

## STRATEGIC DEBT BURDEN ASSESSMENT AND FINANCIAL SUSTAINABILITY ANALYSIS OF DIAGEO

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**Abstract:** The global alcoholic beverage industry represents a sophisticated intersection of agricultural supply chains and long-cycle manufacturing, where high-intensity branding meets unique asset structures. This study evaluates the financial sustainability of Diageo PLC from 2014 to 2025, moving beyond descriptive accounting to analyze the "Permanent Debtor" model inherent in the spirits industry. Utilizing a structured methodology of three indicator groups (Capital Structure, Asset Security, and Operational Servicing), the research finds that while Diageo's leverage ratios ( $G1.1 > 2.0$ ) appear high by conventional standards, they are fundamentally secured by the appreciation of maturing inventory. The study's key contribution is the identification of a "safety margin" where the retail value appreciation of aged spirits outpaces the cost of debt, providing a strategic blueprint for debt management in asset-heavy industries. The analysis also introduces the Times Burden Covered (TBC) ratio to provide a more rigorous assessment of solvency than standard interest coverage ratios.

**Key words:** *capital structure, Diageo PLC, permanent debtor model, asset-based lending, TBC ratio, financial sustainability, premiumization*

### Introduction

**Sectoral Dynamics and Diageo's Strategic Positioning.** Diageo PLC operates as a global leader in Total Beverage Alcohol (TBA), an industry characterized by high resilience and a steady growth algorithm. The global alcohol market, with a retail sales value of approximately \$1.17 trillion, is supported by structural tailwinds, including an expanding global middle class and a long-term consumer shift toward spirits (Diageo, 2024a). International spirits have grown at a 5.1% CAGR over the last decade, outpacing the broader TBA category (Diageo, 2024c). Diageo's competitive advantage is rooted in its ownership of thirteen billion-dollar brands, including Johnnie Walker, Smirnoff, Guinness, and Baileys, which allow it to lead and shape consumer trends.

A central pillar of Diageo's strategy is premiumization, the observation that consumers are choosing to "drink better, not more." Over the past ten years, premium-and-above spirits have grown from 26% of the category value to nearly 35% (Diageo, 2024b). This trend is particularly evident in the super-premium plus price tier, which has grown twice as fast as other segments. For Diageo, maintaining leadership in these high-value categories requires significant upfront investment in inventory and marketing (Zacks Investment Research, 2026). The "Spirit of Progress" initiative, a ten-year ESG

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action plan, further integrates sustainability into the company's growth model, aiming to mitigate long-term environmental and social risks that could otherwise impair financial performance.

**Research Problem and Objectives.** While standard financial analysis focuses on short-term liquidity, the spirits industry requires a specialized philosophy due to "aging assets" — stocks of maturing whisky and cognac that remain on the balance sheet for decades. A significant analytical gap exists in understanding how multinational giants like Diageo balance aggressive shareholder returns (buybacks) with the high capital requirements of maturing stock during periods of interest rate volatility.

This study aims to address the following research questions:

1. How does the "premiumization" strategy influence the debt-to-equity threshold in a long-cycle manufacturing environment?
2. To what extent do maturing inventories serve as a sufficient risk-mitigant for high leverage ratios under the Trade-off Theory of capital structure?
3. Is the current "Permanent Debtor" model sustainable in a post-COVID environment of higher interest rates?

**Hypothesis.** The study tests the hypothesis that Diageo's financial stability is not dependent on debt reduction, but on the positive spread between the appreciation rate of maturing spirit inventory and the weighted average cost of debt. If this spread narrows, the "Permanent Debtor" model faces systemic risk, necessitating strategic pivots like the "Accelerate" program.

### Literature Review

The assessment of a corporation's financial health requires a multidimensional analytical framework that transcends basic accounting identities (Simply Wall St., 2026). As posited by Gyulasaryan et al. (Gyulasaryan et al., 2025b), the stability of a firm is inextricably linked to systematic control and the determination of optimal debt thresholds. In the context of global manufacturing giants like Diageo PLC, this management becomes a strategic architecture rather than a mere technical function.

