

RON SANTA TERESA
Opening New Distribution Channels through Diageo

by

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TABLE OF CONTENTS

Acknowledgments	2
Executive Summary	4
I. Hacienda Santa Teresa.....	5
A. Timeline.....	5
B. Family Ownership	5
C. Plantation & Distillery Tours	7
D. Products	7
E. Awards.....	9
II. Management Overview	9
A. Production & Capacity.....	9
B. Distribution.....	10
C. Marketing	12
D. Financial Performance	13
E. Regulatory Environment	14
III. Diageo	17
A. Company Overview	17
B. Distribution Channels & Presence in Venezuela	17
C. Financial Performance	18
D. Marketing	19
IV. Venezuelan Rum Industry & the U.S. Market.....	20
A. Overview & Consumer Trends	20
B. Competition	21
V. Country Risks & Implications	22
A. Economic & Financial Implications	23
B. Political Risk	24
VI. Recommended Approach	25
A. Sales Prospects	25
B. Distribution Improvement	26
C. Recommendation Summary.....	26
Works Cited.....	28
Appendices	29
A. Company Purpose & Values	30
B. Map of Relevant Location & Picture of Plantation	30
C. Picture & Diagram of the Solera Aging Technique	31
D. Complete Product List.....	31
E. Product Attributes.....	32
F. Marketing Billboards & Social Media Promotion	33
G. RST Financial Statements	34
H. Diageo Family Tree History.....	38



Executive Summary

Ron Santa Teresa is Venezuela's oldest registered rum distillery whose roots tie back over 200 years. Located nearly 70 kilometers west of the capital, Caracas, its sugar mills and distillery was built on the train station of El Consejo. The company and plantation remain family owned where they produce some of the most unique, premium, and internationally acclaimed rum in the world. Santa Teresa wishes to expand sales into new international markets, especially the United States where demand is growing. The following is a strategic business analysis of Ron Santa Teresa and opportunities for opening distribution channels through Diageo PLC (NYSE: DEO). Diageo is the largest alcohol producer and distributor in the world who has easy access to the industry's largest markets. With a commanding presence, Diageo has consistently been able to effectively market their product and drive sales growth. Without acquiring control, but possessing distribution rights, Santa Teresa can remain a family owned business while capitalizing on global market expansion through its distribution giant, Diageo.

RON SANTA TERESA

Opening New Distribution Channels through Diageo

I. Hacienda Santa Teresa

A. Timeline

Founded in 1796, Ron Santa Teresa is the oldest rum brand registered in Venezuela. Just 70 kilometers west of Caracas, the *hacienda* (the all-encompassing plantation and distillery) first cultivated wheat, indigo, coffee and sugar cane. In 1810, a sugar mill and small distillery were built where the rum production begun inside the small town and train station of El Consejo. Later in 1881, the property was acquired by the German Gustav Julius Vollmer and his Venezuelan wife Panchita Ribas (cousin of Simon Bolivar who inherited part of the lands). The Vollmer's decided to bring the first distillery from Germany and aging barrels from France, so by 1909 rum was being produced and the company was a trademark registered as Ron Santa Teresa.¹ Large scale production of the spirit ignited in 1936 after the country's first electric motor powered sugar cane mill was installed.² It was not until the early 1950s when Santa Teresa started concentrating on rum as a corporate business. Today, the company produces and still retails coffee beans, chocolate, and sugar cane, but rum remains its source of primary operating income. See: Appendix A for Santa Teresa's purpose/mission statement and core values. See: Appendix B for a map of the relative location and photo of Hacienda de Ron Santa Teresa.

B. Family Ownership

Dating back to its origin, Hacienda Ron de Santa Teresa has remained a family business of the Vollmer's. In 1955, Alberto Vollmer Herrera brought the family tradition into the modern

¹ Hacienda Santa Teresa, <http://www.haciendasantateresa.com.ve/seccion.php?type=sec&idg=15&seccion=217>

² Ron Santa Teresa, 2009. *Over 200 Years of History*. <http://www.ronsantateresa.com/#ronst>

age by incorporating C.A. Ron Santa Teresa as a public company on the *Bolsa de Valores de Caracas* or Caracas Stock Exchange (CLS: RST) and the business started to grow.³ By the mid-1980s, Santa Teresa and its competitors in the rum sector were helped by continuous devaluations of the Venezuelan bolivar currency, which discouraged the consumption of imported liquor and boosted domestic products like rum. In 1991, however, the currency was more or less under control and imports began growing, so the rum market started to decrease, shriveling from around six million cases in 1992 to 1.4 million cases in 2001. Desperate to improve their exports strategy, Santa Teresa created a partnership with Allied-Domecq (an English company that operated wines and spirits), who valued the company at \$100 million and bought 20% of it. The objective was for Santa Teresa to develop Allied-Domecq's Brands in Venezuela and for them to develop Santa Teresa's brand internationally. But by 1999, Santa Teresa sued Allied-Domecq for not respecting their contract and not developing Santa Teresa abroad. In 2001, Santa Teresa bought back their 20% of ownership.⁴

In 1999, given the financial situation of the company, Alberto Vollmer (great-great son of Gustav Vollmer) along with his brother, decided to take over management and restructure all of the company's strategies. They reduced the number of employees to one half their original size and closed their regional offices, only keeping the headquarter offices. They also restructured their debt financing and raised prices. With this strategy, now operations margins have rose from 12% to surpass the 17% industry average, local human development index is 40% better than in early 2000's and in 2011, the company was selected as the third best place to work in Venezuela.⁵

³ Caracas Stock Exchange, 2013. <http://www.caracasstock.com/esp/index.jsp>

⁴ Larry Luxner, 2002, http://www.luxner.com/cgi-bin/view_article.cgi?articleID=857

⁵ Brad Smart, Top Grading Inc. 2012. <http://www.smarttopgrading.com/custom/index.cfm?id=212226>

C. Plantation & Distillery Tours

The hacienda de Santa Teresa has been operating its sugar cane mill for over 200 years. The 18,300-acre distillery and plantation are located in the Aragua Valley and is surrounded by sugar cane – the base of rum. This is the site of Simón Bolívar's ratification of the abolition of slavery in 1818. There is an immense local and national pride for the company and product as Santa Teresa offers distillery tours. The tours include a beautiful ride through the plantation where visitors are educated on the history of the hacienda, train station of El Consejo how the rum and coffee was first distributed throughout the country, distillery aging processes, sugar cane fields, and six-course rum tasting of their entire portfolio. The location and distillery are so unique to Santa Teresa's product and heritage that CNN acclaimed it as one of the best distillery tours in the world.⁶

D. Products

The most promotable aspect of the product is the aging process and technique. Venezuelan law requires that all rum bottled in Venezuela must be aged at least two years, one of the longest aging laws in the industry.⁷ Santa Teresa also uses the solera aging process. The Solera process of distilling is a long journey of aging the rum partakes in to achieve a desired freshness, equilibrium, strength and maturity. Here, oak barrels are set in four rows, one above the other in which the rum ages slowly as it is transferred from barrel to barrel over determined maturities. Once the progression of cascade decanting is complete, only a portion of rum on the fourth row of barrels is taken to the next process. The slow and calmly final step occurs in large oak crates where the maturing process is completed. Due to fluctuating temperatures, the alcohol soaks into the barrels while it is being aged, sometimes never escaping the oak. It is because of

⁶ CNN, World's Best Distillery Tours, July 2012, <http://www.cnn.com/2012/07/13/travel/departures-distillery-tours>

⁷ Ministry of Rum, Venezuela 2013, <http://www.ministryofrum.com/countrydetails.php?c=91>

this process that the alcohol such as the 1796 batch has flavors of the original batches dating back over 200 years old. See: Appendix C for a picture and diagram of the solera aging technique.

