

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

Daniel L. Kane, CFA, Portfolio Manager; Thomas A. Reynolds IV, Portfolio Manager and Craig Inman, CFA, Portfolio Manager | U.S. Value Team



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# 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 Moët 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.

# 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

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

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## Artisan Value Equity Strategy

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For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the Strategy. The holdings mentioned above comprised the following percentages of a representative account within the Artisan Value Income Composite's total net assets as of 30 June 2024: Diageo 2.1%, Artisan Value Equity Composite: Diageo 2.9%. Securities named in the Commentary, but not listed here are not held in the portfolio as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

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