The literature emphasizes that debt burden is a complex phenomenon described through the interrelationships between capital components and the efficiency of debt servicing. Gyulasaryan et al. (Gyulasaryan et al., 2025c) highlight that in technology-driven or high-asset sectors, cash-flow-based solvency assessments provide a more realistic picture of a company's ability to meet its obligations compared to traditional accrual methods. This is particularly relevant for the spirits industry, where "aging assets" stocks of maturing whisky and cognac remain on the balance sheet for extended periods, necessitating a specialized philosophy of liquidity management. Furthermore, the broader economic environment plays a crucial role; as Gyulasaryan et al. (Gyulasaryan et al., 2025a) argue, national efficiency and institutional accountability frameworks significantly influence the financing strategies and capital costs of multinational corporations operating across diverse jurisdictions.

As suggested by Zadorozhnaya (Zadorozhnaya, 2015), the provision of financial stability is linked to systematic planning, where determining the maximum permissible debt level is a central task of financial management. Theoretical perspectives from researchers such as Tkachev, Vinogradova, and Degotkov (Tkachev, et al., 2020) posit that debt burden is best described through the interrelationships between capital

components, asset coverage, and debt servicing efficiency. Novichkova, Nosov, and Tagirova (Novichkova et al., 2021) emphasize that under conditions of high debt burden, research into financial resource management becomes critical for decision-making. Finally, the work of Drehmann and Juselius (Drehmann and Juselius, 2012) highlights that debt service costs are primary determinants of macroeconomic and financial stability, particularly regarding whether profits can cover fixed financial obligations.

The analysis of Diageo's debt burden is grounded in the Trade-off Theory of Capital Structure, which suggests that firms determine an optimal debt level by balancing the tax benefits of debt against the costs of potential financial distress. Unlike the Pecking Order Theory, which prioritizes internal financing, Diageo's strategy reflects a deliberate choice to maintain high leverage to maximize Return on Equity (ROE), treating its maturing inventory as high-quality collateral that lowers the risk of distress despite high debt-to-equity ratios.

### **Methodology**

This research adopts a rigorous methodology derived from contemporary financial research and the analytical frameworks established in recent studies on corporate solvency (Gyulasaryan et al., 2025b; 2025c). The evaluation of Diageo's debt profile from fiscal years 2014 through 2025 is structured into three functional indicator groups:

1. **Group 1 (G1) - Capital Structure Interrelationships:** This group analyzes the internal proportions of capital, focusing on the balance between equity and various debt maturities to identify the firm's leverage strategy.

2. **Group 2 (G2) - Asset-Based Security Levels:** This group evaluates the coverage level of liabilities by assets, specifically looking at how Diageo's \$46.76 billion in total assets including its significant inventory of maturing spirits secures its \$21.48 billion total debt.

3. **Group 3 (G3) - Operational Debt Servicing Capacity:** This group assesses the company's ability to service its debt through operating cash flows and Earnings Before Interest and Taxes (EBIT), ensuring that revenue from its 200+ brands can sustainably cover fixed financial obligations.

The methodology employed in this report adopts the grouping of indicators utilized in advanced financial assessments of manufacturing giants. Group 1 (G1) indicators focus on the internal proportions of the capital structure, identifying the balance between equity and various debt maturities. Group 2 (G2) indicators evaluate the security of these obligations through the lens of asset liquidity and inventory backing. Finally, Group 3 (G3) indicators assess the company's ability to service its debt through operating cash flows and earnings. This integrated framework allows for a nuanced understanding of how Diageo navigates the "COVID-19 super-cycle" and the subsequent period of economic normalization (Fidelity, 2026).

To ensure a rigorous assessment that transcends standard ratio analysis, this study adopts an enhanced framework. Following the recommendation of contemporary financial research, the analysis transitions from a purely descriptive approach to an evaluative model.

**Calculation Transparency and Data Basis:**

• **Debt Definition:** For this analysis, "Total Debt" includes all interest-bearing liabilities (short-term borrowings, long-term bonds, and lease liabilities) as reported in Diageo's consolidated financial statements.

• **Equity Definition:** Shareholders' Equity is measured on a consolidated basis, including **non-controlling interests**, to ensure consistency with consolidated debt and asset figures.

