Pitcher Partners

Pitcher Partners Sydney
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Wealth Update

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Contents

Technical update: Key changes from 1 July 2024 4

Overview 4

Increase in employer Superannuation Guarantee 4

Transfer Balance changes 4

Increase in contribution caps 5

Changes in key Age Pension rates 5

Age Pension asset test thresholds 5

Full Pension 6

Part Pension 6

Transitional rate of pension 6

Conclusion 6

Reporting season update 8

Australian equity portfolio 8

APA Group (APA: ASX) 8

AUB Group (AUB: ASX) 9

BHP Group (BHP: ASX) 10

CSL Ltd (CSL: ASX) 11

Hub24 Ltd (HUB: ASX) 12

James Hardie Ltd (JHX: ASX) 13

NIB Group (NHF: ASX) 14

Origin Energy Ltd (ORG: ASX) 15

Rio Tinto Ltd (RIO: ASX) 16

Resmed Ltd (RMD: ASX) 17

Transurban Group (TCL: ASX) 18

Telstra Group Ltd (TLS: ASX) 19

Technology One Ltd (TNE: ASX) 20

Woolworths Group (WOW: ASX) 21

International equity portfolio 22

Abbott Laboratories (ABT: US) 22

Adobe (ADBE: US)[5] 23

Aena SME SA (AENA: EU) 24

Amazon.Com Inc (AMZN: US)[5] 25

American Water Works (AWK: US)[5] 26

Vinci (DG: EU)[5] 27

Alphabet Inc. (GOOGL: US)[5] 28

Microsoft Corporation (MSFT: US)[5] 29

Nestle S.A. (NESN: CH)[5] 30

Novo Nordisk (NOV: DK)[5] 31

Nvidia (NVDA: US)[5] 32

Universal Music Group (UMG: EU)[5] 33

Visa Inc. (V: US)[5] 34

Technical update: Key actual and prospective changes from 1 July 2024

Overview

This article summarises the latest changes across superannuation and Age Pension rules from 1 July 2024 (or later as specified).

Increase in employer Superannuation Guarantee

Workers saw the automated schedule for the Superannuation Guarantee lift from 30 June 2024. Employer superannuation contributions will now be 11.50% of worker's ordinary time earnings, up from 11% in FY24[1].

Notably from 1 July 2025 the Superannuation Guarantee is set to increase a further 0.5% to 12%. This information can be summarised as follows.

Superannuation Guarantee changes (FY24 to FY26)

Financial Year	Superannuation Guarantee
2024	11.00%
2025	11.50%
2026 onwards	12.00%

Source: ATO

Transfer Balance changes

The Transfer Balance Cap (TBC) governs the total amount of superannuation that can be transferred into the retirement phase[2] by a given individual. This cap is currently set at $1.9m for FY25 having last been revised in FY24.

Importantly the TBC amount is indexed to CPI so it should gradually increase with inflation over time. There is a nuance to this however where the increase is only applied in $100,000 increments[3] and rounded down instead of up to the nearest $100,000.

The indexation for FY25 is calculated based on inflation for the year to December 2024. Inflation is expected to be 3.1% for the year to December 2024 according to consensus forecasts[4]. This would bring the cap to over $2m based on our calculations unless there is outright deflation over the second half of 2024.

Accordingly we anticipate that for FY26 the TBC will rise by $100,000 to $2m. This $100,000 presents an additional amount that individuals will be able to transition into a tax-free retirement transition income stream.

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[1] 'Super guarantee', *Australian Taxation Office* (25 June 2024), https://www.ato.gov.au/tax-rates-and-codes/key-superannuation-rates-and-thresholds/super-guarantee, (accessed 10 August 2024).

[2] 'Transfer balance cap', *Australian Taxation Office* (25 June 2024), https://www.ato.gov.au/tax-rates-and-codes/key-superannuation-rates-and-thresholds/transfer-balance-cap, (accessed 10 August 2024).

[3] A. Cullen, 'Indexation of the Transfer Balance Cap', *SMSF Insider* (17 February 2023), https://superconcepts.com.au/SMSF-insights/blog/smsf-insider/2023/02/16/indexation-of-the-transfer-balance-cap, (accessed 10 August 2024).

[4] Bloomberg, sourced 3 September 2024.

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Increase in contribution caps

From 1 July 2024, we are seeing sizeable uplifts in the annual cap on concessional contributions with an increase of $2,500 or 9.09% p.a. In addition, non-concessional contributions where a member has a total superannuation balance below $1.9m on 30 June 2023 are climbing $10,000, a similar increase of 9.09% p.a.

Contribution cap increase from 1 July 2024

Annual cap	Type	Previous cap (Jul-21 to Jun-24)	New cap (From 1 July 2024)
Concessional contributions		$27,500	$30,000
Non-concessional contributions	If total balance is **BELOW** TBC on 30 June 2023	$110,000	$120,000
Non-concessional contributions (if total balance is above TBC)	If total balance is **ABOVE** TBC on 30 June 2023	Nil	Nil

Source: PWC[5]

Changes in key Age Pension rates

The Age Pension rates from 20 September are as follows. These are likely to increase from March 2025 given still elevated levels of inflation although this is not necessarily guaranteed. The new rates are as follows.

Age Pension rates (20 September 2024 to 19 March 2025)

Household	Payment (fortnightly)	Payment (Annual)
Single	$1,144.40	$29.754
Couple (individual)	$862.60	$22,428
Couple (combined)	$1,725.20	$44,855
Couple (separated due to illness)	$2288.80 (combined)	$59,509 (combined)

Source: SuperGuide[6] (NB these rates are inclusive of both Pension and Energy Supplements)

Age Pension asset test thresholds

It is important to recall that the Age Pension is subject to an asset test to assess whether an individual is entitled to full or partial entitlement. In addition, the test varies according to an individual's personal circumstances e.g. whether single or as part of a couple. If the latter case the couple is assessed on their

[5] N. Brooks and S. Frawley, 'Superannuation update, year-end planning (June 2024)', *PWC* (June 2024), https://www.pwc.com.au/pwc-private/private-clients-superannuation/superannuation-update-year-end-planning-june2024.html (accessed 13 July 2024).

[6] B. Drury, 'Age Pension rates (September 2024 to March 2025)', *Superguide* (2 September 2024), https://www.superguide.com.au/in-retirement/age-pension-rates#Latest_Age_Pension_rate_changes_from_20_September_2024 (accessed 20 August 2024).

collective asset holdings which can be property or other items that you or your partner have an interest in or, partial or full ownership.

Full Pension

Your situation	Homeowner	Non-homeowner
Single	$314,000	$566,000
Couple (combined)	$470,000	$722,000
Couple (separated due to illness, combined)	$470,000	$722,000
Couple (one partner eligible, combined)	$470,000	$722,000

Source: Services Australia[7]

Part Pension

Note that from 1 July 2024, part pensions are cancelled once assets exceed the cut off point that reflects your situation. If you are part of a couple the limit is assessed on a combined basis, not individually.

Your situation	Homeowner	Non-homeowner
Single	$686,250	$938,250
Couple (combined)	$1,031,000	$1,283,000
Couple (separated due to illness, combined)	$1,214,500	$1,466,500
Couple (one partner eligible, combined)	$1,031,000	$1,283,000

Source: Services Australia[8]

Transitional rate of pension

Your situation	Homeowner	Non-homeowner
Single	$621,750	$873,750
Couple (combined)	$966,500	$1,218,500
Couple (separated due to illness, combined)	$1,085,500	$1,337,500
Couple (one partner eligible, combined)	$966,500	$1,218,000

Source: Services Australia[9]

Conclusion

In summary it is important to note that many key measures within both superannuation and the Age Pension are subject to indexation and reforms leading to changes in key tests and payment structures. It is important

[7] 'Assets test', *Services Australia* (5 July 2024), https://www.servicesaustralia.gov.au/assets-test-for-age-pension?context=22526, (accessed 20 July 2024).

[8] As above.

[9] As above.

to keep abreast of current levels and upcoming changes as there can be opportunities that arise depending on your circumstances. For more information we encourage you to engage with your adviser.

