



Group 1



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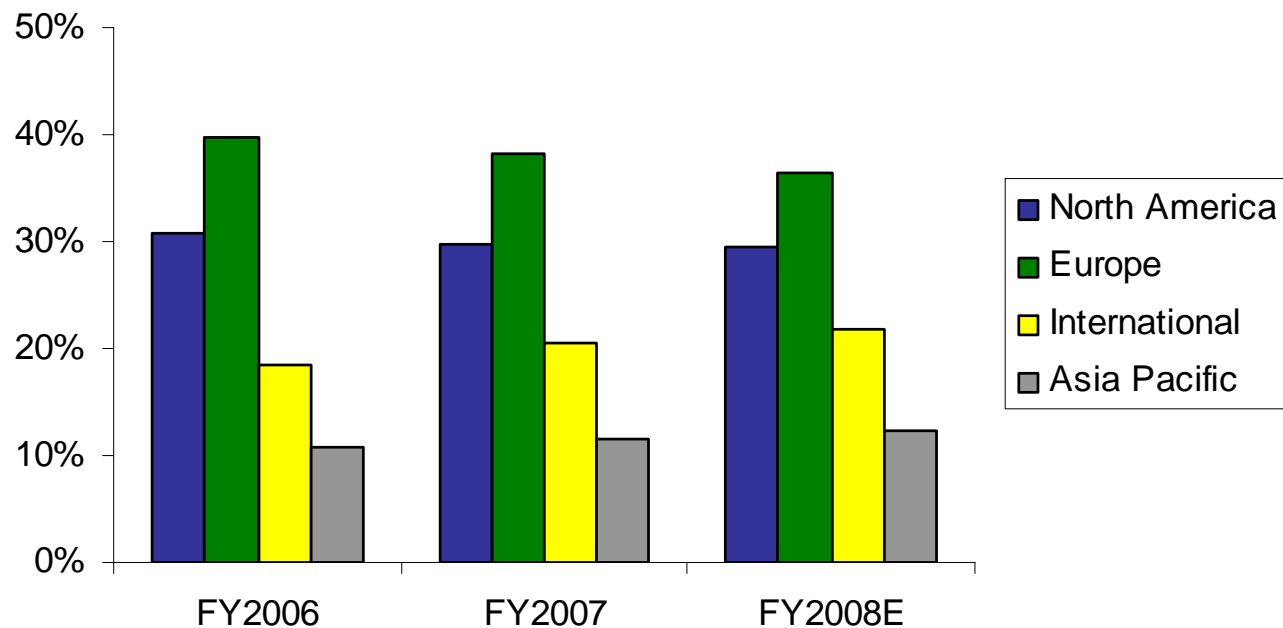
Rekha Patnaik



Company Overview

- Headquartered in London listed as an ADR (NYSE: DEO).
- Market cap of 57.46B USD (9/21/2007).
- Produces, distributes, and markets leading brands of spirits, beer and wine in approximately 180 markets worldwide.
- Three major product offerings: Global Priority Brands, Local Priority Brands and Category Brands.

Regional Revenues



Total Revenues (in millions):

FY06	FY07	FY08E
£9,628	£9,842	£10,515

Investment Thesis

- Global industry leader with high quality brand portfolio will lead to continued strong net sales growth.
 - Global Priority Brands – Johnnie Walker (16%); Bailey's, Tanqueray & Captain Morgan (10%).
- International and Asia Pacific markets growing by double digits.
 - Volumes growth: Intl-16%, AP-12% & Net Sales growth: Intl-18%, AP-13%.
- High shareholder return via aggressive share buybacks and value-creating M&A.
 - Vin & Spirits potential acquisition.
 - £1.4B repurchases in FY07, expected £1-1.5B in FY08.

The Bull Story

- Continued sales growth and margin expansion momentum driven by innovation, successful brand portfolio, and emerging markets penetration.
- Further acquisitions may expand Diageo's leading position worldwide.
- Continuous revenues and operating profit growth for global priority brands will enable Diageo to deliver increasing returns to its shareholders.
- Strong cash position – Price/FCF in FY05, FY06, FY07: 15.7, 20.8, 18.2.