Currently listed in the product line of rums and liquors distilled and distributed from Santa Teresa's plantation are as follows: *Superior, Carta Roja, Arakú, Rhum Orange Liqueur, Santa Teresa Añejo (known as Gran Reserva), Selecto, Santa Teresa 1796, Bodega Privada, Bicentenario*, and *Santa Teresa Linaje*. The top three products that are most awarded in the U.S. market are Rhum Orange Liqueur, Selecto and Santa Teresa 1796. These will be the three product lines first proposed for distribution to new markets. See: Appendix D for complete product line visual.

❖ *Santa Teresa 1796 -*

Antiguo Solera 1776 is the only rum in the collection that is aged for over 25 years in the Solera process. Brownish-red in color and distilled from fermented molasses it encompasses a blend of solera rums aged in Limousin oak.⁸ The flavor embodies hints of honey, nuts, coconut and slightly smoked ripe fruit. This creates a smooth finish and refined taste. Bottled at 40% alcohol by volume, its retail price is listed \$42-\$65.

❖ *Selecto –*

Selecto has a young & sophisticated appeal aged up to ten years. It has a mature, balanced body, amber-reddish color, rich in tears, and honey/oak aroma. With wood aromas and vanilla-like notes it gives a lightly viscous body, silky, smooth, and firm aftertaste. Bottled at 40% alcohol by volume, its retail price is listed at \$24-\$38.

❖ *Rhum Orange Liqueur -*

⁸ Ministry of Rum, March 27, 2011. <http://www.ministryofrum.com/rumdetails.php?r=585>

Dense amber color with orange glitter, fruity fragrance, hints of black pepper. The initial taste of orange is prominent but not overwhelming followed by more honey and nuts with a smooth finish attesting to the three years this rum has been aged. Bottled at 40% alcohol by volume and priced at retail value of \$17-\$26. See: Appendix E for product attributes of 1796, Selecto and Rhum Orange Liqueur.

E. Awards

Multiple world spirits and rum competitions have consistently awarded Santa Teresa's showcase to be the best tasting rum in the world. The 1796 Antiguo de Solera and Rhum Orange Liqueur both received a gold medal in 2007 from the *Ministry of Rum Tasting Competition* and a silver medal in the *2006 International Sugar Cane Spirits Tasting Competition Ybor City* for their categories.⁹ In the *San Francisco World Spirits Competition*, Santa Teresa 1796 won silver in 2008 and 2011, then gold in 2012 in its premium category. Rhum Orange Liqueur has won silver medals in its category for 2009, 2010 and 2011. Also, Selecto has won bronze in 2010, and gold in 2011 and 2012. The *Beverage Tasting Institute* has consistently ranked all three rum products between 91-94% over the past five years. Additionally, *Wine Enthusiast* gave Rhum Orange Liqueur and Solera 1796 scores of 90-95% and 96-100% approval grades in 2012.¹⁰

II. Management Overview

A. Production and Capacity

The production plant of Ron Santa Teresa is located only at the hacienda in El Consejo, Aragua. Aragua has a distillation capacity of 18 million liters of alcohol per year. From this amount, approximately 5 million liters are accredited to Gran Reserva, 3 million of the Rhum

⁹ Ibid.

¹⁰ Proof66 LLC, 2013. <http://www.proof66.com/rum/santa-teresa-1796-extra-aged-rum.html>

Orange Liqueur, 1 million liters of Selecto, and 140,000 of the 1796 batch.¹¹ The remainder of production is diversified in the remainder of their eight showcase brands. The company has about 18 aging cellars, which store about 100,000 barrels to age some 24 million liters of rum per annum. Their unit packaging capacity is capable of processing 21 million liters annually. Although the packaging process is still manually operated, the company looks to invest in new equipment to improve automation in the next two years.¹² With increased capacity of automation, packaging and processing, the distillery has much room for increased production which it looks to boost international exports.

B. Distribution

Ron Santa Teresa supplies local rum demand, for which the company enjoys strategic vertical integration, from sugar cane production to distillation and distribution. Its products are also commercialized in more than 20 countries around the world, in Europe, Asia, and North and South America in which exports account for 20% of the revenue of the company and Spain constitutes the majority of sales.¹³ Approximately 3-5% of the 20% international sales correspond to the United States market. Listed below are Ron Santa Teresa's main U.S. distributors.

❖ Florida – International Wine & Spirits (IWS)

In 1999, IWS became incorporated and in February 2000 it became a full-fledge company. Now in its fifteenth year, IWS is dedicated to importing and distributing wines

¹¹ EuroMonitor International Industry Reports, Ron Santa Teresa in Alcoholic Drinks (Venezuela) 2013, <http://www.portal.euromonitor.com/Portal/Pages/Analysis/AnalysisPage.aspx>

¹² Information and production facts given by tour guides, conducted August 2012.

¹³ EuroMonitor International Industry Reports, Ron Santa Teresa in Alcoholic Drinks (Venezuela) 2013, <http://www.portal.euromonitor.com/Portal/Pages/Analysis/AnalysisPage.aspx>

and spirits from around the world. IWS is a very small distributor of only one warehouse, but projects one more new warehouse to open in Central Florida in early 2013.¹⁴

❖ *Georgia – United Distributors*

United Distributors, Inc., headquartered at Smyrna, Georgia is one of Atlanta's largest privately held companies and accounts for the largest volume of Santa Teresa product distribution. United is Georgia's largest beverage alcohol distributor with distribution centers in Smyrna, Albany, and Savannah, Georgia.¹⁵

❖ *New Jersey – American BD*

Opici Wine Company of New Jersey (American BD) was founded in 1913 in Paterson, NJ. For over 90 years the NJ operation is the largest of the Opici distribution companies that spans the greater NY area.¹⁶

❖ *Maryland – Bacchus Importers LTD*

Located in Baltimore, Maryland, Bacchus Importers imports alcohol from around the world, focusing highly on wine. Bacchus offers marketing aid through POS merchandising material and promotion which can be provided at the expense of the producer/owner of the alcohol brand.

Wanting to increase sales in the United States above their current estimated 3% margin, Santa Teresa is struggling with a significantly limited distribution channel. Their distributors have narrow knowledge and limited marketing capabilities to bring brand awareness to the product. In some instances, such distributors claimed they were "too busy" to work with

¹⁴ International Wine & Spirits: About IWS, <http://iws-fla.com/homepage/welcome-to-i-w-s/about-us/>

¹⁵ United Distributors Inc., 2011, <http://uniteddistinc.net/>

¹⁶ American BD Company, 2012, <http://www.opici.com/distributor/>

suppliers, or likewise, management truly had no knowledge about the product.¹⁷ By breaking apart distribution channels through a variety of distributors, it is very difficult to track the due diligence and attention each distributor should give to every product and brand they represent.

C. Marketing

Santa Teresa currently only advertises its product in social media advertisements like Facebook and YouTube, or through street side billboards in Caracas, Venezuela. In 2011, the company selected Miami-based Alma as its advertising agency. Alma has begun to manage the brand strategy and global communication with focus in Latin America, Spain and the US general market.¹⁸ According to Santa Teresa, the company won the account based on their fully integrated capabilities and innovative approach to tackling communications challenges. At the time, Alberto C. Vollmer, Chairman and CEO of Ron Santa Teresa said, "At Santa Teresa we are very excited to kick off our relationship with Alma! We have taken our time to find the right partner that will complement us with insightful sensitivity, powerful creativity and the right geographical fit to build the Santa Teresa brand together in the growing international rum markets. We're impatient to blend the iconic (premium) Venezuelan rum brand, with Alma's expertise and talent."¹⁹ Marketing promotion and advertising appears to pose the largest concern for Santa Teresa entering new markets. By only utilizing free sources of social media and domestic, Venezuelan, street billboards, brand awareness is relatively unknown in the American market. See: Appendix F for photos of marketing advertisements and billboards.

In their competitive positioning, Ron Santa Teresa is best ranked in rum in Venezuela, holding second place in the country with a total volume share of 34%, surpassed only by Diageo

¹⁷ No Pay Wine Distributors, Bacchus Importers Customer Reviews, May 27, 2010.