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Reporting season update

Australian equity portfolio

APA Group (APA: ASX)[10]

Share price	10/9/24: $7.30
Result	FY24
Underlying Revenue	$2.59b, an increase of 7.9% on the pcp.
Underlying EBITDA	$1.89b, up 9.7% on the pcp.
Key points	• The company delivered on its FY24 guidance for profitability, boosted by its earlier acquisition of Pilbara Energy. • Cashflow conversion was a point of weakness with free cashflow of $1.07b only growing 0.3% on the pcp due to a number of one-off cash expenses related to the Pilbara Energy acquisition as well as recent technology transformation projects. • Management guided to almost $2b in growth capital spending over FY25 to FY27 as it looks to capitalise on a mix of pipeline and energy generation opportunities. In the near term this will likely constrain distribution growth as it reduces available free cash flow for the gain of higher long-term returns. • In the near term some regulatory risk exists over the group's South-West Queensland pipeline network with the Australian Energy Regulator set to issue a draft decision in September. There is a reasonable likelihood that the status quo persists given a lack of material user outcry over the current state. • Finally FY25 guidance highlighted 5.1% growth expectations for underlying EBITDA to $1.99b and comparably weaker growth of 1.8% for distributions with a payout of 57c per share anticipated. On the positive front an increasing proportion of distributions going forward are expected to be franked given increased tax payments, partially offsetting the cash drag these present.
Our comments	• The weak distribution growth was something a disappointment given resilience in CPI-linked revenues. That said if management execute on their growth strategy the business should be set for stronger returns over the medium term. The value of the network remains intact with irreplaceable assets. • The current valuation is attractive at 11.1x FY25 expected EV to EBTIDA versus 10-year average of 13.1x, a discount of 15% while the anticipated FY25 yield of ~7.8% continues to appear sustainable in our view. • Barring regulatory surprises we feel the shares are well-placed for recovery particularly if financial cost pressures ease should the RBA deliver on consensus cuts to interest rates from next year.

[10] All figures in AUD unless otherwise stated. Results referring to percentage changes (increases/decreases) relate to the previous corresponding period (pcp) e.g. Q4 FY24 results are compared to those of Q4 FY23.

AUB Group (AUB: ASX)

Share price	10/9/24: $29.92
Result	FY24
Underlying Revenue	$1.33b, an increase of 19.8% on the pcp.
Underlying EPS	$1.57, up 21.2% on the pcp
Key points	• AUB recorded another year of strong growth in FY24 with double digit expansion in revenues and profitability also improving with a 1% increase in EBIT margins from 33% to 34%. • Underlying net profit rose 32.5% with increased share issuance explaining the difference between this and EPS growth. • The expansion in net profit was driven by organic growth, a 20.9% contribution (flattered by additional quarters of the Tysers business performance relative to pcp) with acquisitions contributing a further 17% and a mix of funding costs and divestments detracting ~5.4% from the overall profit growth. • Divisional performance also continued to track well with double digit revenue growth outside the core Australian Broking division (up 8.5%) and margin expansion across the board. The New Zealand result was a particular highlight with underlying EBIT increasing by 7.4% to 36.5%, approaching that of the core Australian business. • On 1 July 2024 the Group completed the acquisition of a 70% stake in Australian underwriting agency Pacific Indemnity. Management provided an update on performance which is managing at expectations and had it been owned for the full year would have seen a 21% boost to EBIT for the Agencies division. This acquisition broadens the Group's capabilities in Speciality Financial Lines and is expected to consolidate further growth in the years ahead. • Internationally management guided towards a longer-term EBIT margin goal of 32% for the Tysers business with a North American foray launched in May 2024 and the revamping of the portfolio being notable features. This acquisition has already exceeded both revenue and cost synergy goals since its May-22 acquisition with EBIT margins expanding some 5.5% over this period to 24.2%for FY24. • Finally, management guided to 13% NPAT growth in FY25 with the bulk of this generated organically though acquisition growth is expected to still make a material impact.
Our comments	• Business performance continues to track well with notable margin expansion in recent acquisitions a sign of delivering on synergy targets and arguably boding well for the latest addition to the business. • International expansion should be an important growth driver in the years ahead and it is pleasing to see management's improvement on Tyser since its FY22 purchase on this front. • Dividends continue to grow apace in line with the business success with 23% growth in fully franked dividends per share for FY24. Current consensus anticipates a further 13.4% in dividend growth for FY25 implying a forward yield of 4.3% (fully franked). This coupled with the prospect of further earnings growth and an undemanding valuation of 17.5x FY25 EPS (long term average 19x) should bode well for investor returns going forward. • Two latent risks we continue to monitor are signs of slowing organic growth as it can flag derating potential with the current rollup business strategy as well as the prospect of a loosening commercial insurance market. In the latter case given AUB revenues are ultimately contingent on commercial insurance rates it can also lead to slowing revenue growth. Thus far management continue executing well against these and other risks and this marks a pleasing overall result.

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BHP Group (BHP: ASX)

Share price	10/9/24: $38.66
Result	FY24
Underlying Revenue	$US55.7b, an increase of 3.5% on the pcp.
Underlying EBITDA	$US29bn, up 3.6% on the pcp.
Key points	• The business achieved reasonable revenue growth in FY24 driven by price growth in key commodities, iron ore and copper which also saw sales volume growth of 3% and 5% respectively. • Metallurgical coal volumes dropped for the divestment of Blackwater and Daunia mines to Whitehaven Coal (ASX: WHC). • Nickel remains a point of weakness with a temporary suspension of mining in Western Australia announced in response to a tough pricing environment following increased Indonesian production in recent years. • Inflation was still a feature in the result, up 4%, mainly experienced via higher labour costs, with other inputs such as diesel easing in FY24. • Productivity initiatives and cost discipline paid dividends with unit cots declining 2.9% over the full year. • Work to broaden the commodities outside core iron ore continues apace with $US3.2b on copper projects and exploration as well as a further $US1.1b on its potash project, Jansen. • Capital spending is expected to remain elevated over the medium term with guidance for $US10b in FY25 and a further $US11b per annum from FY26 to FY29. These will not necessarily play immediate dividends in the near term but should see copper production notable expand in the long term. • Shareholders are also a focus for management with FY24 seeing total dividends of $US1.46 per share, a payout ratio of 54% and the fourth largest full-year dividend in the company's history.
Our comments	• The near-term fortunes (and valuation) of the business will continue to be dictated by commodity prices, most notably iron ore given its outsized contribution to Group profitability. • The misfortunes in the nickel space have been unfortunate but it is good to see the mothballing of production for the foreseeable future as management has taken an appropriately prudent perspective on the best use of group capital. • The long-term capital ambitions may pressure shareholder payouts although they should, provided market supply tracks in line with projections, ensure strong future growth. • The business is also well-placed to maintain capital returns compared to peers given its balance sheet strength with negligible net debt and resilient earnings particularly in light of some of the lowest unit cost production of iron ore globally. • We retain a favourable view on the business and note the recent bid on Anglo American assets that subsequently faltered. Maintaining capital discipline will be critical for longer-term investor returns and we will consider pricing on these endeavours closely to ensure the mistakes of past cycles are not repeated.

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CSL Ltd (CSL: ASX)

Share price	10/9/24: $301.51
Result	FY24
Underlying Revenue	$US14.8b, up 11% on the pcp.
Underlying EPS	$US6.02, an increase of 11% on the pcp.
Key points	• The flagship CSL Behring division saw revenue grow 14% on the pcp in constant currency terms. This strength was broad-based with double-digit growth across immunoglobulin, albumin and haemophilia products. Speciality products were an exception with revenue growth of only 6% to US$1.94b though dwarfed by other results particularly the key immunoglobulin products. • Plasma collection costs continued to decline on a unit basis, further supporting divisional profitability with digital transformation projects expected to further bolster plasma centre efficiency. Overall we saw gross margins improve 1.2% for the period, a strong result helping underpin group EPS growth. • Seqirus saw revenue growth of 4% on a constant currency basis. This was reasonably strong in the face of a broader market decline with reduced rates of immunisation dragging on demand. It stands in contrast to other vaccine producers that are struggling to generate growth in a post-pandemic environment and have been punished severely by investors as a result e.g. Pfizer and BioNTech. • Vifor saw modest revenue growth of 3.7% though this was likely to flat to negative as the FY23 results only captured 11 months of ownership within CSL. This reflected a competitive environment for iron treatments as well as new challenges in the US market from insurer payment policies for policyholders. • Finally management guided for FY25 revenue growth of 6% and underlying profit of $US3.3b, representing growth of 12% on a constant currency basis.
Our comments	• The result missed consensus expectations prompting share price weakness during August, slightly underperforming the broader market. • The Vifor division remains problematic and whilst management has been positive it is clear from the performance that it continues to face near-term headwinds with flat revenue growth anticipated in FY25. The headwind of US insurance pressures is expected to fade for FY25 in a positive sign that should support profit margins. • The Seqirus business likewise faces its share of challenges in current market conditions but should, in time, continue to see steady growth in line with longer-term trends. That being said it too is anticipated to continue growing its market share but see overall flat revenue growth given challenging dynamics facing the sector currently. • Overall the strength of its Behring division should continue to see the business compound at attractive growth rates with profit expansion a near term tailwind as Behring nears its pre-Covid profitability levels. This should continue to underpin the fortunes of the business and continue to offer attractive returns over the medium term.

