Artisan Partners U.S. Value Team—Case Study: Diageo

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ARTISAN PARTNERS

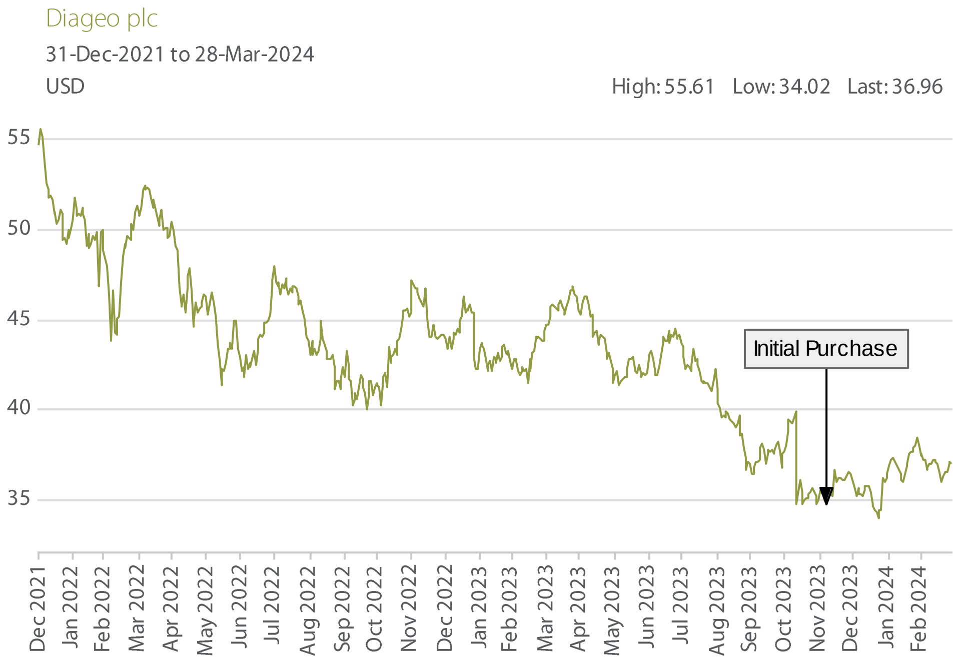
Case Study—Diageo

STOCK EXAMPLE

Diageo (DGE)

Company Description

Diageo is a global leader in alcoholic beverages. Diageo has the top #1 or #2 brands in almost every category with the exception of cognac and champagne, where it participates through its stake in Moet Hennessy.



Attractive Business Economics

- A portfolio of over 200 brands provides diversification and allows it to meet consumer trends.
- Global geographic footprint and scale. Barriers to entry are low, but there are high barriers to scale.
- Although spirits are more cyclical than other staples, its growth prospects are better long term.
- Diageo generates meaningful free cash flow and returns it to shareholders through dividends and share repurchases.

Sound Financial Condition

- 7X fixed charge coverage ratio.
- Over the past five years, Diageo generated £12 billion FCF and returned £16 billion to shareholders.

Attractive Valuation

- P/E of 15X (FY1E) versus 22X 5-year average.

Source: Artisan Partners/FactSet. See Notes and Disclosures section for portfolio holdings information. **Past performance does not guarantee and is not a reliable indicator of future results.**

Diageo

Why is it out of favor?

- Growth normalizing post COVID—supply chain issues, high demand, and low interest rates during Covid incentivized distributors to carry higher inventory
- Long term headwinds on investor minds—GLP-1s affecting consumption patterns and younger generations drinking less (or nothing!)
- Management transition—its longtime and well-regarded CEO retired last year, however, new CEO Debra Ann Crew worked closely with previous CEO and no changes to strategy are expected

Why are these problems temporary?

- Growth should return to historical averages once the company laps difficult comps and distributor inventories stabilize
- Diageo should be able to drive growth through its premiumization strategy coupled with its good portfolio management
- The company's diversified portfolio allows it to invest in the best positioned categories

Why is it a good business?

- A high-quality compounder
- Scaled operator with strong free cash flow
- Heritage brands matter to consumers
- High barriers to scale
- Attractive long-term growth prospects
- Disciplined capital allocation focused on return of capital via share repurchases and dividends

Notes and Disclosures

This section of this presentation contains information important to a complete understanding of the material presented. Please review it carefully.

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by visiting www.artisanpartners.com/prospectus. Read carefully before investing.

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Artisan Mid Cap Value Fund

Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Value securities may underperform other asset types during a given period.

Artisan Value Fund

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Artisan Value Income Fund

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For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. These holdings comprise the following percentages of the Fund's total net assets as of 22 May 2024: Artisan Value Fund – Diageo 2.4%. Artisan Value Income Fund – Diageo 1.8%. Securities named in the Commentary, but not listed here are not held in the Fund as of 30 June 2024. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

Free cash flow: Free cash flow (FCF) represents the cash that a company generates after accounting for cash outflows to support its operations and maintain its capital assets. (Investopedia.com)

Coverage ratio :A coverage ratio, broadly, is a metric intended to measure a company's ability to service its debt and meet its financial obligations, such as interest payments or dividends. The higher the coverage ratio, the easier it should be to make interest payments on its debt or pay dividends. The trend of coverage ratios over time is also studied by analysts and investors to ascertain the change in a company's financial position. (Investopedia.com)

P/E: The price-to-earnings (P/E) ratio measures a company's share price relative to its earnings per share (EPS). Often called the price or earnings multiple, the P/E ratio helps assess the relative value of a company's stock. It's handy for comparing a company's valuation against its historical performance, against other firms within its industry, or the overall market. (Investopedia.com)

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