

TRANSACTION RATIONALE

Purchase

Diageo: Buy an initial position in a long-term compounder at an attractive price.

Diageo is the world's largest premium spirits company, with an estimated 30% share of the global premium spirits market. Its brands include Johnnie Walker Scotch whisky, Crown Royal American whiskey, Smirnoff and Ketel One vodka, Gordon's and Tanqueray gins, Baileys liqueur and Don Julio tequila. By category, more than 80% of group sales came from spirits and 15% from beer (mostly Guinness), with the rest from ready-to-drink. The US is its largest contributor to profits. Diageo also owns a 34% stake in Moët Hennessy and 55% of United Spirits in India.

The company has a strong moat stemming from from the breadth of its distribution network, its bargaining power with these distributors, the strength of its well established brands and strong marketing capabilities. Diageo benefits from strong pricing power thanks to this set of competitive advantage and thanks to the relatively high pricing point positioning of its products relative to other beverage companies.

Diageo is a high quality compounder. It is well position to benefit from the long-term structural growth the spirits market globally, especially in the US and the Emerging countries. Its competitive advantages also allow Diageo to acquire and develop smaller dynamic brands in categories that have attractive economics. That adds to the organic development of its product portfolio.

The normalization of the growth rate post covid and the short-term pressure from cost inflation are leading to weakness in the stock price that provides an attractive entry point for this high-quality compounder. With an EV/EBIT of 16x the stock has reached a valuation level not seen since 2014.

5-year chart: Diageo vs. the Bloomberg World Index and the Staple Sector



Source: Bloomberg
Total return in USD
Data range 05.06.2018 – 05.06.2023
Note: past performance is not a reliable indicator of future results

With kind regards,

Emerald Wealth Partners AG, Investment Office

DISCLAIMER / IMPORTANT INFORMATION

This document has been prepared and distributed by Emerald Wealth Partners AG based on various reliable research information. Although it may contain contributions of research analysts or quote research reports, it is not investment research or a research recommendation for regulatory purposes as it does not constitute substantive research or analysis. Some of the articles quoted in this document may have been published on Bloomberg by various trustful research providers and may be found on the research providers' website, including the necessary disclaimers and disclosure statements.

It is directed to a professional audience including prospects and not intended for distribution to, or use by, any person or entity that is citizen or resident of, or located in any jurisdiction where such distribution, publication, availability or use would be unauthorized or otherwise contrary to applicable law or regulations. Information, tools and material presented in this document are provided for information purposes only and are not to be used or considered as an offer or solicitation to buy, sell or subscribe any securities or other financial instruments. Any information including facts, opinions or quotations, may be condensed or summarized and is expressed as of the date of writing.

The information contained in this document has been provided as a general market commentary only and does not constitute any form of regulated financial advice, legal, tax or other regulated service. It does not take into account the financial objectives, situation or needs of any persons, which are necessary considerations before making any investment decision. Emerald Wealth Partners does not advise on the tax consequences of investments and you are advised to contact a tax advisor should you have any questions in this regard. The information provided is not intended to provide a sufficient basis on which to make an investment decision and is not a personal recommendation or investment advice. It is intended only to provide observations and views of Emerald Wealth Partners AG at the date of writing, regardless of the date on which the reader may receive or access the information. Observations and views contained in this document may change at any time without notice and with no obligation to update. The information may change without notice and Emerald Wealth Partners AG is under no obligation to ensure that such updates are brought to your attention. Accordingly, Emerald Wealth Partners AG accepts no liability for any loss arising from the use of this document.

Emerald Wealth Partners AG partners, affiliates and/or their employees may have a position or holding, or other material interest or effect transactions in any securities mentioned or options thereon, or other investments related thereto and from time to time may add to or dispose of such investments.

To the extent that this document contains statements about future performance, such statements are forward looking and subject to a number of risks and uncertainties. Information and opinions presented in this document have been obtained or derived from sources which in the opinion of Emerald Wealth Partners AG are reliable, but Emerald Wealth Partners AG makes no representation as to their accuracy or completeness. Emerald Wealth Partners AG accepts no liability for a loss arising from the use of this document.

Unless indicated to the contrary, all figures are unaudited. All valuations mentioned herein are subject to Emerald Wealth Partners AG valuation policies and procedures. It should be noted that historical returns and financial market scenarios are no guarantee of future performance. The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

Investments may have no public market or only a restricted secondary market. Where a secondary market exists, it is not possible to predict the price at which investments will trade in the market or whether such market will be liquid or illiquid. The retention of value of a bond is dependent on the creditworthiness of the Issuer and/or Guarantor (as applicable), which may change over the term of the bond. In the event of default by the Issuer and/or Guarantor of the bond, the bond or any income derived from it is not guaranteed and you may get back none of, or less than, what was originally invested. Parties other than the Issuer or Guarantor (as appropriate) (for instance the Lead Manager, Calculation Agent or Paying Agent) do neither guarantee repayment of the invested capital nor financial return on the investment product, if nothing is indicated to the contrary.

The distribution of this document and the offer and sale of the investment in certain jurisdictions may be forbidden or restricted by law or regulation. This document is not directed to, or intended for distribution to or use by any person or entity who is a citizen or resident of, or is located in, any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation. This document has been furnished to the recipient and should not be re-distributed without the express written consent of Emerald Wealth Partners AG. For further information, please refer to your contact person at Emerald Wealth Partners AG.

This material may not be published or reproduced, in all or in part, without the prior written express consent of Emerald Wealth Partners AG.

Copyright © 2023 Emerald Wealth Partners AG. All rights reserved.