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Hub24 Ltd (HUB: ASX)

Share price	10/9/24: $56.25
Result	FY24
Underlying Revenue	$327.3m, up 17% on the pcp.
Underlying EPS	$0.81, up 14% on the pcp.
Key points	• HUB24 saw a strong FY24 result underpinned by growth in Funds Under Administration (FUA) of 30% to 104.7b. This growth was led by its platform business which saw FUA increase 35% during the period to $84.4b whilst its PARS FUA (non-custodial business providing administration and reporting) saw a strong but relatively weaker increase of 15%. • The FUA growth translated into platform revenues rising 21% in FY24 to $252.8m and a corresponding 21% uplift in underlying Platform EBITDA to $103m. • Platform popularity amongst advisers persisted into FY24 with the business retaining its number one positioning in major adviser surveys and underpinned record platform inflows of $15.8b. • Currently the business enjoys 29% market share in advisers up from 10% in FY20. Meanwhile in terms of custody FUA market share is comparably more modest at ~7%, up from 2% in March 2020. These figures highlight the substantial growth potential available in continuing to take share from legacy incumbents. • The Tech Solutions division saw revenues increase 5% to $70.7m with cost inflation seeing underlying EBITDA only grow 1% to $22.1m for the period. • FY24 marked the national rollout of its myprosperity software designed to enhance productivity and the overall client experience. This also extended to an enterprise-scale offering as the business looks to create an ecosystem for financial professionals. • Management outlined an ambitious FY26 target for FUA growth of $119b implying ~19% p.a. growth the bulk of which is expected to come from platform net inflows of over $11b each year.
Our comments	• This was a strong result on the Platform side which is the key driver of both growth and profitability. • The FY26 target appears achievable in the context of results achieved to date and still comparably sizeable FUA in legacy platforms that could potentially be lured onto HUB24. • The Tech Solutions division remains a laggard. It can potentially be seen as a lower-profitability division designed to promote “lock-in” onto the HUB24 platform and related products. There is the risk however of goodwill impairment from weak business performance which could generate short-term noise in the near-term. • On that note we continue to monitor underlying performance in users and the like to assess whether these products are seeing broader adoption. Some of these acquisitions such as Class historically achieved strong profitability but struggled to generate growth on a standalone basis whereas within the HUB24 business they may benefit from cross-selling opportunities. • Overall we retain a favourable view on the business and its medium-term prospects given limited signs of innovation amongst the competition. That being said there is an ongoing risk of additional margin pressure if incumbents choose to sacrifice profitability by cutting fees in order to retain customers. • The shares currently trade at 42x FY26 expected EPS which reflects the strong momentum in recent results as continued scaling translates into stronger profitability. While much optimism has been priced in we believe the strong competitive position, attractive returns on capital and growth potential warrant a valuation premium to the broader market even at current levels.

James Hardie Ltd (JHX: ASX)

Share price	10/9/24: $53.19
Result	Q1 FY25
Underlying Revenue	$US992m, up 4% on the pcp.
Underlying EPS	$US0.41, up 2% on the pcp.
Key points	• James Hardie saw a strong beat against consensus expectations to start FY25 with adjusted net profit of US$177.6m almost 6% ahead of consensus expectations. • As its largest division, a strong result in the US contributed to this beat. Net sales in its Fiber Cement division grew 5% thanks largely to higher average prices while volumes of exterior products also saw low single-digit growth. There was some margin pressure with EBIT margin down marginally by 0.1% due to higher input costs such as labour inflation. • Its Asia Pacific Fiber Cement division saw a decline of 2% in revenue with a 9% fall in volumes countered by 7% higher average pricing. Weak market demand within Australia was the main concern with higher input costs such as wage inflation another feature dragging on profitability. This overall outcome saw EBIT margins decline 2.7% to 30.4%. • In Europe, net sales grew 8% in local currency terms with growth across both Fiber Gypsum and Fiber Cement product lines as well as high single-digit growth in its more premium products. Net sales growth was driven by a mix of 7% higher volumes and 3% higher net average sales pricing. EBIT margins fell slightly by 0.2% to 9.6% as benefits of volume growth were offset by a mix of higher freight and paper costs. • During the quarter the company repurchased 2.4 million shares for a total of $75m. In addition the board authorised a $50m increase on the existing share repurchase program which still has $75m of capacity remaining. This should help underpin the share price in the near term by adding demand for stock. The balance sheet remains strong with this marking the fifteenth consecutive quarter of net leverage below 1x (net debt to EBIT was 0.66x for the year to 30 June 2024). • Finally, management maintained their FY25 guidance for adjusted net profit of $US665m which still sits some 3.4% above current consensus expectations arguably suggesting consensus expects management to only deliver to the low end of the guidance range of $US630m to $US700m.
Our comments	• The result highlighted James Hardie’s dominant market position with an ability to still eke growth in the US even against a difficult backdrop for the housing market. • Pricing power continues to largely offset inflationary cost pressures and should leave the business well-placed for an eventual recovery if the US Federal Reserve delivers on current rate cut expectations. • The balance sheet remains in good order which should see capital returns to shareholders being maintained over the near term with capacity in the buyback program continuing to support the share price. • Finally the business is trading in line with long-term averages on a forward price-to-earnings ratio and enterprise-value to EBITDA basis and is at less risk of any valuation correction impact in the near-term. This is contingent on the economic outlook stabilising particularly in the US but if rate cuts are delivered it should be a potent tailwind for housing over the medium term and underpin the company’s performance.

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NIB Group (NHF: ASX)

Share price	10/9/24: $5.77
Result	FY24
Underlying Revenue	$3.3b, up 9.6% on the pcp.
Underlying EPS	$0.414, flat on the pcp.
Key points	• NIB saw strong expansion in the top line driven by policyholder growth across all its insurance offerings. The result was stymied however by strong claims cost inflation due to a mix of a better-than-expected set of outcomes in FY23 as well as ongoing inflationary pressures. • Consequently, the growth in Group Underlying Operating Profit growth lagged the 9.6% rise in sales with a 5.9% increase to $257.5m. Several one-off costs related to its NDIS-facing business, NIB Thrive, contributed to the flat EPS outcome. • Balance sheet strength and the still positive underlying result helped support increased dividend payouts with the full-year fully franked dividend rising to 29c per share, up 3.6% on FY23. • Australian health insurance policyholder growth was 2.5% in FY25, positive and above expected industry growth for the period. It was however a miss from management's previous guidance for 3.5% (on a midpoint basis). On this front though it is pleasing to note that new product launches had seen a material upswing in net policy growth from 30 June to 16 August, up 42.4% on the pcp. • Claims cost inflation was a point of concern with paid claims per policy at 5.7% driven by strong hospital pricing pressures and came in at the high-end of management's longer-term outlook of 4-6%. Historically the business has managed to price in this cost with the announced premium hike in April is one example that should support margin recovery in FY25. • The international inbound business performed well with top-line growth of 19% and underlying operating profit growth of 11.2%, the latter impacted by claims inflation. A side benefit of group diversification is the cross-selling opportunities presented with 9.745 sales from iihi into the Midnight Health business. • New Zealand saw strong top line growth stifled by surging claims costs with claims inflation running at 14.9% due to a mix of higher service costs (8.7%) and utilisation pressures (6.2%). • The nib Thrive business saw strong organic growth of 6.3% and should continue to track well with an increasing proportion of NDIS scheme participants looking to use plan managers going forward (63.3% growth in plan manager usage vs 8.3% scheme growth). Operating margins also expanded from 21.2% to 29.8%. • Lastly management guided towards an improvement in policyholder growth for the core private health business to 3% for FY25 as well as expectations of improved margin improvement in its other divisions with Thrive expected to hit its target of ~50,000 scheme participants by the end of FY25.
Our comments	• The result was disappointing particularly for its core health insurance business with the mix of slower policyholder growth coupled with above-industry claims inflation. The other negatives were largely known prior to the result and in fairness the margin decline in health insurance has been flagged repeatedly by management in prior results, the pace of said decline in the second half was a point of concern. • Finally shares following the latest bout of price weakness trade at a material discount over almost 30% to the company's longer-term valuation with a forward price-to-earnings ratio of 13x versus 18x on average. This implies much of the future; potential downside has been priced-in already we would argue. • On balance a disappointing set of results but given the scale of the selloff the stock has sizeable support from an undemanding valuation, a forward dividend yield of 6.9% (fully franked) and should continue to grow in mid-single-digit terms over the medium term.

NB for ease of comparison both revenue and EPS are expressed under the prior accounting standard.