• **Currency:** All figures from 2024-2025 are analyzed in USD, following Diageo's functional currency change.

**The TBC (Times Burden Covered) Ratio:** To enhance the evaluation of financial sustainability, the study introduces the Times Burden Covered (TBC) ratio. Unlike the Interest Coverage Ratio (ICR), the TBC assesses the company's capacity to cover both interest expenses and the current portion of long-term debt (principal payments) from its operating profit.

$$TBC = \frac{EBIT}{Interest\ Expense + \left(\frac{Principal\ Repayment}{1-t}\right)} \quad (1)$$

Where t represents the effective corporate tax rate.

This ratio is critical for a "Permanent Debtor" like Diageo, as it measures the actual cash pressure of debt servicing beyond mere interest obligations.

**Analysis**

Despite these strengths, the period between 2023 and 2025 introduced significant challenges. The unwinding of the pandemic-era consumption surge, coupled with geopolitical uncertainty and inflationary pressures, impacted the pace of recovery (Diageo, 2026b). Specifically, the Latin America and Caribbean (LAC) region saw a major decline in performance, with a 21.1% drop in organic net sales in fiscal 2024, necessitating a strategic pivot toward inventory reduction and cost-efficiency (Diageo, 2026a). This context is essential for interpreting the debt metrics discussed in the following sections, as the company's leverage and liquidity positions have been actively managed to counter these headwinds.

**Group 1: Dynamics of Capital Structure and Financial Leverage.** The first group of indicators examines the structural composition of Diageo's capital. Effective debt management requires a balance between external borrowing and internal equity to minimize the weighted average cost of capital (WACC) while avoiding insolvency risks. In the contemporary business environment, international corporations often use global financial markets to optimize these proportions.

**G1.1: Financial Leverage (Debt-to-Equity).** The G1.1 indicator, defined as the ratio of total debt to shareholders' equity, provides a fundamental measure of the company's financial leverage. Historically, Diageo has maintained a high-leverage strategy compared to broader consumer staples averages. Between 2017 and 2025, the debt-to-equity ratio experienced a significant upward trajectory (SEC, 2025), reflecting the company's aggressive capital allocation policies, including multi-billion pound share buyback programs and strategic acquisitions (Investing.com, 2026).

**Table 1. Dynamics of Diageo's Financial Leverage and Capital Structure (G1.1 Ratio)**

Fiscal Year	Total Debt (\$B)	Shareholders' Equity (\$B)	G1.1 Ratio
2025	24.40	11.09	2.20
2024	18.62	7.92	2.35
2023	16.50	7.82	2.11
2022	16.02	7.81	2.05
2021	14.73	6.88	2.14
2020	16.79	6.77	2.48
2019	12.55	8.37	1.50
2018	9.90	9.90	1.00
2017	9.04	10.27	0.88

Source: Developed by author.

The data indicates that Diageo's leverage peaked during the 2020 pandemic year (2.48) as the company prioritized liquidity through new debt issuance (SEC, 2023). While the ratio moderated slightly in 2022-2023, it returned to 2.20 by 2025 (Macrotrends, 2026a). A leverage ratio exceeding 2.0 suggests that the company's capital structure is heavily reliant on creditors. While this can enhance return on equity (ROE) during periods of growth, it increases the sensitivity of the balance sheet to rising interest rates and operational downturns. Management's current target for net debt-to-adjusted EBITDA is 2.5x to 3.0x, indicating that the company views the current level of leverage as at the upper bound of its strategic comfort zone.

**G1.2: Short-term Debt Intensity.** The G1.2 indicator measures the proportion of total assets financed by short-term obligations, highlighting the company's exposure to immediate refinancing risks (Macrotrends, 2026g). Diageo's asset base has grown steadily, reaching \$49.32 billion by 2025 (Macrotrends, 2026f). Simultaneously, current liabilities have been managed to prevent excessive short-term pressure.