<http://www.nopaywinedistributors.com/Maryland/Bacchus-Importers->

¹⁸ Reuters, Alma Named Santa Teresa's Advertising Agency, Oct. 3, 2011.

<http://www.reuters.com/article/2011/10/03/idUS213065+03-Oct-2011+PRN20111003>

¹⁹ Ibid.

Venezuela, which commercializes the leading brand Cacique.²⁰ Ron Santa Teresa gained two percentage points of share in rum in 2011 due to internet and social networking site advertisements for its flagship brand Gran Reserva.²¹ The company's products tend to be positioned in the mid-priced segment, especially the brand Gran Reserva, which belongs to the standard rum category and accounted for a 28% share of total volume sales of rum in 2011.²² The company currently targets a young audience as seen in their product positioning.

D. Financial Performance

In terms of liquidity and capital structure, Ron Santa Teresa (Ticker: RST) is in good standing since it has the ability to pay its short-term and long-term liability with short and long term assets. However, its ability to meet interest expenses might be questionable, since the interest coverage ratio indicates that the company is not generating enough cash flows to satisfy such interest expenses. In relation to efficiency, RST's high receivables turnover suggests that either the company operates on a cash basis or that its collection of accounts receivable is efficient. Nonetheless, its low asset turnover implies that the company is not using its assets effective enough to generate revenue. For profitability, RST has a high gross margin in the Distillers and Vintners industry that increased in comparison to the previous year, indicating that close to 40% is retained from each dollar of revenue generated. The rest of the profitability ratios have been decreasing in comparison to previous years, which indicate that the variable and fixed costs have been increasing and the company has not proportionally adjust prices. In consequence, RST retains a lower amount of earnings after its costs are covered. The decrease in profitability could be attributed to changing factors in the Venezuelan national economy, such as

²⁰ EuroMonitor International Industry Reports, Ron Santa Teresa in Alcoholic Drinks (Venezuela) 2013, <http://www.portal.euromonitor.com/Portal/Pages/Analysis/AnalysisPage.aspx>

²¹ Ibid.

²² Ibid.

depreciation of the currency and high inflation rates which increase the prices of production materials, and changes in labor laws that increased minimum wages and restricted working hours. In a general sense, the ratios suggest that the company is performing well financially, but the national economy is having a big impact on RST's profitability. See: Appendix for RST financial statements. See: below for ratio analysis.

RST Ratio Analysis FY2012²³

Valuation		Profitability	
P/E Current	(1.94)	Gross Margin	38.73
Price to Sales Ratio	0.06	Operating Margin	(5.01)
Price to Book Ratio	0.14	Pretax Margin	(4.38)
Price to Cash Flow Ratio	11.70	Net Margin	(4.16)
Enterprise Value to EBITDA	(43.70)	Return on Assets	(3.74)
Enterprise Value to Sales	0.33	Return on Equity	(8.25)
Total Debt to Enterprise Value	0.91	Return on Total Capital	(5.46)
EPS (recurring)	(7.99)	Return on Invested Capital	(6.84)
EPS (basic)	(8.00)	Capital Structure	
EPS (diluted)	(8.00)		
Efficiency		Total Debt to Total Equity	56.84
Receivables Turnover	3.90	Total Debt to Total Capital	36.24
Total Asset Turnover	0.90	Total Debt to Total Assets	24.65
Liquidity		Interest Coverage	(1.12)
Current Ratio	1.51	Long-Term Debt to Equity	20.92
Quick Ratio	0.64	Long-Term Debt to Total Capital	13.34
Cash Ratio	0.07	Long-Term Debt to Assets	0.09

E. Regulatory Environment

One of the most significant factors affecting consumption of alcoholic drinks, and especially spirits, is the implementation and enforcement of a new regulation. Listed below is an overview of major Venezuelan laws affecting management implications and business expansion.

²³ Wall Street Journal, Ron Santa Teresa Financials, May 2013. <http://quotes.wsj.com/VE/XCAR/RST/financials>

❖ *Advertising Laws*

The Law for Social Responsibility on Radio and Television (Ley de Responsabilidad Social en Radio y Televisión) covers among its articles the regulation and sanctions for messages pertaining to alcoholic drinks which are transmitted by mass media. Article 28 sets out penalties for companies failing to comply with this restriction, including the payment of between 1-2% of the gross income that the broadcasting company obtained in the year prior to the time of committing the offence; also seen as part of the penalty is the mandate to assign broadcasting space to the transmission of messages of social responsibility campaigns.²⁴ In August 2008, the Law of Land Transportation was amended to include the prohibition of alcoholic drinks advertising being placed on the national road system. The restriction specifically states that no advertising can be placed within 50 meters of the edge of the main national roads, less than 30 meters from any paved highway and less than 15 meters from unpaved roads. It also prohibits the placement of advertising for alcoholic beverages on cargo or personnel transportation, public or private.

❖ *Legislation Monopolies*

In this sense the company is not affected in any of its markets (domestic and foreign), and that even considering the Venezuela Antitrust, Unfair Competition and Oligopoly Act (2006), the products they manufacture are only a portion of the market.

❖ *Environmental Laws*

The liquor production activities are subject to compliance with various regulations regarding the care and protection of the environment. Those standards in some cases

²⁴ EuroMonitor International Industry Reports, Ron Santa Teresa in Alcoholic Drinks (Venezuela) 2013, <http://www.portal.euromonitor.com/Portal/Pages/Analysis/AnalysisPage.aspx>

require additional costs in establishing new operational units and improvement costs in current locations. However, Santa Teresa management believes that these costs and expenses will not significantly affect future operating results. The company is in the process of an environmental impact study, which is performed by a description of how it will be used degradable trash and wastewater, to ensure sustainability of natural resources and minimizing environmental impact.

❖ *Fiscal Policy*

In recent years, fiscal policy in Venezuela has become somewhat restrictive because new taxes are set to successfully obtain funds for public spending. Additionally, the National Tax Administration has intensified its monitoring procedures, and increased demands for compliance with formal duties that are required to meet taxpayers, making uphill task to promptly meet tax obligations. However, Ron Santa Teresa has been characterized a law-abiding company and has been adapted to the new demands of the tax administration, adapting their systems and train their staff in this important matter. In October 2007, through Decree Law was reformed Tax Act Alcohol and alcoholic species, being established rate of 15% for beer and wine and 20% for the rest of the spirits.²⁵ The company has not yet determined the impact this measure could lead to future sales level.

❖ *Legislation on Foreign Trade*

INCOTERMS, or Spanish International Commercial Terms, are types of contracts used by companies, customers and governments to market any product across jurisdictions customs. In general reports, Santa Teresa assumes that this represents no impediment to the marketing of their products because they are made with the highest standards of quality and have not previously had quality implications from authoritative oversight.

²⁵ Euromonitor, Alcoholic drinks in Venezuela, <http://www.euromonitor.com/alcoholic-drinks-in-venezuela/report>

❖ *Labor Law:*

In Venezuela, the national government usually increases the minimum wage unilaterally without consulting with private enterprise, which causes mismatches in company budgets. That has happened in the country at least for the past five years, which worsened the crisis that Santa Teresa encountered at the end of last decade.