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Origin Energy Ltd (ORG: ASX)

Share price	10/9/24: $9.66
Result	FY24
Underlying Revenue	$16.14b, down 2% on the pcp.
Underlying EPS	$0.687, an increase of 58.3% on the pcp.
Key points	• Origin's Energy Markets business saw a strong result on an underlying EBITDA basis with $1.655b in FY24, an increase of 59.4% on the pcp. This was driven by increased electricity profits with higher wholesale costs being recovered back through higher pricing after a period of under-recovery. Lower fuel costs also contributed thanks to government intervention via a legislated coal price cap. Increased utilisation from both its Eraring Power Station and fleet of gas peaking power stations also played an important role in higher profitability. • Churn remains elevated with 13.2% on average albeit far stronger than the market average of 20.1% in FY24. A higher cost to serve dragged on the result as with slower collection times as cost of living pressures dragged on consumer repayments. From a longer-term perspective the company broadened its business customer base on Origin Zero, more than doubling customers using solutions beyond electricity or natural gas. • FY24 also marked a strong period of growth for Loop, the company's Virtual Power Plant (VPP) which saw connected assets expand by ~70% to 1.4 GW. A VPP refers to a system that combines multiple power sources e.g. residential solar, batteries and the like that can then be coordinated and sold into the market as a collective unit. This represents a source of flexibility in periods where demand escalates drastically and should enable the business to take advantage of electricity price volatility in these cases. Management forecast growth of 0.6 GW or almost 43% in VPP capacity by 2026. • Octopus Energy had a mixed result with Underlying EBITDA declining $185m to $55m (on an Origin share basis) due to lower earnings in UK retail following a period of over-earning as well as higher capital spending to grow the business. Seen from a long-term perspective this is arguably less concerning with the real long-term potential in this investment via its global growth optionality. On that front FY24 saw key software Kraken grow licensing revenue 73% and customer accounts by 60% both highlighting its attractiveness to energy retailers looking to modernise their customer-facing software. • Management guided to lower FY25 profits in its Energy Markets business given repricing in energy tariffs coupled with higher coal procurement costs. Meanwhile its Octopus Energy and Asia Pacific LNG production businesses (Origin as minority shareholder in both) are expected to perform well in FY25.
Our comments	• The results were somewhat mixed for FY24 with EBITDA coming in a 4.6% against consensus and the company slightly beating expectations on a revenue basis. On the flipside however, investors also saw a 50.7% uplift in dividends with the full year payout of 55c per share versus 36.5c per share in FY23. • The weakness in the Octopus Energy result is ultimately short-term noise in our view as the real value in that business will be found in the medium term as it continues to grow and gain traction globally. • The business also retains optionality in monetising its exposure to LNG production which whilst highly cashflow generative is ultimately subject to price volatility given negligible volume increases as an offset though we note the infrastructure is located near other gas fields that might be further sources of medium-term growth. • Ultimately the near-term direction will be dictated by its Energy Markets business and this appears to be under some pressure until it brings more generation and in particular variable capacity assets online. There is upside risk however that is difficult to price in from assets such as its VPP and gas plants to benefit from periods of excessive price volatility. In addition, we are attracted to the structural growth angle with regulator AEMO forecasting a 16% increase in electricity demand by 2030 which should translate into higher volumes and ultimately revenue for generators such as Origin and AGL.

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Rio Tinto Ltd (RIO: ASX)

Share price	10/9/24: $107.11
Result	1H FY24
Underlying Revenue	$US26.8b, up 1% on the pcp.
Underlying EPS	$US3.54, an increase of 0.4% on the pcp.
Key points	• Rio saw a modest improvement in divisional profitability with underlying EBITDA up 1% on the pcp. Weakness in its core iron ore business was the main driver with EBITDA down 10% over the period, dwarfing the impact of strong copper and aluminium results up 67% and 38% respectively. • Capital spending is expected to be elevated out to 2026 with $US10b annually and up to $US3b p.a. in growth opportunities. Simandou, Rio's flagship joint-venture in Guinea is nearing production (to begin in FY25) with full capacity expected from 2028 onwards. Its Mongolian joint venture Oyu Tolgoi is also proceeding apace and is expected to be able to produce 500kt p.a. in copper from 2028 onwards. • These investment endeavours are expected to translate into strong volume growth of ~3% p.a. for copper production with Simandou also expected to produce 60mt of iron ore annually. • Legacy site closures such as Energy Resources of Australia's Ranger uranium mine are expected to total US$1b p.a. over the near term on a cash basis. • Despite these imposts, management anticipates it will maintain its average payout of 40-60% of underlying earnings to investors predominantly via dividends. They also expect to maintain only modest gearing, a lesson learned from past cycles with net debt to underlying EBITDA of only 0.2x over the past two years.
Our comments	• Overall this was a reasonable set of results with revenue 2.3% above consensus and EBITDA in line with expectations. • Inflation cost pressures appear to be easing which should be supportive of margins going forward. • Ultimately volumes in iron ore whilst improving are more a medium-term case rather than immediate one, relative to BHP which could amplify margin pressures if current iron ore weakness persists. • Looking forward, Rio shares trade at a forward yield of almost 9% (fully franked) with earnings expected to decline slightly to FY26. On a forward price-to-earnings ratio Rio trades at ~10x versus a long-term average of 12x arguably presenting an attractive entry point. • The shares offer more potential diversification via copper and aluminium exposures though this is a longer-term benefit (arguably) as iron ore dominates the current earnings profile and will continue to do so. • We see Rio as an attractive source of income generation with a strong balance sheet that should see it navigate any economic headwinds smoothly while its growth investments gradually pay dividends in the form of rising production in key commodities, particularly copper that is seen as key to the energy transition to combat the challenges of climate change.

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Resmed Ltd (RMD: ASX)

Share price	10/9/24: $37.01
Result	FY24
Underlying Revenue	$US4.7b, an increase of 11% on the pcp.
Underlying EPS	$US7.72, up 19.9% on the pcp.
Key points	• Resmed's fourth quarter marked a strong finish to FY24 with gross margin improvement continuing, up 3.5% in the quarter alone, thanks to a mix of lower freight and manufacturing costs as well as higher average sales prices. • Cost discipline on selling and general expenses was also a key driver for improved profitability, up only 4.9% for the full year. • Research and development remained a management focus at a steady ~7% of net sales. • At a divisional level, revenue from the Americas (excluding software) grew 10% for the full year whilst Europe and other markets saw 11% growth. Meanwhile the software-as-a-service offering saw continued traction with organic growth key to an impressive 17% expansion for the period.
Our comments	• This was a strong result and defied share price ructions in recent years over concerns of permanently lower obesity rates from weight-loss drugs such as Ozempic. • It also highlighted the strong differentiation to rivals with software-as-a-service continuing to drive increased attachment to the Resmed offering and growing as a proportion of total sales, up 0.8% to 12.5% for the full year and a commensurate boost to overall profitability with profit margins expected to continue expanding in the near term as a result. Resmed appears to have retained much of the market share it gained following Phillips' travails in the US and the continued focus on improving its product suite via research spending should help entrench this advantage. • We will monitor margins closely to see if new competitive threats begin to emerge with volumes also a key point to monitor given the impact on overall top line growth as higher prices are not a permanent solution. • One pleasing comment from management was their emphasis on weight loss drugs as a vector to sell Resmed devices given the higher likelihood of patients to address their sleep apnoea challenges. If this translates into improved fundamentals it should continue to drive share price performance and, definitively end any lingering concerns over longer-term growth as a result of weight loss drugs. • Whilst the share price has rallied materially in recent months we still see value at current levels with the shares trading at ~24.7x FY26 consensus EPS, an almost 10% discount to the 10-year average forward PE of 27x. This valuation for a stock with strong returns on capital and expected growth in the low teens remains attractive in our view.

Transurban Group (TCL: ASX)