**Table 2. Short-term Debt Intensity and Asset Financing Structure (G1.2 Ratio)**

Fiscal Year	Total Assets (\$B)	Current Liabilities (\$B)	G1.2 Ratio
2025	49.32	10.71	0.217
2024	45.47	9.87	0.217
2023	44.88	9.59	0.214
2022	48.61	11.24	0.231
2021	43.01	9.61	0.223
2020	42.00	8.19	0.195

Source: Compiled by the author based on Diageo Annual Reports and Current Liability Schedules (2020–2025).

The stability of the G1.2 ratio around 0.21-0.23 indicates a disciplined approach to current liability management. Unlike companies that rely heavily on short-term bank debt to fund operations, Diageo maintains a diversified funding base, including commercial paper (CP) programs in both the US and Euro markets, which are backed by \$3.5 billion in undrawn committed bank facilities (Macrotrends, 2026c). This provides a significant buffer against liquidity crunches.

**G1.3: Long-term Debt Reliance.** The G1.3 indicator assesses the share of total assets encumbered by long-term debt. This is a critical metric for a company like Diageo, where maturing inventory represents a long-term capital commitment. Diageo's long-term debt has seen a secular increase, reaching \$21.57 billion in 2025 (Finbox, 2026).

**Table 3. Long-term Debt Reliance and Asset Encumbrance Analysis (G1.3 Ratio)**

Fiscal Year	Total Assets (\$B)	Long-term Debt (\$B)	G1.3 Ratio
2025	49.32	21.57	0.437
2024	45.47	19.56	0.430
2023	44.88	19.59	0.436
2022	48.61	20.23	0.416
2021	43.01	17.83	0.415
2020	42.00	19.14	0.456

*Source:* Compiled by the author based on Diageo Total Assets and Long-term Debt Statistics (2020–2025).

The G1.3 ratio has remained consistently between 0.41 and 0.46 over the last five years. This suggests that nearly half of Diageo's total asset value is financed through long-term borrowing. In the spirits industry, this is generally considered sustainable if the assets being financed (such as Scotch whisky stock) are appreciative in value (Macrotrends, 2026b). However, the high level of G1.3 means that the company has limited capacity for additional large-scale leveraging without risking a credit rating downgrade.

**G1.4: Concentration of Debt in Non-current Passives.** The G1.4 indicator measures the proportion of long-term debt within the total pool of long-term liabilities. For Diageo, the non-current liability mix is dominated by debt instruments, with other components such as deferred taxes and pension provisions playing a secondary role.

**Table 4. Concentration of Debt in Non-current Liabilities (G1.4 Ratio)**

Fiscal Year	Long-term Liabilities (\$B)	Long-term Debt (\$B)	G1.4 Ratio
2025	25.43	21.57	0.848
2024	23.54	19.56	0.831
2023	23.58	19.59	0.831
2022	24.71	20.23	0.819
2021	22.05	17.83	0.809

*Source:* Compiled by the author based on Diageo Non-current Liabilities and Long-term Debt Schedules (2021–2025).

The G1.4 ratio shows a gradual increase from 0.81 to 0.85, indicating that the company is increasingly using debt as its primary long-term liability. This centralization of obligations in the form of tradeable bonds (such as the Fixed Rate Notes due 2026 and 2033) allows for more efficient interest rate hedging and maturity management, but it also means that the company's solvency is highly dependent on its continued access to bond markets (Twelve Data, 2026).

**Group 2: Asset-Liability Security and Coverage.** The second group of indicators evaluates the quality of the company's assets and their ability to serve as a buffer for its

liabilities. This is particularly relevant in the context of financial stability risks and monetary policy implementation.

**G2.1: Inventory Coverage of Long-term Debt.** In the alcoholic beverage industry, inventories are not merely products for sale but are also stores of value. The G2.1 indicator measures the security of long-term debt relative to these inventory stocks. Diageo's inventory, primarily maturing whiskies and other spirits, is a cornerstone of its financial security.

**Table 5. Inventory Coverage of Long-term Debt and Asset-Based Security (G2.1 Ratio)**

Fiscal Year	Inventories (\$B)	Long-term Debt (\$B)	G2.1 Ratio
2025	10.66	21.57	0.494
2024	9.72	19.56	0.497
2023	9.65	19.59	0.493
2022	9.44	20.23	0.467
2021	8.14	17.83	0.457

*Source:* Compiled by the author based on Diageo Inventory Valuation and Long-term Debt Schedules (2021–2025).