III. Diageo

A. Company Overview

Diageo is the leading premium spirits business in the world by volume, net sales, and operating profit. The company produces and distributes eight of the world's top 20 spirits brands.²⁶ It is also one of the few international drinks companies that span the entire beverage alcohol market, offering beer, wine, and spirits. Diageo's well-known brands include Smirnoff vodka, Baileys cream liqueur, Johnnie Walker Scotch whisky, José Cuervo tequila, Tanqueray gin, Captain Morgan rum, Guinness beer, and wines from Sterling Vineyards and Beaulieu Vineyard. Its products are sold worldwide. In the company's financial year ending 30 June 2012, North America generated around 33% of net sales, Europe 28%, Africa 13%, Latin America and Caribbean 12% and Asia Pacific 14%.²⁷

B. Distribution Channels & Presence in Venezuela

Trading in approximately 180 markets, Diageo employs over 25,000 people around the world. Diageo has offices in 80 countries, and manufacturing facilities across the globe including Great Britain, Ireland, United States, Canada, Spain, Italy, Africa, Latin America, Australia, India and the Caribbean. The distributions of Diageo's brands are organized across five

²⁶ Hoovers Company Profiles: Diageo, 2013. <http://www.hoovers.com/diageo>

²⁷ Diageo, 2013. <http://www.diageo.com/en-row/ourbusiness/ourregions/Pages/default.aspx>

geographic regions: North America, Europe, Latin America & Caribbean, Africa and Asia-Pacific. For the fiscal year ending June 2011, North America generated the biggest amounts with 34% of net sales.²⁸ The Latin American region ships approximately 19 million 9 litre cases, of which around 25% is domestically produced through various third parties. Specifically, Diageo has a strong presence in the Venezuelan market. It has 228 employees and was ranked number 12 in “2013 Best Companies to Work for in Venezuela”.²⁹ In the past decade Diageo has formed a strong relationship in the Venezuelan rum industry after acquiring Pampero and Cacique brands.

C. Financial Performance

Diageo’s (Ticker: DEO) financial situation has been improving substantially after the first quarter of 2009, post financial crisis. Its stock price is a clear indicator of this since its price has tripled ever since; over the last year its sales have increased 8.31% and revenue by 6.61%. In terms of liquidity and capital structure, the company shows the ability to pay its short-term and long-term liability with short and long-term assets. In relation to efficiency, its high revenue per employee and income per employee ratios shows that the company is experiencing a good level of productivity. Additionally, efficiency ratios indicate that DEO’s collection of accounts receivable is efficient and low asset turnover is a consequence of high profit margins. In terms of profitability, there is no doubt that DEO is in good standing. Its high gross margin in the Distillers and Vintners industry increased to 46%, which shows that 46 cents are retained from each dollar of revenue generated. Its margins indicate that the company is using an adequate pricing strategy in order to pay for costs, taxes and liabilities. Finally, its high return on investments makes DEO an appealing company to make business with. The main attributions to

²⁸ Diageo, 2013. <http://www.diageo.com/en-row/ourbusiness/ourregions/Pages/default.aspx>

²⁹ Great Places to Work: Venezuela, 2013. <http://www.greatplacetowork.net/best-companies/latin-america/venezuela/best-companies-in-venezuela/1616-2013>

the company's growing success are outstanding marketing and branding campaigns, a growing amount of distribution channels worldwide and a complete variety of spirits that aim to meet different consumer preferences.


DEO Ratio Analysis FY2012 & 5-Year Historical Price Chart³⁰

Valuation	
P/E Current	25.50
P/E Ratio (including extraordinary items)	19.66
Price to Sales Ratio	3.81
Price to Book Ratio	7.44
Price to Cash Flow Ratio	19.68
Enterprise Value to EBITDA	17.94
Enterprise Value to Sales	5.62
Total Debt to Enterprise Value	0.18
Total Debt to EBITDA	2.56
EPS (recurring)	0.79
EPS (basic)	0.78
EPS (diluted)	0.77
Efficiency	
Revenue/Employee	0.42
Income Per Employee	0.08
Receivables Turnover	5.74
Total Asset Turnover	0.51
Liquidity	
Current Ratio	1.52
Quick Ratio	0.69
Cash Ratio	0.23

Profitability	
Gross Margin	46.00
Operating Margin	29.29
Pretax Margin	27.02
Net Margin	18.15
Return on Assets	9.27
Return on Equity	36.06
Return on Total Capital	13.97
Return on Invested Capital	15.46
Capital Structure	
Total Debt to Total Equity	158.54
Total Debt to Total Capital	61.32
Total Debt to Total Assets	39.64
Interest Coverage	6.33
Long-Term Debt to Equity	136.11
Long-Term Debt to Total Capital	52.65
Long-Term Debt to Assets	0.34

DEO

News Stories



Year	DEO Price (\$)	News Stories
2009	~80	~10
2010	~46.50	~15
2011	~70	~25
2012	~90	~20
2013	~116.23	~15

³⁰ Wall Street Journal, Diageo Financials 2013. http://quotes.wsj.com/DEO?mod=DNH_S_cq

D. Marketing

“Celebrating life, every day, everywhere” – this is Diageo’s slogan. Diageo’s brands have evolved and developed over the years since Arthur Guinness first signed a 9,000 year lease on St. James’s Gate brewery in Dublin, Ireland. However, the current form of Diageo marketed today, is a relatively young company established in 1997.³¹ Diageo has shown strong commitment in promoting its brands. In the year ended 30 June 2011, £1,538 million was spent worldwide on marketing brands with a focus on the fourteen strategic brands that accounted for 78% of total marketing spend.³² Diageo makes extensive use of magazine, newspaper, point of sale and poster and billboard advertising, and uses radio, cinema, television and internet advertising where appropriate and permitted by law to engage with consumers and customers. Additionally, Diageo runs consumer promotional programs in the on trade (for example, licensed bars and restaurants) and supports customers in both the on and off trades with shopper/consumer promotions. Sponsorship in brand marketing with Diageo is currently active with the Vodafone McLaren Mercedes Formula One Team, a NASCAR racing team and the Johnnie Walker golf championships.³³ With a variety of strategies that have proved effective, Diageo can showcase Santa Teresa through a many positioning outlets.

IV. Venezuelan Rum Industry & the U.S. Market

A. Overview & Consumer Trends

Although rum has long lagged in consumer preference and consumption in the spirits industry, it is now widely tipped as the next hot international category in liquors. Looking at the global spirits industry, the rum market has been displaying consistent and sustained growth in

³¹ Diageo. <http://www.diageo.com/en-row/ourbusiness/ourregions/Pages/default.aspx>

³² Diageo 2011 Annual Report. <http://annualreport2011.diageoreports.com/business-description/premium-drinks.aspx>

³³ Ibid.

recent years. It is undoubtedly substantial in terms of volume and breadth of markets and appears to be closing the gap compared to other premium spirits like scotch. The global market consists of between 30 and 40 million cases of different category rums, separated according to their age. Today, Venezuela is the frontrunner in the smaller market for "premium" rums, which totals around 5 million cases and is growing at around 25 per cent a year.³⁴ An industry report claims global sales rose by a compound annual growth rate (CAGR) of 1.7% from 2003 to 2007, and grew over 11.6% through 2012.³⁵ This growth potential is attracting increased investment from multinationals, thus further developing the industry's means of production methods, presentation and innovative marketing. Reports show that the ratio of advertising and promotions to net sales is growing even higher, particularly in the United States.³⁶

B. Competition

The international competitive landscape for rum distillers can be separated into two categories of domestic premium and large commercial production in the Latin American and Caribbean region. Caribbean Community rum exports to the U.S. increased by 18 percent in the first half of 2012 over the same period last year.³⁷ This demand sparks increased competition bringing smaller premium distillers into larger markets.

- ❖ *Cacique* – Owned by Diageo, Cacique is an ultra-premium Venezuelan rum that was first launched in 1959. It is a blend of several triple distilled rums that is aged for two

³⁴ Silene Ramiraz, Global Growth for Venezuelan Rum 2012, <http://www.theage.com.au/articles/2004/06/01/1086058846788.html>

³⁵ IWSR Global Market Review, 2012. http://www.just-drinks.com/analysis/report-in-focus-rum-no-longer-just-a-consolation-prize_id96242.aspx

³⁶ Ibid.