Share price	10/9/24: $13.64
Result	FY24
Underlying Revenue	$3.5b, up 6.7% on the pcp.
Underlying EBITDA	$2.6b, an increase of 7.5% on the pcp
Key points	• Transurban had a reasonable result for FY24 with revenue growing 6.7% on the pcp driven by a mix of pricing as well as volume growth. • On volumes, Average Daily Traffic (ADT) continued to climb, up 1.7%, with growth across all regions despite construction project challenges in Sydney and Melbourne (e.g. roadworks upgrades). ADT growth in North America was a standout, up 5.5%, driven by stronger relative economic activity according to management. • Cost control was a highlight, only growing 3.6% on a group-wide basis which helped boost overall profitability. • Management emphasised capital allocation discipline as part of the results release highlighting opportunities that were passed on e.g. Chicago Skyway as not being core to their strategy and an example of their unwillingness to overpay for growth opportunities. • The growth pipeline was also a feature with three major projects expected to open by 2026 and a further two subject to detailed negotiations at present. Additional opportunities in Australia and North America remain the focus given the Group's experience in these jurisdictions and favourable regulatory backdrop. • Regulatory scrutiny was a feature with the NSW government conducting a review into toll road reform. The exact outcomes of this are uncertain but given the contractual provisions in place it seems more likely some level of modification and/or compromise is reached rather than materially negative news for Transurban. The exact implication of these proceedings remains unknown at this juncture. • Management issued guidance for FY25 that anticipates a distribution of 65c per share, a forward yield of 4.8%. This is expected to be covered at least 95% by free cash flow generation from the portfolio and represents 5% growth on FY24's result.
Our comments	• This was a good set of results on balance with growth above inflation levels boosted especially by its US assets which were the strong outperformers for the full year. This underpinned further growth in distributions. • Cost control was an impressive facet given challenges in the construction sector and broader inflationary pressures e.g. wages. A reduction in development projects was a support in this regard. A mix of technology optimisation and other operational efficiencies were key in this regard with direct costs in the company's control only growing 2.7% for the period. • NSW Toll Road Review remains a potential overhang until final outcomes are known but importantly it may have some impact on Group returns but the concessions themselves are unlikely to be materially impaired in our view. • Growth remains a point of concern for Transurban with expansion in Queensland and Virginia the key points of focus to generate growth over and above inflation over the medium term. Management is being proactive on this front and exercising capital discipline but it may act as an overhang until addressed with additional projects. • Finally on valuation TCL trades at a slight discount of 5-10% to its long-term average EV to EBTIDA and Price to Expected Cashflow ratios. It offers a forward yield of 4.8% for FY25 and consensus anticipates high single digit EBITDA growth out to FY27. We believe this is an attractive proposition for maintaining exposure to TCL and should translate into above-market returns for a defensive asset. The prospect of rerating higher should interest rates decline materially also offers potential upside to current share price levels.

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Telstra Group Ltd (TLS: ASX)

Share price	10/9/24: $3.95
Result	FY24
Underlying Revenue	$23.4b, up 1% on the pcp.
Underlying EBITDA	$8.2b, an increase of 3.7% on the pcp.
Key points	• Telstra delivered a reasonable set of results for FY24 albeit largely in line with consensus forecasts for underlying revenue and EBITDA. • Pleasingly we saw continued dividend growth with the full year dividend payout rising 5.9%. • Mobile was the standout division with EBTIDA growth of 9.2% driven by growth in new users (up 4.1%) as well as higher average pricing. This was closely followed by the Infraco business which grew 5.8%, driven by ongoing demand for its services (including 5G expansion) and contractual nbn indexation. • Its Fixed business lines underwhelmed. On the one hand Consumer and Small Business grew profits by a strong 88% though this was at the cost of revenue which fell 2%. • Pain continued to be felt in its fixed Enterprise offering with EBTIDA dropping 67% due to falling demand and pricing. • Internationally we saw revenue growth of 6% and EBTIDA growth of 9%. At first glance this looks strong especially from a profitability perspective but much of this was driven by one-off benefits regarding Digicel Pacific. Wholesale & Enterprise saw EBITDA growth of 11% whereas Digicel continues to struggle due to disruptions in Papua New Guinea with EBITDA declining 13% over the same period. • Finally management guided to $8.6b in EBITDA for FY25, ahead of consensus expectations, to be delivered via a mix of cost discipline and higher pricing with a reset of its Enterprise offering also expected to contribute.
Our comments	• The result was positive overall with mobile continuing to perform strongly and being ably assisted by the Infraco business. These more than offset weakness in more legacy parts of the business that are less material from an earnings perspective already. Given the acquisition cost for Digicel even gradual normalisation of earnings should deliver attractive returns for investors. • The improvement in profitability from FY25 forward was a welcome upgrade on consensus and provided management maintains cost discipline and service quality (to justify price increases) should be achievable in our view given the breadth and coverage of Telstra's offering. • Finally in considering the return outlook Telstra shares are currently priced to deliver a 6.8% yield on a fully franked basis with the outlook for ~4% p.a. EBITDA growth out to FY27 according to current consensus forecasts. Given the resilient demand for its products and services (notwithstanding Enterprise challenges) there is a reasonable prospect of management delivering against these expectations which presents an attractive return profile. • Valuation-wise the stock is trading in line with its long-term average on an EV to EBTIDA basis suggesting limited need for concern over potential excessive investor sentiment. This means a valuation correction should be less likely in the near term. In addition the potential tailwind of falling rates should see its yield profile become more attractive as a source of income and potentially contribute to a rerating in the share price.

Technology One Ltd (TNE: ASX)

Share price	10/9/24: $22.63
Result	1H FY24
Underlying Revenue	$223m, up 21.3% on the pcp.
Underlying EPS	$0.145, an increase of 16% on the pcp.
Key points	• Technology One (TNE) saw a strong start to FY24 with revenue growth of over 21% and profits expanding 16% on the pcp driven by sales in its core Software-as-a-Service (SaaS) solutions. • In its core Asia Pacific market profits grew 22% on the pcp whilst in the UK strategic focus on growing SaaS+ (its new implementation and software solution for customers) saw a 67% decline in profitability. • The UK profit decline is expected to be a short-term phenomenon driven by SaaS+ implementation costs. This is a groupwide phenomenon and without this investment net profit before tax margins would have been 1% higher for the half. • The SaaS+ implementation is expected to improve the likelihood of new customer wins and more than justify its investment via future growth and gradual repayment from higher margin software licensing revenues. • This is arguably bearing fruit already with annualised recurring revenue (ARR) rising almost 36% on the pcp in the UK from an admittedly smaller base than the APAC division as 100% of consulting services are now delivered via SaaS+ there. • In its 2024 full-year outlook management guided to growth in annualised recurring revenue (ARR) of 15-20% with net profit before tax growth of 12-16% as SaaS+ investments are expected to weigh on margins in the short run. • Subsequently at its Investor Day in late July management stated an ambitious FY30 goal for ARR to exceed $1b. This followed the bringing forward of a previous ambition for $500m ARR by FY26 which the company now expects to achieve in the first half of FY25.
Our comments	• This was a strong set of results for Technology One with both revenue and earnings per share exceeding consensus forecasts by 0.7% and 2% respectively. • The new SaaS+ offering appears to be a strong success to date particularly in terms of delivering new customer additions. While it represents a point of differentiation (TNE essentially takes ownership of implementing its software rollout for a prospective customer) it may come at the cost of margin pressure in the short run given the higher consulting staff costs required in its initial stages which will then be repaid later on via higher margin software revenues. • The Investor Day update for future growth highlights the potential for the stock to continue compounding growth in the high teens with acceleration in recent years thanks to its transition away from software licensing to a SaaS implementation. • Valuation has become a larger point of concern following recent share price strength with the business trading at or near record levels on a range of valuation metrics. The business has executed well and as it builds out its installed base of customers it should continue to be able to grow at a premium to the broader market. A net retention ratio of 117% highlights the strong lock-in of existing and nay new additional customers so this earnings growth is less insecure than might be seen with other business models. • Overall we find TNE to be an attractive growth stock exposure with a growing dividend payout and strong likelihood of maintaining double-digit earnings growth over the medium term at attractive returns on capital. We may however revise our thinking on valuation grounds in the months ahead given the rising potential of a correction should the company miss increasingly lofty expectations for future growth.

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Woolworths Group (WOW: ASX)

Share price	10/9/24: $34.63
Result	FY24
Underlying Revenue	$67.9b, up 3.7% on the pcp.
Underlying EPS	$1.40, down 3.4% on the pcp.
Key points	• The company exceeded consensus expectations for both revenue and EPS by 0.9% and 0.5% respectively. • In its core Food business sales grew 3.7% normalised for the extra week in FY24 while EBIT grew 6% on a similar basis. Much of the EBIT increase was driven by the online business with WooliesX contributing to 75% of the EBIT growth according to management (WooliesX EBIT grew 93.8% on a standalone, normalised basis in FY24). • Its business-to-business (B2B) division saw normalised sales rise 4.3% and an impressive 87.1% increase in EBIT with profitability improving markedly. This was driven by a mix of cycling prior year losses in the International and Summergate (now sold) businesses as well as improved profitability in primary third-party logistics. • New Zealand performance was a point of weakness with normalised sales growth of 1.3% (in NZD terms) and EBIT declining 57.2% on a similar basis. High competition dragged on profitability as did investment in a large-scale rebranding exercise coupled with higher cost inflation such as freight costs and the launch of its Everyday Rewards program. Much of this reflects ambitions for the longer-term which if they deliver should support higher profitability from this business. • Big W was also a laggard as it saw normalised sales shrink 3.9% with underlying EBIT collapsing 90.3% on a similar basis. Cost of living pressures saw elevated "trading down" behaviour in consumer spending with increased clearance activity and higher theft also weighing on profitability. • To start FY25 management highlighted sales growth of 3.1% and 1.5% for the Australian Food and New Zealand businesses respectively. They also guided to improved profitability for both New Zealand and Big W.
Our comments	• This was a reasonable set of results from Woolworths in FY24 with several moving parts. • Big W and New Zealand were obvious points of weakness though these account for a comparably smaller proportion of Group earnings (~12% of EBIT in FY23) and provided guidance is delivered should be notable sources of improvement in FY25 and beyond in the case of New Zealand's broader investment ambitions. • The resilience in earnings for its core Food business was pleasing though we note this appears at arguably the cost of weaker topline growth in the second half of the year. Relative to rival Coles it appears to have a material lead in digital & media and ecommerce offerings. • The growth in WooliesX earnings was a highlight in these results and should act as an important driver going forward with management highlighting new opportunities for scale and launching a partnership with shopping giant Vicinity Centres as an example. Based on overseas peers we would expect monetising the data side of the business to become more important over time and a factor that should contribute to margin improvement as well. • Woolworths currently trades slightly below its average valuation since Coles relisted in late 2018. The business is expected to grow earnings 6.5% p.a. to FY27 and trades at a forward dividend yield of 4.3% fully-franked offering a comparably lower risk and attractive return against the broader market and remains attractive in our view.