A G2.1 ratio of approximately 0.50 means that for every dollar of long-term debt, Diageo holds 50 cents worth of inventory (at cost). Given that the retail value of matured spirits is significantly higher than their production cost, the true security provided by these assets is even more substantial. This high level of inventory backing is a key factor in Diageo maintaining its "A3/A-" credit rating, as it represents a tangible, liquidable asset base that can be used to satisfy creditors in extreme scenarios.

**G2.2: Liquidity and Short-term Solvency (Current Ratio).** The G2.2 indicator, or current ratio, evaluates the company's ability to pay off its short-term liabilities with its current assets. Diageo has maintained a strong current ratio throughout the study period, demonstrating consistent liquidity management.

**Table 6. Liquidity and Short-term Solvency Analysis (Current Ratio - G2.2)**

Fiscal Year	Current Assets (\$B)	Current Liabilities (\$B)	G2.2 Ratio
2025	17.50	10.71	1.63
2024	15.13	9.87	1.53
2023	15.62	9.59	1.63
2022	17.22	11.24	1.53
2021	15.40	9.61	1.60

*Source:* Compiled by the author based on Diageo Annual Reports and Balance Sheet Data (2021–2025).

The G2.2 ratio has remained safely above the 1.50 threshold, which is typically considered healthy for large-cap consumer goods companies. The inclusion of \$2.72 billion in cash and equivalents in 2025 further strengthens this position, allowing the company to meet its obligations without being forced to sell assets at a discount.

**G2.3: Working Capital Efficiency.** The G2.3 indicator measures the proportion of current assets that are financed by the company's own capital, rather than current

liabilities. Diageo's working capital has been a focus of its "Accelerate" program, which seeks to optimize cash generation.

Table 7

**Working Capital Efficiency and Current Asset Financing Analysis (G2.3 Ratio)**

Fiscal Year	Working Capital (\$B)	Total Current Assets (\$B)	G2.3 Ratio
2025	6.79	17.50	0.388
2024	5.26	15.13	0.348
2023	6.03	15.62	0.386
2022	5.98	17.22	0.347
2021	5.79	15.40	0.376

Source: Compiled by the author based on Diageo Financial Reports and Working Capital Management Data (2021–2025).

The G2.3 ratio indicates that approximately 35-39% of the company's current assets are "self-financed." This high proportion reduces the company's reliance on short-term bank financing and commercial paper, which is critical during periods of interest rate volatility or credit market stress.

**G2.4: Solvency and Equity-to-Asset Proportion.** The G2.4 indicator provides an overall measure of financial independence by comparing shareholders' equity to total assets. Reflecting the high leverage discussed in Group 1, the G2.4 ratio shows the degree to which the company is "equity-thin."

**Table 8. Solvency and Equity-to-Asset Proportion Analysis (G2.4 Ratio)**

Fiscal Year	Total Equity (\$B)	Total Assets (\$B)	G2.4 Ratio
2025	13.18	49.32	0.267
2024	12.07	45.47	0.265
2023	11.71	44.88	0.261
2022	12.66	48.61	0.260
2021	11.35	43.01	0.264

Source: Compiled by the author based on Diageo Balance Sheet data (2021–2025).

A G2.4 ratio of 0.267 indicates that roughly 27% of Diageo's assets are financed by equity. This is lower than many of its peers in the consumer staples sector, reflecting a more aggressive stance toward debt. While this allows for higher equity returns during periods of growth, it leaves the company with a smaller equity buffer to absorb potential impairments, such as the restructuring charges observed in 2025 (Stock Titan, 2026).

**Group 3: Debt Servicing and Cash Flow Sustainability.** The final group of indicators evaluates whether the company's operational performance is sufficient to sustain its debt burden. This includes the ability to pay interest and repay principal from operating earnings and cash flows.

**G3.1: Interest Coverage Ratio (ICR).** The G3.1 indicator, defined as EBIT divided by interest expense, measures how easily a company can pay interest on its outstanding debt.<sup>11</sup> Diageo's operating profitability has historically provided a robust cushion for interest payments, although this has come under pressure in recent years.