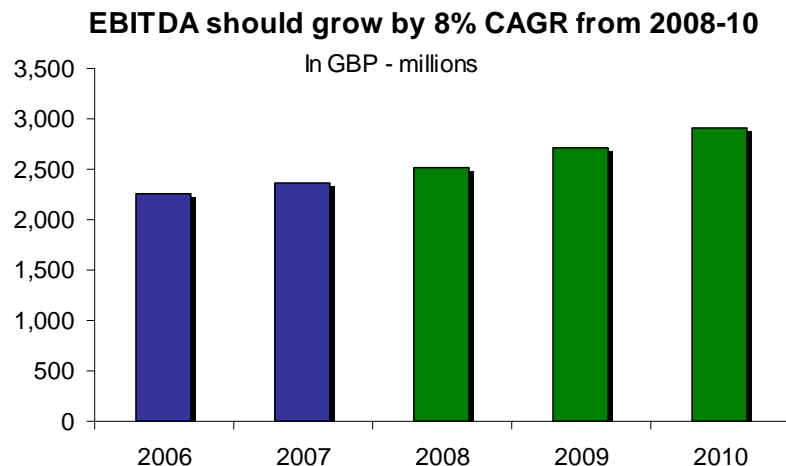
The Bear Story

- Europe remains a challenge.
- Weak dollar is hurting bottom line performance – may continue with recent Fed rate cut.
- Legal Regulatory Developments.
- Input Cost Inflation.
- General Economic Risk.

Applying Average 13x EBITDA Multiple Shows DEO is Undervalued

	2006	2007	2008	2009	2010
EBITDA (excl. - one time g/l)	2,258	2,369	2,511	2,706	2,915
EBITDA (x13 multiple)	29,354	30,797	32,640	35,180	37,897
Avg Dil. Shares Out.	2,841	2,688	2,570	2,483	2,404
Price Per Share (in British Pounds)	10.33	11.46	12.70	14.17	15.76
Conversion to Dollars (1 pound = \$2.003)	20.70	22.95	25.44	28.38	31.58
ADR intrinsic value (1 share = 4 ADR)	82.78	91.80	101.76	113.52	126.30
ADR Intrinsic Value at Year End	82.78	91.80	101.76	113.52	126.30
Discount Rate (Cost of Equity)	9.75%				
PV of ADR		91.80	94.90	96.46	100.09
Price on 9/21/07	86.90				
Undervalued %		5.64%	9.20%	11.00%	15.18%

EBITDA Growth Along With Share Buybacks Makes DEO Attractive



Assumptions	Actual		Estimate		
Revenue Growth					
North America	8%	6%	6%	6%	5%
Europe	1%	4%	2%	2%	2%
International	14%	18%	13%	11%	10%
Asia Pacific	11%	13%	14%	10%	9%
EBIT/Net Rev. Margin	28%	29%	28.5%	29%	29%
EBIT Growth			9%	8%	8%

- Management expects EBIT to grow by 9 percent FY08, which includes a small expected loss due to the weak dollar. Excluding exchange rate movements, EBIT would have increased by 10 percent in 2007.

Competitors

- **Brown-Forman**

- Jack Daniels, Southern Comfort, Bel Arbor Wines.

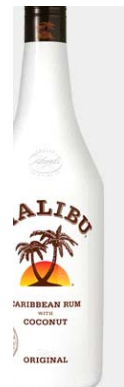
- **Constellation Brands**

- Corona, Modelo, Pacifico, Tsingtao, Twin Fin Wine, Effen Vodka.

- **Pernod Ricard**

- Chivas Regal, Beefeater, Jameson, Malibu Rum, Kahlua, Stolli.

- **Bacardi Rum**



Relative Valuation

DEO is 33% overvalued using an EV/EBITDA comparative valuation.

EV/EBITDA Valuation	DEO
Share Price (9/21/07)	86.90
Diluted Shares	677
Market Cap	58,810
Add: Debt	8,344
(Cash & Cash Equivalent)	1,787
EV	65,367
E2008 EBITDA	5,070
EV/EBITDA	12.89
Avg. EV/EBITDA	9.69
DEO Relative EV	49,138
(Debt)	8,344
Equity Value	40,794
Relative Price	\$60.28

		Comparable Companies		
	Diageo	Brown-Forman	Constellation Brands	Pernod Ricard
Enterprise Value	65,367	9,666	9,869	16,186
E2008 EBITDA	5,070	763	979	2,558
EV/EBITDA	12.89	12.67	10.08	6.33
Share Price (9/21/07)	86.90	76.00	24.05	155.60
Avg. EV/EBITDA	9.69			

*All figures stated in millions except share price & multiples

**All figures stated in USD

DCF Valuation Shows Stock is Undervalued by 13%**

Sum PV FCFF, incl. TV	£38,269
Less Debt	£4,485
PV Terminal Value	£849
Total Firm Value	£34,633
Shares Outstanding	2,688
DEO Value per share	£12
ADR Ratio	4
Exchange Rate (\$/£)	2
Intrinsic Price per Share	\$98