International equity portfolio

Abbott Laboratories (ABT: US)[11]

Share price	10/9/24: US$117.11
Result	Q2 FY24
Underlying Revenue	$US10.4b, up 4% on the pcp (9.3% on an underlying basis)
Underlying EPS	$US1.14, an increase of 5.6% on the pcp.
Key points	• Abbott delivered in the June quarter led by its Medical Devices business which saw 12.1% organic sales growth, its sixth-consecutive quarter of double-digit top line increases. • Strength in device demand was broad-based with both US and international growing organic sales in double-digit terms. This was led by treatments for diabetes care and cardiovascular disease. • Results in other divisions were somewhat more mixed with established pharmaceuticals and Nutrition delivering growth of 8.1% and 7.5% on an underlying basis whilst the Diagnostics business was a comparable laggard at 5.9% growth (excluding the drag from COVID testing sales). • In Nutrition, the business continues to retake market share in its infant formula product lines. Meanwhile its Established Pharmaceuticals business continues to show traction internationally with a diversified portfolio of generics seeing broad based growth on the pcp. • Subsequent to its results the company lost a jury trial in St Louis with an order of $US495m in damages related to its sales of specialised infant formula for premature babies. The company at results had maintained it would defend its position and also highlighted the small scale of potential claims with these products only amounting to $US9m in sales annually.
Our comments	• This was a strong result with EPS 3.3% above consensus expectations and revenue in line. The guidance upgrade was particularly welcome and sees FY24 expected EPS climb almost 1% on a midpoint basis. Management also narrowed its guidance range for organic sales growth to 9.5% to 10% which also represented a slight upgrade. • The overhang from infant formula litigation could pose headline risk in the near term until these claims are definitively addressed. The company has pointed to the ample medical support it enjoys for the products in question and the lack of any rising trend of the disease in question. It will maintain its position but we note that this remains a near-term risk for the business albeit one that should be less material if any claims are ultimately reduced on appeal. • The other risk is the narrative that weight loss drugs such as Ozempic will ultimately result in reduced demand for Abbott's device franchise. To date this has not eventuated with these products enjoying double-digit sales growth. It remains an ongoing feature of the Abbott narrative that further profit growth will be required to disprove over a longer period of time. In the interim it could pose another headline risk to sentiment if for example new studies or drugs appeared that initially promised reduced rates of say obesity which would limit growth in cardiovascular or diabetes treatment devices. • Finally the company offers a forward dividend yield of 1.9% coupled with a long-standing track record of maintaining and increasing its dividend payouts over the last 52 years consecutively. It trades at a slight discount to its long-term average forward PE ratio and is expected to grow 8.2% p.a. out to FY26 according to current consensus figures. For a resilient business model with lower volatility than the broader market we view this as an attractive exposure to global healthcare and are happy to maintain our positioning in what we consider a long-term compounder trading at a fair price.

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Adobe (ADBE: US)[5]

Share price	10/9/24: US$574.48
Result	Q2 FY24
Revenue	$US5.31b, up 10% on the pcp.
Underlying EPS	$US4.48, an increase of 17.9% on the pcp.
Key points	• Adobe reported a strong June quarter result with both revenue and earnings exceeding consensus expectations by 0.3% and 1.85% respectively. • The Digital Media segment saw 11% growth on the pcp with this further split between 10% growth for its Creative Cloud solutions compared to 19% growth in Document Cloud sales. Digital Media's overall ARR continued to climb, up 13% on the pcp in constant currency terms. • The comparably smaller Digital Experience segment saw slower growth at 9% on the pcp. Pleasingly subscription revenue continues to gain traction with 13% growth over the same period. • Firefly, Adobe's artificial intelligence (AI) tool, continues to be drawcard for customers. Management highlighted the launch of its 3rd iteration as part of these results as well as its usefulness in prompting Creative Cloud customers to upgrade their existing subscriptions in order to make full use of these capabilities. • Share repurchases continue apace with the company retaining $US22.7b in capacity of its US$25b program authorised in March 2024 and buying back almost 5m shares in the quarter. • Finally management upgraded their FY24 guidance for revenue and EPS by 0.2% and 1.7% respectively on a midpoint basis.
Our comments	• This was a pleasing set of results with AI tool Firefly helping stoke additional customer retention and management raising its ARR target for FY24 to $US1.95b as it sees traction with early AI monetisation across its Digital Media business lines. • Overall, we expect the business to continue seeing earnings grow in the low-teens. A concern with high growth stocks is the starting valuation and in the Adobe case it currently sits at a slight 6% discount to its long-term average PE ratio and at a slight premium to its forward price to free cashflow ratio. This is not overly concerning as a risk of valuation correction in our view. • Accordingly we believe the stock remains well-positioned to capitalise on growing demand for audiovisual content and AI-powered tools to the profit of investors and remains a favourable vehicle to obtain growth exposure in the portfolio.

[11] All figures in USD unless otherwise stated. Results referring to percentage changes (increases/decreases) relate to the previous corresponding period (pcp) e.g. Q4 FY24 results are compared to those of Q4 FY24.

Aena SME SA (AENA: EU)[12]

Share price	10/9/24: €185.10
Result	H1 FY24
Revenue	€2.75b, up 17.7% on the pcp.
Underlying EBITDA	€1.55b, an increase of 32.9% compared to the pcp.
Key points	• Revenues were supported by broad-based strength across Aena's key segments with aeronautical revenues up 16.4%, commercial revenues up 17.4% and consolidation of its Brazilian acquisitions seeing international revenue rise 25.6% on the pcp. • These results exceeded consensus expectations for revenues and EBITDA by 0.6% and 0.7% respectively. • Revenue growth continues to be underpinned by volume growth in passenger traffic which rose 10.5% across the Group with its core Spain business seeing even stronger growth of 11.4% over the same period. • Expense growth remained modest at 6% on an underlying basis with lower energy costs remaining a critical driver. Electricity costs in Spain as an example declined 17.5% on the pcp as prices eased relative to FY23. • Luton Airport remained a relative straggler amongst the Aena network with passenger traffic still almost 7% below 2019 levels albeit recovering with overall revenue up almost 19% and EBITDA rising almost 11% on the pcp. Cost pressures in the UK economy dragged on profitability with operating expenses growing almost 28% due to increased activity, wage inflation and a higher concession fee to the UK government. • Management continues to guide towards strong near-term growth in passenger volumes with the year to July 2024 seeing 10.6% growth compared to the pcp and potentially on track to exceed the previous target of 294m flagged in March this year.
Our comments	• The quality of the AENA portfolio remains intact in our view with the group continuing to execute well and consumer demand for travel remaining intact. • A notable risk that emerged recently is the prospect of political change in Catalunya (the region that Barcelona is capital of) that could impact Aena's operations in the region, one of Spain's top tourist destinations. • Another area of concern going forward given their growth ambitions for international expansion, will be ensuring that the business does not overpay on acquisitions. Management was at pains to flag its capital discipline in assessing potential targets and highlighted the recent sale of Edinburgh Airport as an example of not overpaying given this transacted at a material premium to public market peers. • AENA is expected to yield 5.3% in FY24 alone on consensus estimates and generate growth of ~9% p.a. to FY26 on a similar basis. In addition the shares trade at an attractive level of 13.7x FY25 consensus EPS versus a longer-term average of over 17x. This suggests reasonable prospect for a rerating in the share price should current concerns over Catalonia be alleviated. • Overall we consider the business as paying us an attractive yield with above-average growth prospects on current consensus estimates and the potential optionality of a rerating as the domestic picture becomes clearer. As with other infrastructure stocks a further decline in interest rates, provided it does not coincide with materially weaker demand should also be a valuation tailwind given the attractive income generation on offer relative to fixed income assets.