³⁷ David McFadden, *US Rum Binge Giving Distillers a Headache*, 2013. <http://www.nbcnews.com/business/us-rum-binge-giving-caribbean-distillers-headache-990935>

years in white oak barrels. Having sold over 1.7 million liter cases year in 2011, its main markets are Spain and Venezuela.³⁸

- ❖ *Pampero* – Another producer owned by Diageo, Pampero is 100% dark Venezuelan rum primarily sold in Venezuela, Spain, and Italy.³⁹ Although it is not regarded as the best in the world in international competitions, it is competitively priced for its quality.
- ❖ *Bacardi Limited* – Privately owned and distributed in Puerto Rico, Bacardi Limited is the largest family owned spirits company in the world. It is also the world's number one selling rum brand by volume sales of 9-liter cases with over 19.6 million sold in 2011.⁴⁰
- ❖ *Captain Morgan* – Most popularly sold in the U.S., Canada, Great Britain, and South Africa, Captain Morgan is owned and distributed by Diageo. It was Diageo's fastest growing rum shipping over one million cases in ten years following its launch in 1983.⁴¹

The brand continues to grow in the low end segment of the rum category.

V. Country Risks & Implications

Looking at an overview of the macro environmental risks factors, many considerations must be taken into account when doing business in Venezuela. The Heritage Economic Freedom Index lists Venezuela as the 174th freest (making it the 4th worst rated nation in the world).⁴² Its score has decreased by 2.0 points since last year, reflecting deteriorations in business freedom, labor freedom, and freedom from corruption and an explosive increase in government spending in the run-up to 2012 elections. Venezuela is ranked 28th out of 29 countries in the South and Central America/Caribbean region, and its overall score has recorded one of the 10 largest

³⁸ Elite Daily, 2012, <http://elitedaily.com/elite/2012/top-10-bestelling-rum-brands-world/>

³⁹ Diageo, About Us 2012, <http://www.diageo.com/en-ie/ourbrands/categories/spirits/Pages/Rum.aspx>

⁴⁰ Elite Daliy, 2012, <http://elitedaily.com/elite/2012/top-10-bestelling-rum-brands-world/>

⁴¹ Diageo, About Us 2012, <http://www.diageo.com/en-row/ourbrands/categories/spirits/Pages/Rum.aspx>

⁴² Heritage Foundation (Wall Street Journal), Venezuela, 2013. <http://www.heritage.org/index/ranking>

declines in the 2013 Index.⁴³ Listed below is The Economist Intelligence Unit Risk Assessment ratings and factsheet overview of the macroeconomic environment.⁴⁴

Venezuela: risk assessment & relevant facts

	<i>Sovereign risk</i>	<i>Currency risk</i>	<i>Banking risk</i>	<i>Political risk</i>	<i>Economic structure risk</i>	<i>Country risk</i>
April 2013	CCC	CCC	CCC	CC	B	CCC
<i>Annual data</i>			<i>2012^a</i>	<i>Historical averages (%)</i>		<i>2008-12</i>
Population (m)			29.5	Population growth		1.6
GDP (US\$ bn; market exchange rate)			382.5 ^b	Real GDP growth		2.0
GDP (US\$ bn; purchasing power parity)			402.1 ^c	Real domestic demand growth		3.1
GDP per head (US\$; market exchange rate)			12,957	Inflation		26.5
GDP per head (US\$; purchasing power parity)			13,624 ^c	Current-account balance (% of GDP)		5.4
Exchange rate (av) BsF:US\$			6.3 ^b	FDI inflows (% of GDP)		0.5

^a Economist Intelligence Unit estimates. ^b Actual. ^c Economist Intelligence Unit estimates.

Santa Teresa identifies the main risks associated with management as follows:

A. Economic & Financial Implications

❖ *Currency Devaluation*

Devaluation greatly affects the company for several reasons. The exchange rate affects export prices of rum and competitiveness in the foreign markets. The availability of the currency poses another issue given the company works with imported goods, particularly in the packaging phase (containers, cases, covers, accessories) that could increase the cost if the bolivar depreciates relative to the value of the foreign currency. Availability of raw materials, particularly in the case of molasses can be problematic. Santa Teresa has a guaranteed immediate supply given a one year contract with importers; however, possible

⁴³ Ibid.

⁴⁴ The Economist Intelligence Unit: Venezuela, 2013.

<http://country.eiu.com.proxyau.wrlc.org/article.aspx?articleid=950413879&Country=Venezuela&topic=Risk&subtopic=Credit+risk&subsubtopic=Overview>

limitations in the supply in the medium term are not impossible. Given associations of high level crime rates and other social problems such as unemployment and domestic violence, different countries have issued advertising regulations to control and even more consumption of alcoholic beverages. Changes in age restrictions may affect product sales in domestic markets, but credits only more value to the necessity to boost exports.

❖ *Expropriation*

Due to its link with the farming industry and its importance in the local development of the area, it is important not rule out the possibility that the Venezuelan state could expropriate the company and their land. This is still a threat given the government nationalized much of the service and manufacturing industry (particularly in the construction and food sectors) between 2007 and 2008. It is difficult to any Venezuelan business person to forget the nationalization of their oil industry that caused a state-wide blackout for over a month when Chavez ordered his regimes control of PDVSA.

B. Political Risk

Political turmoil and crime continue to be the hot topic of news coverage in Venezuela as 3,400 murders have occurred in only the first couple months of this year alone for the country.⁴⁵ This number has continued to climb after the announced death of Venezuelan president Hugo Chavez in 2013. According to most opposition members, this has never been an issue tackled by the former president. The recent national elections have been very dramatic to political stability. In April 2013, Chavez's successor, Nicolas Maduro, was elected president. According to some analysts, "This represents the worst possible electoral outcome. Maduro's mediocre victory means that he will be an inherently weak president," adding that "economic policy and political

⁴⁵ BBC World News, <http://www.bbc.co.uk/news/world-latin-america-22000171>

stability are likely to deteriorate rapidly."⁴⁶ In early April, Mr. Maduro promised he would raise the monthly minimum wage three times later this year if he won the vote, bringing it up some 45% to as much as \$471 per month.⁴⁷ Although he claims the wage hikes will “help workers cope with rising costs”, economists say it will only fuel inflation that is already overinflated.⁴⁸

While crime figures continue to climb, Venezuela is labeled the 5th most dangerous country in the world by the UN. Corruption, opaque use of public resources and a tense political environment increase risks to sovereign creditworthiness. Within the economic structure, high dependency on oil revenue reflects the failure of successive governments to undertake structural fiscal reforms and encourage diversification.⁴⁹ These are the highest risk factors management of Diageo must consider while adding risky foreign investments to its portfolio. However, since Diageo maintains a strong established presence in the country, this will not likely be a factor to abandon operations in Venezuela.

VI. Recommended Approach

A. Sales Prospects

Since 2004, Santa Teresa has put its international sales expansion plans into action, exporting to Spain, Chile, Italy, and attempting to break into the U.S. market. Consumer preferences, marketing and advertising efforts are shifting toward rum appeal for U.S. spirits. As mentioned, Venezuelan "premium" rum demand is growing at a rate of 25% a year in the U.S. Now is the ideal time for Santa Teresa to shift its focus on increased international and U.S. expansion and capitalize increasing sales to this market. Assuming roughly 3% of its total annual

⁴⁶ Wall Street Journal, <http://online.wsj.com/article/SB10001424127887324345804578424661289146792.html>

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ The Economist Intelligence Unit: Venezuela, 2013.

<http://country.eiu.com.proxyau.wrlc.org/article.aspx?articleid=950413879&Country=Venezuela&topic=Risk&subtopic=Credit+risk&subsubtopic=Overview>

sales and production are distributed to the U.S. market that includes only 90,000 liters of Rhum Orange, 30,000 liters of Selecto, and 4,200 liters of 1796. Optimal sales levels should show an increase of 25% to meet U.S. demand increasing American sales from 6,810,516 bolívares to 8,513,145 bolívares. This is entirely possible and desirable given Santa Teresa's sufficient production capacity.

