

# TRANSACTION RATIONALES

## Purchases

### Diageo – Adding to positions, as short-term inventory adjustments hide good progress in fundamentals

We add to initial positions in Diageo following the recent correction in the stock price. While the ongoing transition from the long-standing CEO Ivan Menezes to Debra Ann Crew introduces uncertainty, the new CEO credibly outlined how she intends to build on the legacy of her predecessor. In our view, she has both, the right background as former Head of Diageo North America and the experience of an executive of several global staple companies. What's more, she seems to have the right mindset with her focus on long-term investing in Diageo's brands as well as manufacturing and distribution capabilities.

Diageo is a high quality compounder which is well positioned to benefit from the long-term structural growth of the global spirits market, especially in the US and the Emerging countries. Its competitive advantages also allow Diageo to acquire and develop smaller dynamic brands. That adds to the solid organic growth of its existing product portfolio.

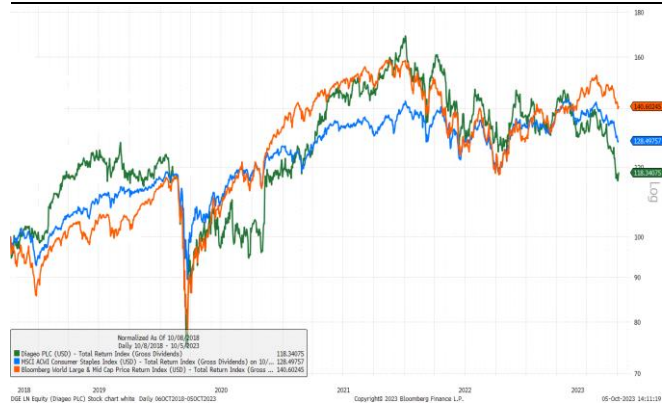
The normalization of inventories post covid and the short-term pressure from cost inflation are leading have pressured the stock price since early 2022. As a result, valuation has fallen further to the bottom of the ten-year range (16x to 27x). With a PE 2024 of 16.5x it currently trades only at a 10% premium to the market which doesn't pay appropriate tribute to its higher growth rate, stable business, the pristine balance sheet and the 2.8% dividend yield. Management just recently confirmed it's target for FY23-25 of 5-7% organic sales reps. 6-9% organic operating profit (EBIT) growth, both numbers being well above market averages. Share buy backs and occasional acquisitions should drive EPS-growth into the double digits. Hence, the recent price weakness provides an attractive entry point for this high-quality compounder.

### Lockheed Martin: Buy an initial position in the leading defense company after the recent correction

Lockheed Martin is the world's largest defense contractor, and it is a leader in the development and the production of a wide range innovative defense systems. Therefore, it's products and services are essential for the protection of the USA and its western allies: The company is one of the largest military aircraft manufacturers (F16- and F35 fighter jets, C-130 transport aircraft aso.), it produces a wide range of missiles systems including the Javelin anti-tank missiles, the THAAD missiles defense system and it has received contracts for the development of the USA's hypersonic missile.

After decades of contraction following the end of the cold war, military spending around the world should grow again in the coming years due

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



Source: Bloomberg Data range 08.10.2018 – 05.10.2023  
Total return in USD Note: past performance is not a reliable indicator of future results

10-year chart: Lockheed Martin vs. the Bloomberg World Index: Buying into this LT-winner



Source: Bloomberg Data range 08.10.2013 – 10.05.2023  
Total return in USD Note: past performance is not a reliable indicator of future results

to increasing geopolitical tensions in various parts of the world. The recent invasion of Ukraine by Russia has highlighted the importance of modern defense systems and that the weapon inventories of Western democracies were far from appropriate.

Lockheed has a stable business model which is underpinned by long-term contracts and a large backlog, which provides the company with good visibility. This allows Lockheed to generate solid and steady operating margins in the low-to-mid teens percentage range as well as strong free cash flows.

The stock is down more than 20% since its April peak, which has pushed it back to where it was when Russia invaded Ukraine while long-term demand for its products has clearly increased since then. At 14.3x, the next-year PE has fallen toward the bottom of the ten-year range of 13x to 18.5x. Given the steady growth, the high visibility, the 3% dividend yield and the strong balance sheet, the stock deserves a premium to the market. Hence, current price levels offer an attractive entry point. Therefore, we buy an initial position.

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.