[12] Company Transcripts, Reuters and Bloomberg

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Amazon.Com Inc (AMZN: US)[5]

Share price	10/9/24: US$179.55
Result	Q2 FY24
Revenue	$US148b, up 10% on the pcp.
Operating Income	$US14.7b, an increase of 91% on the pcp.
Key points	• Amazon continued its strong start to 2024 in the June quarter with Amazon Web Services (AWS) the key standout. The company disappointed consensus revenue expectations but exceeded on profitability (EBITDA) by -0.5% and +3.5% respectively. • AWS saw sales growth of 19% on the pcp to $US26.3b and an impressive margin expansion with operating income rising 72% over the same period to $US9.3b. The margin improvement was flattered somewhat by an accounting adjustment in estimating useful server life (a similar exercise to Google in 2023) which added 2% to operating income margins. • AWS continued to show improved traction with the acceleration of topline growth and won a number of large corporate clients. The company also announced a $US2b strategic partnership with the Australian government to provide a secure cloud offering to bolster the country's intelligence and defence capabilities. • The retail businesses were comparably weaker in terms of topline growth with the US rising 9% and international by 7% (10% in constant currency terms) on the pcp. Retail profitability was a marked improvement however with the US business up 59.4% in operating income terms whilst the international division transitioned into profitability from loss-making in the June quarter last year. • Advertising is a key support of retail profitability and growth with the company disclosing net sales of US$12.8b that represented growth of 20% on the pcp and contributed ~1.2% to the overall retail growth of 8.5% over the same period. • This has also supported improved profitability in the business excluding AWS as advertising generates higher margins than retail businesses on average. • Management continued to highlight expanding investment to capitalise on demand for both AI and non-AI workloads from its AWS infrastructure. Management flagged this to be higher than the first half of 24 where it totalled some $US30.5b. • Finally, unlike their peers, Amazon continues to accumulate cash and refrain from any material capital return efforts whether as dividends or buybacks. This cash pile now amounts to almost US$72b and offers the business future flexibility on capital returns or continued reinvestment.
Our comments	• In our view this marked a mixed result for Amazon with AWS clearly performing strongly albeit inflated by accounting adjustments whilst retail performance slowed in the second quarter. • Our thesis for the business as a highly cashflow generative play on transition to the cloud, the US consumer and increasingly, a digital advertising giant remains intact albeit not without its macroeconomic challenges on the consumer front. • Overall, we are content with the business trajectory and leadership under CEO Jassy who is continuing to execute well in our assessment. The company trades at a reasonable valuation for its high teen earnings growth profile with a forward free cashflow yield of ~4% compared to its long-term average of 3.2%. Whilst growth has slowed relative to its early history it is still enviable for the company's size and remains a business we find attractively priced for its growth and valuation.

American Water Works (AWK: US)[5]

Share price	10/9/24: US$148.20
Result	Q2 FY24
Revenue	$US1.149b, up 4.7% on the pcp.
Underlying EPS	$US1.42, down 1.4% on the pcp.
Key points	• Earnings growth was slightly weaker than consensus whilst revenue growth surprised strongly, 3.1% above analyst forecasts. • EPS growth was impacted by negative weather impacts with the pcp inflated by 7c per share due to beneficial weather impacts. Higher financing costs were another drag (11c per share). These more than offset the net improvement in operating profitability of 17c per share. • Earnings are still expected to reach guidance for 7-9% EPS growth with management firming their full year guidance from a midpoint of $US5.25 to $US5.275 per share, a 0.5% upgrade. Much of this improvement is back-ended into the second half of 2024 where several rate reviews are due to become effective and more are expected to be forthcoming. • The company deployed a further US$0.7b (YTD total US$1.4b) in a mix of infrastructure improvements and acquisitions. An additional US$483m of acquisitions are currently under agreement as well. • The company affirmed its long-term earnings and dividend growth target of 7-9% with consensus forecasts expecting dividend growth to be at the high end of this target range offering a prospective yield of 2.1%. • Management reiterated its confidence over new regulations by the US Environmental Protection Agency (EPA) which are not expected to generate any material change in management's estimates for ongoing costs or capital spending related to these changes. In addition the company is still due to receive settlement proceeds related to litigation over these regulatory changes.
Our comments	• American Water Works continues to execute well in achieving high single-digit growth in earnings notwithstanding notable headwinds such as higher interest rates. With the US Federal Reserve expected to begin cutting rates shortly this could offer a strong tailwind to valuations given the substantial debt held by infrastructure businesses such as AWK, underpinning stronger earnings thanks to lower financing costs. • The company appears to be tracking well against its longer-term ambitions and is progressing its rate reviews successfully including in key markets such as New Jersey and Pennsylvania despite some disagreements over adequate returns on capital in the latter case. • The company appears well placed to continue offering steady income generation via a forward yield of 2.1% as well as high single digit earnings growth which should lead to strong performance versus the broader market over the long run. Shares currently trade at a slight discount to their long-term average valuation suggesting prospect for additional return uplift from mean reversion. A catalyst for this might be cuts to interest rates which would translate into stronger earnings for the business.

Vinci (DG: EU)[5]

Share price	10/9/24: €109.85
Result	1H FY24
Revenue	€33.8b, up 4.4% on the pcp.
Key points	• Topline growth was broad-based and led by the International businesses up 5.2% versus 3.3% for its French operations on the pcp. • Passenger numbers at its airports continued to track strongly in line with the Aena result seeing 10% expansion in the pcp and now 1.5% above the first half of 2019 suggesting the recovery is now well underway. • The Group order book continues to climb meaningfully, up 9% on the pcp. The strength was broad-based with its Cobra IS, Construction and Energies divisions, all experiencing organic growth over the period. The order book reached a new, all-time high of €67.3b which represents nearly 14 months of activity and continues to be dominated by its international operations. • Vinci Immobilier, its French real estate development business continued to struggle with revenue down 10% on the pcp as the French property sector struggles in a higher interest rate environment. More monetary policy easing appears necessary to spark a turnaround in the division's fortunes. • Management issued some slight upgrades on divisional performance with more cyclical divisions of Cobra IS, Energies and Construction all expected to see margin expansion in 2024. This was followed by improved passenger volume growth expectations for the Airports business albeit offset by stable volumes for its toll roads franchise following disruptions earlier in the year.
Our comments	• The weaker results from the French far right in recent French elections helped contribute to share price strength in the September quarter as it alleviated concerns over possible nationalisation. • Our overall view on the business remains intact with steady demand and profit growth from its monopoly concessions franchises and additional growth upside from secular trends (notably the energy transition) underpinning its historically more cyclical divisions. The sheer scale of work needed to implement electrification and renewables construction to name a few examples remains underappreciated in our view with the transformation of Vinci's construction and engineering businesses into more resilient revenue streams an important support going forward for the business. • The French tax impost on its toll roads business should see some progress with French courts due to issue an initial ruling by mid-September. Even if unsuccessful on this front the company retains other legal avenues to challenge the decision which should, assuming they prevail, lead to a period of earnings catch-up that is arguably not priced-in at current levels. • The company continues to trade at an attractive valuation with a free cashflow yield of over 8% and a 2024 estimated dividend yield of 4.3%. Earnings are expected to grow in mid-to-high single digits out to 2027 according to current consensus forecasts. The high free cashflow generation should also support additional share buybacks to support the share price as well as further dividend growth. This backdrop coupled with a relatively inexpensive valuation should support returns competitive with the broader market over the medium term.

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Alphabet Inc. (GOOGL: US)[5]

Share price	10/9/24: US$148.66
Result	Q2 FY24
Revenue	$US84.7b, up 13.6% on the pcp.
Underlying EPS	$US1.89, an increase of 31.2% on the pcp.
Key points	• Alphabet saw its strong start in the March quarter persist into the June quarter with double-digit growth on the pcp across both its Services and Cloud business lines. • Google Cloud was a standout with revenue growth of almost 29% followed by subscription growth of 14.4% and advertising sales growth of 11.1%. • Google Cloud saw operating margins continue to expand rising 6.4% on the pcp to 11.3% in the June quarter. Management cited strong demand for its Generative AI and AI infrastructure from cloud users with over 2 million developers already using these offerings. • AI was a hot topic in the results with its flagship Gemini model now comprising four different options each with its own set of use cases and already seeing over 1.5 million developers utilising Gemini across Alphabet's developer tools. • Management flagged capital spending at or slightly above $US12b per quarter in the near term as it built out its technological infrastructure to capitalise on customer demand and set the business up for future growth as this space expands. • One concern was the return on investment from increased capital spending by the business with CEO Pichai instead contending the risks of not being at the forefront of this cycle as far outweighing those of excessive investment spending given the long life of these assets and the strong growth potential of these AI solutions. • Cost control remained important in its core businesses with operating expenses only rising 5% thanks to flat sales and market spending relative to the pcp with the bulk of this growth arising from increased research and development investment.
Our comments	• The Alphabet business continues to be performing strongly with broad-based double-digit growth and no material signs of Search being "under threat" to date by AI solutions which has been a narrative weighing on the business arguably. • The focus on cost discipline is important as it reduces potential drags on profitability and management distractions that have struggled to yield meaningful results for shareholders. By this same token however there needs to be better articulation of the longer-term potential for the company's AI investments with Alphabet needing to strengthen the narrative justifying its current spending programs we would contend. This has arguably contributed to the recent derating of the business. • As it stands the company is expected to generate double digit earnings growth over the next several years with a small (but growing) dividend payout now seeing a return of capital to shareholders for the first time. Shares also trade at an attractive 5% free cashflow yield suggesting strong potential for a rerating relative to the broader stock market which could act as a tailwind to returns. We remain positive on the core business of Search and see growth in Cloud as finally beginning to deliver meaningful earnings. If we begin to see more evidence that AI is materially going the way of its inconsequential Other Bets division we may revise this perspective. Notwithstanding this risk we continue to view the stock as attractive in both its growth potential and inexpensive valuation for its quality.