B. Distribution Improvement

Santa Teresa currently exports a small portion of its product into the U.S. through a variety of scattered distributors. These distributors mainly include *Bock Wines & Spirits* in California, *International Wine & Spirits* in Florida, *Bacchus Importers LTD* in Maryland, and *United Wine & Spirits* located in Texas and Georgia. While approximately 25%⁵⁰ of the company's sales are international, less than 5% are of the U.S. market. The problem is an uncoordinated channel that lacks the global influence a large distributor like Diageo embodies who can effectively measure and meet consumer demand, market the product, and rapidly expand into new markets.

C. Recommendation Summary

By partnering with Diageo PLC, Santa Teresa can more rapidly expand into the new markets and promote their company as a global leader in the premium rum industry. Ownership of the company will remain in the family's hands, while Diageo will reserve the distribution rights. For Santa Teresa there are multiple benefits to this approach with Diageo. Diageo has a proven track record as the world's largest alcohol distributor that has a commanding influence in the industry. They have easier access to the largest coordinated global markets for improved marketability of their product. Like José Cuervo Especial, Diageo can provide marketing

⁵⁰ Ron Santa Teresa, 2012. <http://www.ronsantateresa.com/#distribuidores>

consulting, funding and materials for Santa Teresa as it does for its current brands. Ultimately, Diageo already has a respectable presence in Venezuela and is familiar with the products and market, making this partnership a smooth transition for distribution. As stated by Rafael Pedraza, public relations director for Diageo Venezuela, “We are going to transform Venezuela into a big production center taking advantage of its master rum makers and its climate.”⁵¹ The company has already acquired Venezuelan rum producers Pampero and Cacique. However, Santa Teresa offers characteristics of award winning international recognition and unique aging techniques that would enhance Diageo’s portfolio. With a growing high demand for premium rum, Santa Teresa offers superior quality and an optimal addition to Diageo’s business.

⁵¹ Sirene Ramirez, Global Growth for Venezuelan Rum, 2004.
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APPENDICIES

Appendix A: Company Purpose & Values⁵²

Our Purpose

- ❖ To build up the premium rum category in the world

Our Values

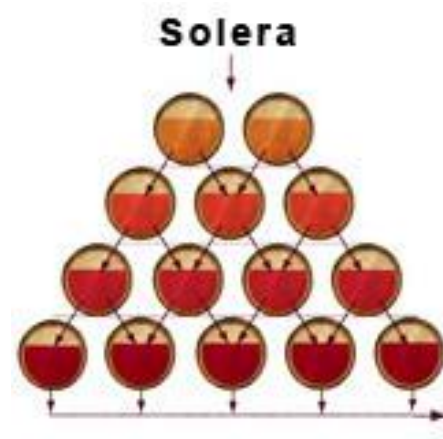
- ❖ Humility
- ❖ Fair play and play to win
- ❖ Pride in our business
- ❖ Improving our environment

Appendix B: Map of Relative Location & Photo of Santa Teresa Plantation



⁵² Ron Santa Teresa: <http://www.ronsantateresa.com/#ronst>

Appendix C: Picture & Diagram of the Solera Aging Technique



Appendix D: Complete Product Line

Listed in order of rarity (from left to right):

- ❖ Carta Roja (\$12), Superior (\$37), Blanco (\$18), Claro (\$18), Santa Teresa Linaje (\$45), Arakú (\$18), Santa Teresa Añejo (known as Gran Reserva - \$24), Bodega Privada (only sold by the barrel for \$22,500), and Bicentenario (\$395).

Note: Santa Teresa 1796, Rhum Orange Liqueur and Selecto are listed in the following Appendix E with a full description.



Appendix E: Product Attributes



Product Name	Antigua Solera 1796 (750ml)	Selecto (750ml)	Rhum Orange Liqueur (350ml)
Category	Ultra-premium añejo (vintage)	Extra-premium añejo (vintage)	Cocktail & dessert mixer/flavored rum
Age	Over 25 years in the Solera process.	Young & sophisticated appeal aged 8 years.	Dense amber color with orange glitter 3+ years.
Characteristics	Mature, balanced body, amber reddish color, rich in tears, honey and oak aroma.	Amber, brilliant and crystalline color. Wood aromas with vanilla-like notes.	Lightly viscous body, silky, smooth, and firm aftertaste.
Price Range	\$42-\$65 US	\$25-\$38 US	\$17-\$26 US
Awards/Recognition ⁵³			
• <i>San Francisco World Spirits Competition</i>	2012: Gold 2011: Silver	2012: Gold 2011: Gold 2010: Bronze	2011: Silver 2010: Silver 2009: Silver
• <i>Beverage Tasting Institute</i>	2007-11: 93-94%	2012: 91%	2007-2010: 92%
• <i>Wine Enthusiast</i>	2012: 96-100%		2012: 90-95%

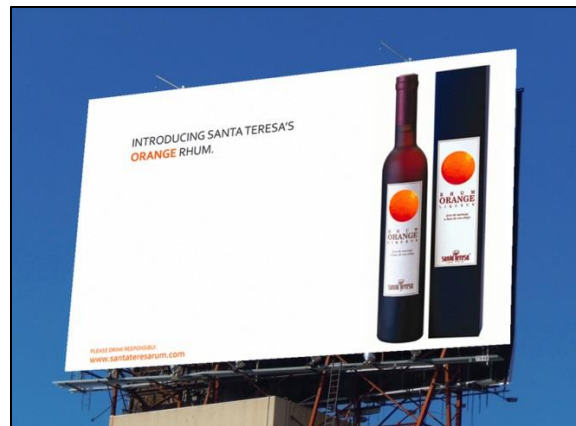
⁵³ Proff66 Inc., Ron Santa Teresa, <http://www.proff66.com/ron/santa-teresa-1796-extra-aged-rum.html>

Appendix F: Marketing Billboards & Social Media Promotion

Social Media Advertisements: Facebook⁵⁴



Billboard Advertisements, Caracas, Venezuela



⁵⁴ Facebook, Ron Santa Teresa.

<https://www.facebook.com/photo.php?fbid=10151599937645097&set=pb.61799070096.-2207520000.1367816906.&type=3&theater>