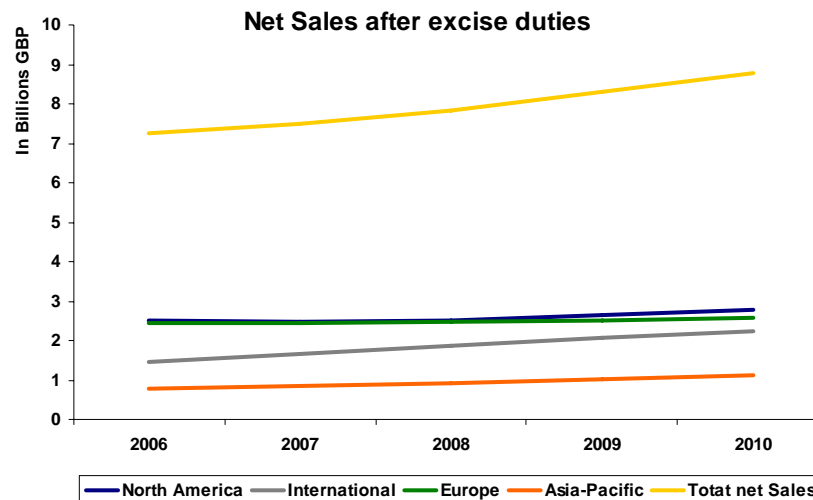
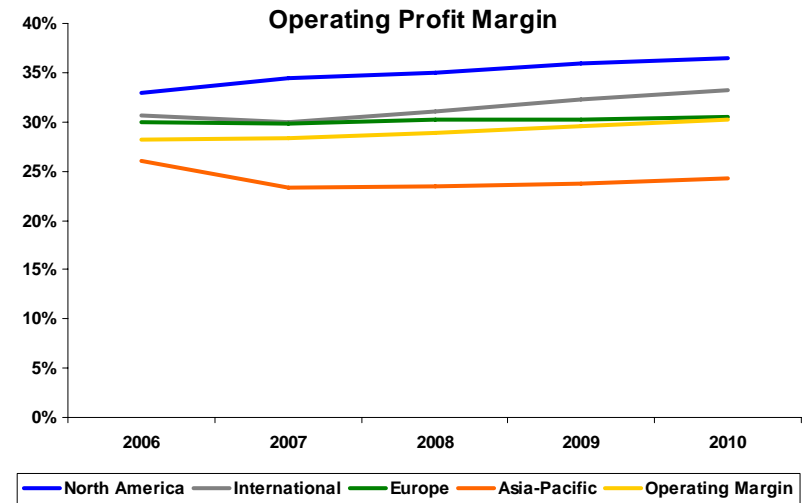
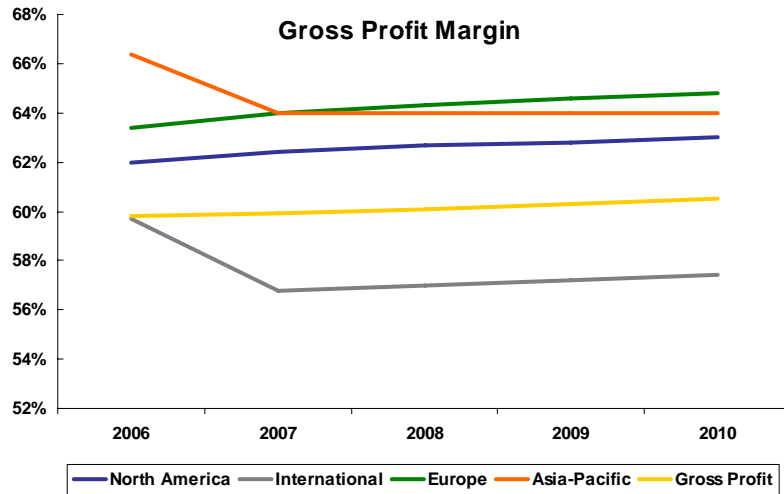
**All numbers in millions, except ADR ratio, exchange rate and share price*

Target D/E	60%
Avg. Tax Rate	25%
Cost of Debt	5.6%
R _f	4.75%
Equity Risk Premium	5%
Cost of Equity (assuming beta=1)	9.75%
WACC	8%
FCFF	5.5%

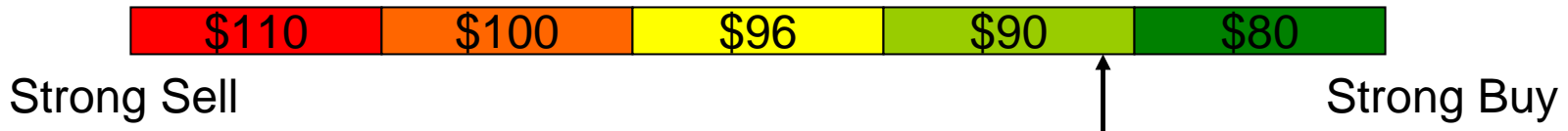
FCFF Growth	WACC			
	7%	7.5%	8%	8.5%
4%	114	102	92	84
5%	118	106	96	88
6%	124	111	100	91
7%	129	116	105	95

***Using share price on 09/21/07 of \$86.90*

To Summarize



Our Recommendation



We recommend buying 700 additional DEO shares, which would increase its portfolio position from 1.03% to 3.43%, using \$60.7K of available cash.