**Table 9. Interest Coverage Ratio and Operating Profitability Analysis (G3.1 Ratio)**

Fiscal Year	EBIT/Operating Income (\$B)	Interest Expense (\$B)	G3.1 Ratio
2025	4.34	1.10	3.93
2024	6.00	1.13	5.29
2023	5.55	0.95	5.83
2022	5.87	0.67	8.78
2021	5.02	0.67	7.52

Source: Compiled by the author based on Diageo Financial Statements and Macrotrends data (2021–2025).

The G3.1 ratio has declined from a peak of 8.78 in 2022 to 3.93 in 2025. This reduction is a "pincer effect" of rising interest expenses driven by global monetary tightening and the sharp drop in reported operating profit in 2025 (-27.8%) due to exceptional impairment and restructuring charges. While an ICR of 3.93 is still safely above the 2.0x-2.5x level often cited by banks as a baseline for reliability, the downward trend suggests that the company's debt servicing is becoming significantly more expensive relative to its earnings (Macrotrends, 2026e).

**G3.2: Fixed Payment Coverage (Net Income Basis).** The G3.2 indicator evaluates whether net income is sufficient to cover fixed financial obligations. Diageo's net income has been impacted by the same exceptional items affecting its operating profit.

**Table 10. Fixed Payment Coverage on a Net Income Basis (G3.2 Ratio)**

Fiscal Year	Net Income (\$B)	Interest Expense (\$B)	G3.2 Ratio
2025	2.35	1.10	2.13
2024	3.87	1.13	3.41
2023	4.45	0.95	4.67
2022	4.32	0.67	6.45
2021	3.58	0.67	5.34

Source: Compiled by the author based on Diageo Consolidated Income Statements (2021–2025).

A G3.2 ratio of 2.13 in 2025 reflects a narrowing "safety margin." If net income were to continue to decline without a corresponding reduction in debt, the company might be forced to cut dividends (which have been increased consistently for 25 years) or reduce capital expenditures to maintain debt service (Macrotrends, 2026d).

**G3.3: Cash Flow Coverage of Principal Repayments.** The G3.3 indicator measures the company's ability to repay its long-term debt principal using its net cash from operating activities. As noted by Drehmann and Juselius, if the operating cash flow covers only a small portion of the debt, it indicates a high dependency on refinancing.

**Table 11. Operating Cash Flow Coverage of Total Debt (G3.3 Ratio)**

Fiscal Year	Net Cash from Operations (\$B)	Total Debt (\$B)	G3.3 Ratio
2025	4.30	24.40	0.176
2024	4.11	22.11	0.186
2023	3.64	16.50	0.221
2022	4.40	16.03	0.274
2021	4.10	14.73	0.278

Source: Compiled by the author based on Diageo Annual Reports and Cash Flow Statements (2021–2025).

The G3.3 ratio has declined from 0.28 to 0.17, indicating that Diageo's debt is increasingly "not well covered" by its annual operating cash flow. This confirms that Diageo is a "permanent debtor" a company that manages its debt not by paying it off, but by continuously refinancing it in the capital markets. This strategy is sustainable for an "A-" rated company, but it leaves the company vulnerable to periods where credit markets are closed or prohibitively expensive.

**G3.4: Liquidity Buffer Adequacy (Short-term Debt Servicing).** The G3.4 indicator measures the adequacy of the company's liquidity buffer (Cash + Free Cash Flow) relative to its upcoming debt maturities (current portion of long-term debt).

**Table 12. Liquidity Buffer Adequacy and Short-term Debt Servicing Capacity (G3.4 Ratio)**

Fiscal Year	Cash + FCF (\$B)	Current LT Debt Due (\$B)	G3.4 Ratio
2025	4.93	3.21	1.54
2024	4.10	3.23	1.27
2023	4.39	2.48	1.77
2022	6.48	2.62	2.47
2021	6.86	2.85	2.41

Source: Compiled by the author based on Diageo Annual Reports (2021–2024) and fiscal 2025 projections.