Appendix G: RST Financial Statements

RST Income Statement 2008-2012

Fiscal year is September-August. All values VEF Thousands.	2008	2009	2010	2011	2012	5-year trend
+ Sales/Revenue	227,017.2	273,592.6	330,594.1	554,422.2	515,070.9	
+ Cost of Goods Sold (COGS) incl. D&A	127,355.4	194,636.4	213,773.7	329,187.7	315,608.9	
COGS excluding D&A	118,482.5	174,964.4	193,538.8	304,015.9	293,741.3	
Depreciation & Amortization Expense	8,873.0	19,671.9	20,234.9	25,171.8	21,867.7	
Depreciation	-	19,671.9	20,234.9	25,171.8	21,867.7	
Amortization of Intangibles	224.1	0.0	0.0	0.0	0.0	
Amortization of Deferred Charges	-	0.0	0.0	0.0	0.0	
+ Gross Income	99,661.8	78,956.3	116,820.4	225,234.5	199,461.9	
+ SG&A Expense	76,431.3	132,083.0	119,395.0	206,263.0	225,031.4	
Research & Development	0.0	-	-	-	-	
Other SG&A	76,431.3	132,083.0	119,395.0	206,263.0	225,031.4	
Other Operating Expense	-	0.0	0.0	814.6	242.2	
Unusual Expense	0.0	0.0	0.0	0.0	46.1	
Non Operating Income/Expense	8,485.5	18,847.5	29,141.2	6,982.0	24,997.4	
Non-Operating Interest Income	-	-	-	1,175.2	1,338.0	
Equity in Affiliates (Pretax)	-	-	-	0.0	0.0	
+ Interest Expense	8,724.4	19,575.6	18,651.6	18,673.1	23,046.7	
Gross Interest Expense	8,724.4	19,575.6	18,651.6	18,673.1	23,046.7	
Interest Capitalized	-	0.0	0.0	0.0	0.0	
+ Pretax Income	17,249.4	(53,854.9)	7,915.0	7,641.0	(22,569.1)	
Income Tax	2,567.3	(2,629.6)	(2,162.2)	(3,185.3)	(1,126.5)	
Income Tax - Current Domestic	-	-	-	13,881.0	2,455.3	
Income Tax - Current Foreign	-	-	-	0.0	0.0	
Income Tax - Deferred Domestic	-	-	-	(17,066.4)	(3,581.7)	
Income Tax - Deferred Foreign	-	-	-	0.0	0.0	
Income Tax Credits	-	-	-	0.0	0.0	
Equity in Affiliates	-	0.0	0.0	0.0	0.0	
Other After Tax Income (Expense)	-	0.0	0.0	0.0	0.0	
Consolidated Net Income	14,682.1	(51,225.3)	10,077.2	10,826.3	(21,442.6)	
Minority Interest Expense	0.0	0.0	0.0	0.0	0.0	
+ Net Income	14,682.1	(51,225.3)	10,077.2	10,826.3	(21,442.6)	
Extraordinaries & Discontinued Operations	0.0	0.0	0.0	0.0	0.0	
Extra Items & Gain/Loss Sale Of Assets	0.0	0.0	0.0	0.0	0.0	
Cumulative Effect - Accounting Chg	-	0.0	0.0	0.0	0.0	
Discontinued Operations	-	0.0	0.0	0.0	0.0	
Net Income After Extraordinaries	14,682.1	(51,225.3)	10,077.2	10,826.3	(21,442.6)	
Preferred Dividends	0.0	0.0	0.0	0.0	0.0	
Net Income Available to Common	14,682.1	(51,225.3)	10,077.2	10,826.3	(21,442.6)	
+ EPS (Basic)	4.93	(18.78)	3.39	3.97	(8.00)	
Basic Shares Outstanding	2,977.6	2,727.4	2,975.4	2,729.1	2,679.3	
+ EPS (Diluted)	-	(18.78)	3.39	3.97	(8.00)	
Diluted Shares Outstanding	-	-	-	-	2,679.3	
+ EBITDA	26,361.3	(33,454.8)	17,660.4	43,328.7	(3,944.0)	


















RST Balance Sheet 2008-2012

	2008	2009	2010	2011	2012	5-year trend
Net Property, Plant & Equipment	123,198.2	185,017.2	161,821.0	180,139.9	179,297.9	
Property, Plant & Equipment - Gross	306,744.6	504,442.7	501,096.4	657,486.8	677,808.1	
Buildings	-	105,033.4	104,673.1	163,430.9	169,029.7	
Land & Improvements	13,238.1	21,753.1	21,753.1	39,897.8	39,897.8	
Machinery & Equipment	-	327,160.5	319,680.2	410,935.9	417,218.4	
Construction in Progress	729.6	2,746.0	6,064.4	6,972.0	11,639.1	
Computer Software and Equipment	-	41,313.1	42,350.9	25,374.0	29,147.0	
Transportation Equipment	-	6,436.6	6,574.6	10,876.2	10,876.2	
Accumulated Depreciation	183,546.4	319,425.6	339,275.3	477,346.9	498,510.2	
Buildings	-	58,898.0	64,932.8	114,067.8	121,811.9	
Machinery & Equipment	-	237,346.4	249,959.9	332,285.8	343,635.4	
Computer Software and Equipment	-	19,787.7	20,648.8	21,696.8	23,394.6	
Transportation Equipment	-	3,393.6	3,733.9	9,296.6	9,668.3	
Total Investments and Advances	0.0	0.0	0.0	2,935.3	2,521.0	
LT Investment - Affiliate Companies	0.0	0.0	0.0	0.0	0.0	
Other Long-Term Investments	0.0	0.0	0.0	2,935.3	2,521.0	
Intangible Assets	0.0	0.0	0.0	0.0	0.0	
Net Goodwill	0.0	0.0	0.0	0.0	0.0	
Net Other Intangibles	0.0	0.0	0.0	0.0	0.0	
Other Assets	1,425.1	0.0	0.0	0.0	0.0	
Deferred Charges	-	-	-	0.0	0.0	
Tangible Other Assets	-	0.0	0.0	0.0	0.0	
+ Total Assets	311,131.4	535,900.6	494,341.4	647,844.6	581,780.1	

Liabilities & Shareholders' Equity

	2008	2009	2010	2011	2012	5-year trend
ST Debt & Current Portion LT Debt	25,464.8	58,966.1	37,420.6	79,818.7	90,594.3	
Short Term Debt	25,464.8	49,428.4	12,964.4	0.0	29,559.7	
Current Portion of Long Term Debt	-	9,537.7	24,456.3	79,818.7	61,034.5	
+ Accounts Payable	40,897.0	67,065.7	85,194.1	116,805.4	113,372.8	
Income Tax Payable	-	1,067.6	787.6	14,000.6	1,172.2	
Other Current Liabilities	36,981.7	53,292.1	46,024.8	46,168.3	43,855.1	
Accrued Payroll	-	8,312.2	7,185.7	24,133.6	23,145.2	
Miscellaneous Current Liabilities	36,981.7	44,979.9	38,839.1	22,034.7	20,709.9	
+ Total Current Liabilities	103,343.5	180,391.6	169,427.2	256,793.1	248,994.4	
Long-Term Debt	8,018.2	83,444.3	41,057.1	63,565.4	52,786.1	
Long-Term Debt excl. Capitalized Leases	8,018.2	83,444.3	41,057.1	63,565.4	52,786.1	
Non-Convertible Debt	-	83,444.3	41,057.1	63,565.4	52,786.1	
Convertible Debt	-	0.0	0.0	0.0	0.0	
Capitalized Lease Obligations	0.0	0.0	0.0	0.0	0.0	

RST Balance Sheet 2008-2012 (continued)

Provision for Risks & Charges	-	0.0	0.0	2,682.1	2,298.6	
Deferred Taxes	(753.1)	35,598.8	32,421.2	5,301.8	1,720.1	
Deferred Taxes - Credit	-	47,314.8	42,792.2	32,226.5	25,437.3	
Deferred Taxes - Debit	753.1	11,716.1	10,371.0	26,924.7	23,717.2	
Other Liabilities	2,271.8	0.0	0.0	0.0	0.0	
Other Liabilities (excl. Deferred Income)	2,271.8	0.0	0.0	0.0	0.0	
+ Total Liabilities	113,633.5	311,150.7	253,276.5	355,267.1	329,516.5	
Non-Equity Reserves	0.0	0.0	0.0	0.0	0.0	
Preferred Stock (Carrying Value)	0.0	0.0	0.0	0.0	0.0	
Redeemable Preferred Stock	-	0.0	0.0	0.0	0.0	
Non-Redeemable Preferred Stock	-	0.0	0.0	0.0	0.0	
+ Common Equity (Total)	197,497.9	224,749.9	241,064.9	292,577.5	252,263.6	
Common Stock Par/Carry Value	14,557.2	102,952.2	102,952.2	159,065.4	166,005.6	
Additional Paid-In Capital/Capital Surplus	-	103,521.4	103,521.4	153,799.6	92,626.0	
Retained Earnings	16,894.6	5,406.6	14,979.9	(48,557.8)	(18,969.9)	
ESOP Debt Guarantee	-	0.0	0.0	0.0	0.0	
Cumulative Translation Adjustment/Unrealized For. Exch. Gain	-	3,654.0	9,891.9	13,832.9	(1,833.3)	
Unrealized Gain/Loss Marketable Securities	-	0.0	0.0	0.0	0.0	
Revaluation Reserves	-	0.0	0.0	0.0	0.0	
Other Appropriated Reserves	60,494.7	9,229.1	9,733.0	14,460.1	14,460.1	
Treasury Stock	-	(13.4)	(13.4)	(22.6)	(24.9)	
+ Total Shareholders' Equity	197,497.9	224,749.9	241,064.9	292,577.5	252,263.6	
Accumulated Minority Interest	0.0	0.0	0.0	0.0	0.0	
Total Equity	197,497.9	224,749.9	241,064.9	292,577.5	252,263.6	
Liabilities & Shareholders' Equity	311,131.4	535,900.6	494,341.4	647,844.6	581,780.1	

