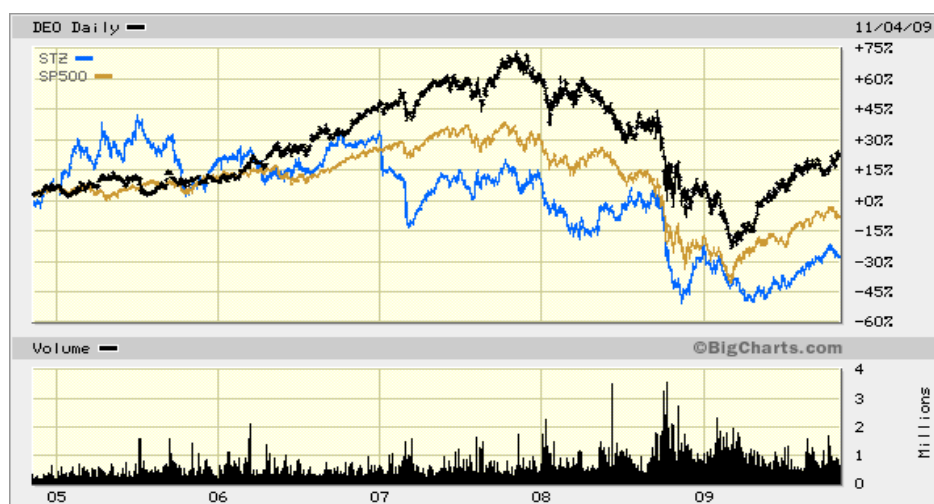


Diageo plc (DEO) 11/4/09

DEO operates as one of the world's largest producers and marketers of alcoholic beverages in the world. The company sells its products through such brand names as; Smirnoff, Johnny Walker, Captain Morgan, Bailey's Original, J&B, Blossom Hill, Sterling Vineyards, Chalone Vineyard, Guinness, Red Stripe and many more. Most of DEO's sales come from North American and Europe. The company was founded in 1886 and headquartered in London, United Kingdom.

Current Price	\$65.20
52 Week High	\$66.70
52 Week Low	\$40.93
One Yr Target	n/a
Market Cap (in billions)	\$46.30
P/E (Trailing)	15.31
P/E(1 Yr Forward)	12.33
P/E/G	1.55
ROA	10.10%
ROE	48.19%
EPS	\$4.26
Beta	0.40
Annualized Dividend	\$2.89
Dividend Yield	4.43%
Analyst Consensus	1.30
Debt to Equity	4.40



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Annual EPS

2005	\$0.71	
2006	\$0.54	-24.03%
2007	\$0.62	15.27%
2008	\$0.70	11.49%
2009E	\$4.26	511.98%

Annual Revenue (in millions)

2005	\$7,260.00	
2006	\$7,481.00	3.04%
2007	\$8,090.00	8.14%
2008	\$9,311.00	15.09%

Annual Net Income (in millions)

2005	\$1,965.00	
2006	\$1,417.00	-27.89%
2007	\$1,571.00	10.87%
2008	\$1,723.00	9.68%

Free Cash Flows (in millions)

2005	\$1,338.00	
2006	\$1,352.00	1.05%
2007	\$1,232.00	-8.88%
2008	\$1,264.00	2.60%

Required Rate of Return

6.82%

Dividend Growth Model

Present Value of 2014 Price	\$40.80
Holding Period Return (5 years)	2.86%

Expected Annualized Return Model

Present Value of 2014 Price	\$85.91
Holding Period Return (5 years)	5.50%

Residual Income Model

Intrinsic Stock Price	\$54.43
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Analysis

Positives

Great ROE numbers and a huge expected increase in 2009 EPS

Low Beta means stock is relatively safe and reduces Required Rate of Return

Negatives

Financial Statements

Balance Sheet is ok, company has taken on a lot of debt in past couple years

Income Statement is nice with decent Revenue growth, but is bogged down by interest

Cash Flows are decent with little Capital Expenditure expenses

Industry Analysis

Company is decent sized and has better than average financials for its industry

Distillers & Wineries are usually considered a defensive and stable industry

Summary

DEO is certainly a good looking company, yet some of its financials are misleading. Its great ROE numbers have been inflated by a high equity multiplier due to the company's large amount of debt. Its financial statements are solid yet nothing spectacular. While the industry is usually seen as a defensive play, DEO's products are usually premium so there sales may increase along with the economy. The percentage of people in the US who consume alcohol is decreasing, with the baby-boomer generation hitting their consumption peak and coming into more disposable income which should lift sales for the near future. Currently DEO is shifting its focus on increasing sales in emerging markets where there are more growth opportunities. Going forward DEO should continue to see increased revenues at a decent growth rate, but this seems to already be priced into the stock and DEO earns a **hold** recommendation.