The G3.4 ratio remains above 1.0, signifying that Diageo can theoretically pay off its debt maturing in the next year using its existing cash and the current year's free cash flow. This is a vital short-term stability indicator. The improvement from 1.27 in 2024 to 1.54 in 2025 is largely due to the "Accelerate" program's focus on generating strong free cash flow (\$2.75 billion in 2025) and maintaining a higher cash balance (Scribd, 2024).

**Qualitative Factors and Strategic Risks:** While the quantitative indicators provide a structured view of the debt burden, several qualitative factors and strategic risks influence Diageo's financial trajectory. These include regional performance volatility, currency exposure, and the broader macroeconomic environment.

**Regional Volatility: The Latin America and Caribbean (LAC) Impact:** The performance of the LAC region has been a significant drag on Diageo's consolidated financials in the 2024-2025 period. Organic net sales in LAC declined 21.1% in 2024, which directly impacted operating margins and cash flow. This decline was driven by high consumer inflation and an unwinding of inventory levels in the region. For a company with a high debt burden, such regional volatility is dangerous because it can cause a breach of debt covenants if it leads to a sustained drop in EBITDA. To counter this, management has implemented disciplined cost control and utilized its global scale to fuel investments in other growing regions like Asia-Pacific and Africa.

**Currency Reporting Transition:** Effective July 1, 2023, Diageo shifted its functional and presentation currency from sterling to the US dollar. This was a strategic decision to align financial reporting with the company's primary business exposures, as the US is its largest market and most of its debt is dollar-denominated. This move reduces the "accounting noise" created by GBP/USD exchange rate fluctuations, providing a clearer picture of the actual debt burden to investors. However, the company still faces

transaction-level currency risks in emerging markets, which it manages through active hedging strategies.

**Interest Rate Environment and Refinancing:** As a company that relies on permanent debt refinancing, Diageo is highly sensitive to the global interest rate environment. The transition from the low-interest-rate "COVID-19 super-cycle" to a period of higher rates has significantly increased the company's interest expense, which rose to \$1.10 billion in 2025. To mitigate this, the company has focused on long-term fixed-rate notes, such as the \$1.7 billion issuance in late 2023. By locking in rates for 10-20 years, the company insulates itself from future rate hikes, even if the current cost of debt is higher than it was in 2018-2020.

**Comparative Benchmarking and Market Perception:** Diageo's debt burden must be evaluated in the context of its competitors and the broader consumer staples sector. Benchmark data indicates that Diageo's long-term debt-to-equity ratio of 189.6% is significantly higher than many industry peers.

**Table 13. Comparative Benchmarking of Long-term Debt-to-Equity Ratios Across Global Consumer Giants (2024)**

Company	Long-term Debt / Equity
Diageo PLC	189.6%
Nestle SA	163.0%
PepsiCo Inc	227.5%
Constellation Brands Inc	130.5%
LVMH Moët Hennessy LV	19.2%
Unilever PLC	131.2%

*Source:* Compiled by the author based on Finbox and Investing.com market data (2025).

While Diageo's leverage is high compared to LVMH, it is comparable to other global consumer giants like PepsiCo and Nestle. This suggests that the market and credit rating agencies accept high leverage for companies with predictable, high-margin cash flows from "must-have" brands. Moody's and S&P maintain stable outlooks on Diageo, reflecting their belief that the company's strong market position and "secular industry tailwinds" will support its debt burden even through periods of regional volatility (Moody's Corporation, 2024).

Market perception remains generally positive, as evidenced by the company's ability to maintain a price-to-earnings (P/E) ratio of 21.01, which is only slightly below the industry average of 23.59. Investors continue to value Diageo as a "dividend aristocrat" with a proven track record of developing powerful global brands like Johnnie Walker, which has seen its retail sales value increase over 400% since 2002.

In response to the pressures of 2024, Diageo launched the "Accelerate" program. This strategic initiative targets approximately \$3 billion in sustained annual free cash flow from fiscal 2026 onwards, alongside \$625 million in cost savings over three years. The program is specifically designed to stabilize the balance sheet and reduce the leverage ratio to a more conservative target of 2.5x–3.0x net debt/adjusted EBITDA by fiscal 2028 (Stock Analysis, 2026).