RST Statement of Cash Flows 2008-2012

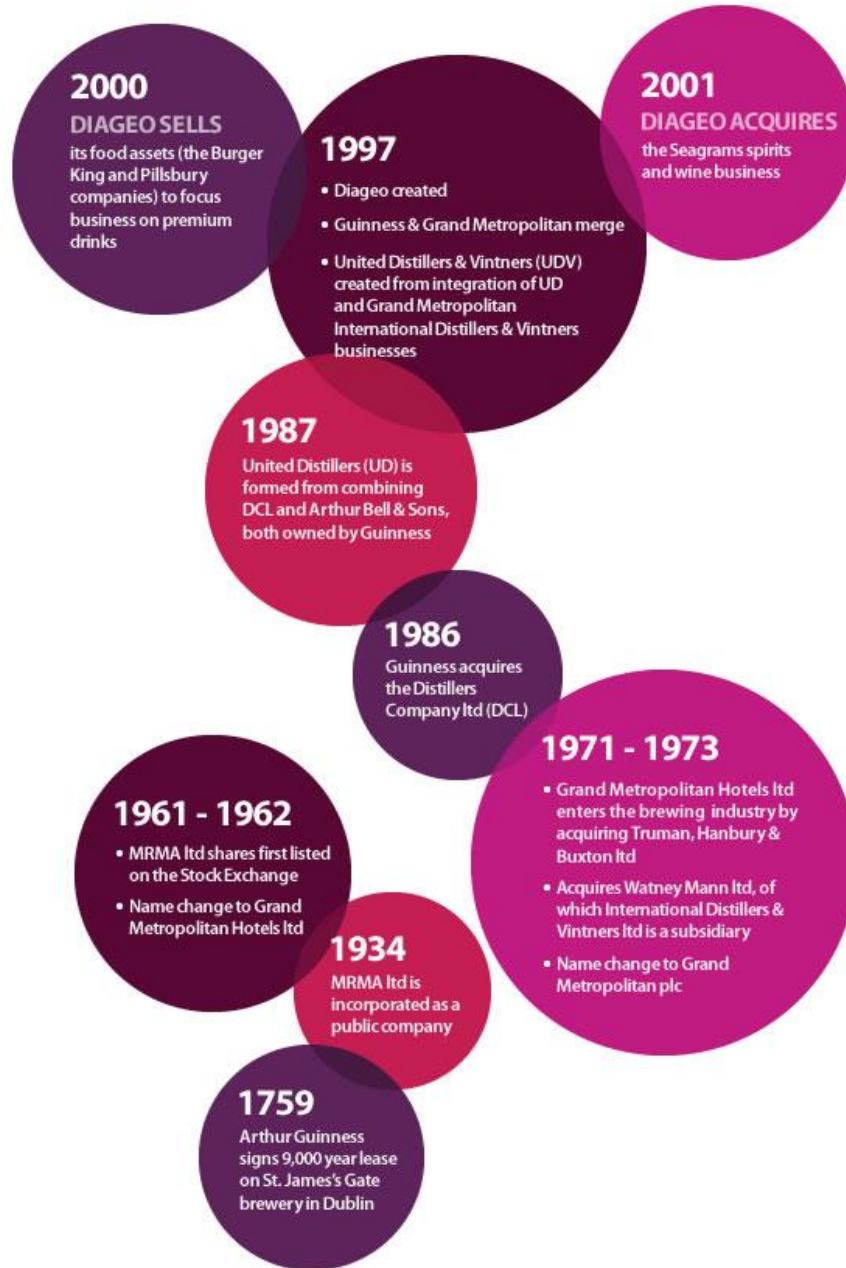
Operating Activities

Fiscal year is September-August. All values VEF Thousands.	2008	2009	2010	2011	2012	5-year trend
Net Income before Extraordinaries	-	(51,225.3)	10,077.2	10,826.3	(21,442.6)	
Depreciation, Depletion & Amortization	8,648.9	19,671.9	20,234.9	25,171.8	21,867.7	
Depreciation and Depletion	8,648.9	19,671.9	20,234.9	25,171.8	21,867.7	
Amortization of Intangible Assets	-	0.0	0.0	0.0	0.0	
Deferred Taxes & Investment Tax Credit	-	0.0	0.0	(17,066.4)	(3,581.7)	
Deferred Taxes	-	-	-	(17,066.4)	(3,581.7)	
Investment Tax Credit	-	0.0	0.0	0.0	0.0	
Other Funds	-	(25,559.0)	(12,648.9)	(5,250.3)	(8,282.1)	
Funds from Operations	14,598.5	(57,112.4)	17,663.2	13,681.4	(11,438.8)	
Extraordinaries	-	0.0	0.0	0.0	0.0	
Changes in Working Capital	-	(4,203.1)	(5,665.7)	(56,616.0)	14,124.9	
Receivables	-	15,672.4	(37,324.4)	248.6	(611.3)	
Inventories	-	(37,245.3)	323.5	(61,427.4)	38,861.2	
Accounts Payable	-	0.0	0.0	2,886.4	10,632.0	
Income Taxes Payable	-	-	-	9,843.8	(4,249.9)	
Other Accruals	-	-	-	(15,209.1)	(6,323.1)	
Other Assets/Liabilities	-	17,369.8	31,335.2	7,041.7	(24,184.1)	
Net Operating Cash Flow	7,152.9	(61,315.5)	11,997.5	(42,934.6)	2,686.1	

Financing Activities

	2008	2009	2010	2011	2012	5-year trend
Cash Dividends Paid - Total	(777.1)	(4,303.2)	0.0	(2,055.7)	(3,205.1)	
Common Dividends	(777.1)	(4,303.2)	0.0	(2,055.7)	(3,205.1)	
Preferred Dividends	0.0	0.0	0.0	0.0	0.0	
Change in Capital Stock	0.0	0.0	0.0	0.0	0.0	
Repurchase of Common & Preferred Stk.	-	0.0	0.0	0.0	0.0	
Sale of Common & Preferred Stock	0.0	0.0	0.0	0.0	0.0	
Proceeds from Stock Options	0.0	0.0	0.0	0.0	0.0	
Other Proceeds from Sale of Stock	0.0	0.0	0.0	0.0	0.0	
Issuance/Reduction of Debt, Net	-	103,940.4	(37,832.3)	44,892.9	18,704.7	
Change in Long-Term Debt	-	103,940.4	(37,832.3)	44,892.9	18,704.7	
Issuance of Long-Term Debt	-	103,940.4	0.0	44,892.9	18,704.7	
Reduction in Long-Term Debt	-	-	(37,832.3)	-	-	
Other Funds	-	0.0	0.0	0.0	0.0	
Other Uses	-	0.0	0.0	0.0	0.0	
Other Sources	-	0.0	0.0	0.0	0.0	
Net Financing Cash Flow	11,716.6	99,637.2	(37,832.3)	42,837.2	15,499.6	
Exchange Rate Effect	(6,235.5)	(1,895.2)	(6,563.2)	(2,769.7)	(2,126.5)	
Miscellaneous Funds	0.0	0.0	0.0	0.0	0.0	
Net Change in Cash	5,974.5	34,944.5	(38,824.0)	(6,549.6)	(4,775.6)	
Free Cash Flow	(1,045.3)	(67,100.7)	5,571.5	(49,754.0)	(21,749.1)	

Appendix H: Diageo Family Tree History⁵⁵



⁵⁵ Diageo, Our History, 2013. <http://www.diageo.com/en-ie/ourbusiness/Pages/History.aspx>