The success of "Accelerate" is critical for Diageo's long-term solvency. By improving free cash flow, the company will be able to fund its consistent dividend

payments and strategic acquisitions using internal funds rather than increasing its debt stock. Furthermore, the program's focus on "everyday efficiency" and commercial excellence aims to restore operating margins that were compressed by inflation and regional downturns.<sup>3</sup> If executed successfully, "Accelerate" will allow Diageo to deleverage its balance sheet while maintaining its status as a premier growth-and-income investment.

The comprehensive evaluation of Diageo PLC's debt burden reveals a company at a strategic crossroads. On one hand, the quantitative indicators show a company that is intentionally and heavily leveraged. The G1.1 (leverage), G1.3 (asset encumbrance), and G3.3 (cash flow coverage) ratios all point to a high degree of reliance on external creditors and the bond markets. On the other hand, the G2.1 (inventory security), G2.2 (liquidity), and G3.4 (maturity coverage) ratios demonstrate that this debt is backed by a world-class asset base and a robust liquidity buffer.

Diageo's debt burden is a "strategic burden" a calculated choice to use low-cost capital to buy back shares and acquire high-growth brands like Don Julio and Ritual. This strategy worked exceptionally well during the low-interest-rate environment of the 2010s, but the higher rates and regional challenges of the 2020s have reduced the company's margin for error. The downward trend in interest coverage (G3.1) and net income coverage (G3.2) is the most significant warning sign, suggesting that a return to organic growth and cost-efficiency is now mandatory.

**Interpretation of Risk Thresholds.** In the global spirits industry, leverage thresholds differ significantly from typical manufacturing sectors. A Debt-to-Equity ratio  $> 2.0$  (G1.1) is generally considered "high risk" in cyclical industries; however, for Diageo, this is viewed as "manageable leverage" due to:

1. **Low Demand Elasticity:** Alcoholic beverages exhibit high resilience during economic downturns.
2. **Asset Liquidity:** The inventory of matured spirits acts as a "secondary currency."
3. **Investment Grade Benchmarks:** Credit rating agencies (Moody's, S&P) tolerate higher leverage for firms with high EBITDA margins ( $>30\%$ ) and consistent free cash flow.

### Conclusion

The analysis of Diageo PLC's financial stability through the lens of G1, G2, and G3 indicators confirms that the company possesses the institutional strength to manage its current debt load, provided it remains focused on operational efficiency. The transition to US dollar reporting and the implementation of the "Accelerate" program are proactive steps that address the primary risks identified in this report.

From the perspective of bondholders and institutional lenders, Diageo remains a high-quality credit, supported by its "A3/A-" ratings and its vast stocks of aging spirits that provide a unique form of collateral. For equity investors, the company's debt burden represents a trade-off: it enables higher returns and consistent dividends, but it also necessitates a disciplined focus on margins and regional stability.

In the future, the company must carefully balance its "Performance Ambition" with its need to deleverage. Continued expansion into high-growth, high-margin categories like

Tequila and Scotch are essential, but they must be accompanied by a reduction in the total debt-to-equity ratio to ensure that the company remains resilient to future macroeconomic shocks. Overall, Diageo's debt management reflects a sophisticated, strategic approach characteristic of global market leaders, ensuring long-term value creation through the intelligent use of capital markets while maintaining a firm foundation of asset security and liquidity.

While this study focuses on Diageo PLC, the findings offer significant insights for emerging markets and specialized sectors.

- **Relevance to Emerging Markets (Armenia):** The "Asset-Based Security" model identified in this study is highly relevant for the Armenian brandy (Cognac) and wine industry. Armenian producers, which maintain large stocks of aging spirits, can transition from traditional bank lending to more sophisticated debt management strategies by utilizing their maturing inventory as a strategic buffer for long-term financing.

- **Limitation & Generalizability:** It is noted that the "Permanent Debtor" model is most effective for firms with global brand equity and high-margin products. Smaller firms in emerging markets should approach this level of leverage with caution, ensuring that their inventory's market value growth consistently exceeds the domestic cost of capital.

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