Microsoft Corporation (MSFT: US)[5]

Share price	10/9/24: US$414.20
Result	Q4 FY24
Revenue	$US64.7b, up 15% on the pcp.
Underlying EPS	$US2.95, an increase of 10% on the pcp.
Key points	• Microsoft saw its strong start to 2024 persist in the June quarter with revenue and EPS coming in at 0.3% and 0.4% above consensus respectively. • Its Cloud business continued to be a highlight with 29% sales growth in Azure and other cloud services. Whilst smaller than AWS, Microsoft's Cloud continues to take market share with growth outpacing AWS in recent quarters. It is even achieving equivalent growth than the comparably smaller Google Cloud, a much harder feat given its larger size. • AI tools are helping boost the Azure offering with the business now enjoying over 60,000 Azure AI customers, up over 60% for the year and, importantly, continuing to see average spend per customer grow as well suggesting its potential to drive improve topline and profit expansion. • The devices franchise continues to struggle albeit to a lesser extent, with revenues shrinking 11% for the year to June but given its comparably smaller scale this was not a focus for investors. • Management guided to growth in capital spending to take advantage of strong demand for AI solutions with total spend expected to exceed FY24 levels. In addition, revenue and operating income are expected to see double-digit growth over FY25 while cost control in other facets of the business remains a focus and is expected to only see single digit growth.
Our comments	• Microsoft continues to be one of the major beneficiaries of AI interest amongst enterprises globally. The anticipated acceleration in Azure revenues is a welcome sign supporting this narrative. The guidance on cost discipline even within AI by management is a welcome sign as it suggests a prudent approach to capital allocation that will or will not flex in accordance with the strength of the demand response from customers. • The examples of customer demand are extremely welcome in building out its practical (and positive) impact on the overall Microsoft business. • The Activision acquisition will continue to be monitored closely given the lacklustre fortunes of the gaming franchise as it may lead to future divestment if this business is not sufficiently turned around from current levels. • On a valuation basis the company enjoys an almost 11% premium to its long-term average valuation trading at 26x FY26 expected EPS. Given the strong growth trajectory and attractive returns on capital we feel this is an acceptable margin for a stock of this quality and are happy to maintain exposure as a result.

Nestle S.A. (NESN: CH)[5]

Share price	10/9/24: CHF 88.30
Result	1H FY24
Revenue	CHF 45b, down 2.7% on the pcp.
Key points	• Currency was a major headwind for Nestle, reducing sales growth by 4.4%. Business sales also shrunk revenue by 0.4%. • Notwithstanding this, the underlying business still had its share of challenges with organic sales up 2.1% on the pcp. This was a mix of price increases (contributing 2%) and notably volume growth (up 0.1%). The improvement in volumes was concentrated in the second half where they rose 2.2% on the pcp, bolstered by a slowdown in pricing growth to only 0.6%. • The US remains a flashpoint of weakness with organic sales shrinking slightly by 0.1% as volume shrinkage of 1.5% was only partially offset by pricing growth of 1.4%. Emerging markets and Europe saw positive volume growth for the half with organic sales rising. • The Health Science franchise remained subdued on a volumes basis with 0.2% shrinkage for the half being offset by price hikes to see slight expansion in organic sales. Management did suggest temporary issues on the automation front have largely been resolved which should translate into improved performance going forward. Nespresso by contrast offered more resilience with positive volume and pricing growth. • Management updated their full year guidance for 2024 with organic sales now growing at least 3% (versus 4% target previously) and revising EPS growth lower to mid-single-digit levels.. • Underlying profit margins improved by 0.3% driven by a 1.6% improvement in gross margins thanks to higher prices, reduced input cost pressures and portfolio optimisation efforts.
Our comments	• The downgrade on guidance is a concern after management had only recently issued these expectations following March quarter results. Competitive pressures appeared to be a driver with management pointing to external factors leading to price cuts and a consequent downgrade to guidance for 2024. • The return to volume growth is a source of comfort but not at the cost of overall weaker profitability as it reflects a poorer demand backdrop continuing to persist. • In fairness to management the currency headwinds for the business have been significant in recent years and a material drag on both topline and earnings growth. • The valuation is relatively undemanding for a stock we expect to see mid-single digit earnings growth over the long term. The dividend yield of 3.5% for 2024 is at its highest in several years and conversely the shares trade at ~17.1x 2025 estimated EPS, a double-digit discount to its long-term average. • While the stock has lagged the broader market, we still find it attractive for its defensive growth profile and typically lower-than-market levels of risk. The improvement in volume growth in the June quarter if it persists could be the sign of an improving trend in business fundamentals going forward and if so, a tailwind of potential valuation expansion.

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Novo Nordisk (NOV: DK)[5]

Share price	10/9/24: US$129.78
Result	1H FY24
Revenue	DKK 133.4b, up 24% on the pcp.
Underlying EPS	DKK 10.17 per share, an increase of 17% on the pcp.
Key points	• North American sales were a key growth driver with an increase of 36% on the pcp led by its weight-loss drug treatments such as Ozempic. These results were flattered by rebate adjustments that could contribute an estimated 2-3% for both revenue and earnings growth for the full year according to Bloomberg Intelligence. • The company continues to maintain leadership in its key markets with diabetes care market share climbing from 32.6% in the first half of 2023 to 34.1% driven by gains in both the US and other international markets. • In its GLP-1 drug segment the company also retained leadership at 56% share and looks set to also deliver an oral version of the drug in the second half of 2024 to market. • The company continues to be diligent in the returning of excess capital to shareholders with approximately €5.2b in both dividends and buybacks during the first half (a shareholder yield of ~1% or 2% when annualised). • To ease supply chain constraints management flagged DKK 45b in capital spending as the business expands its manufacturing and packaging facilities to address still growing demand for GLP-1 drugs in particular. This is expected to remain resilient with management commentary noting that demand firmly exceeds supply and the company also announcing new approvals elsewhere in the world with the use of Wegovy approved for the Chinese market as an example. • Management again upgraded guidance expectations with sales growth of 22%-28% in constant currency terms for 2024, up from 19%-27% in April. Operating profit guidance was lower to only 20-28% growth due to an impairment of DKK 5.7b taken against a drug trial failure within its Rare Disease division.
Our comments	• Novo Nordisk continues to see substantial top line and earnings growth as a result of its edge in GLP-1 drug innovation and production. This has not been accompanied by a weakening of capital discipline with management maintaining strong capital returns to investors via a mix of dividends and buybacks. • Efforts to combat supply chain constraints are clearly going to take time to resolve given the pace of demand growth but management is being responsive via increased investment spending that should see this headwind gradually ease. • Another factor that could impact the company is the rise of viable substitutes e.g. alternative GLP-1 formulations which could in the hands of the right owner threaten to undercut Novo and Eli Lilly market share. Given the competitive dynamics of the pharmaceutical space this will probably eventuate but even then it will take time to erode the gains and market dominance of Novo with patients and the broader healthcare sector. • We believe the company retains a strong growth outlook and given its margins and returns on capital warrants the premium it trades at to the broader market in our view. A valuation correction is less likely in our assessment until we see signs of material deceleration in the GLP-1 space. In the meantime the commitment to shareholder returns and strong end-customer demand should see the stock remain resilient and attractive as a global growth exposure for investors.

Nvidia (NVDA: US)[5]

Share price	10/9/24: US$108.10
Result	Q2 FY25
Revenue	$US30b, up 112% on the pcp.
Underlying EPS	$US0.67, an increase of 168% on the pcp.
Key points	• Nvidia continued to exceed expectations with sales and earnings both above consensus forecasts by 4.2% and 5.5% respectively. • Management guided to US$32.5b in sales for the three months ending in October, over 2.3% ahead of consensus estimates (US$31.78b). • Data centre revenue growth continues to underpin the business with strong demand amongst other major technology names for Nvidia chips with growth of 154% on the pcp. • CEO Jensen Huang also announced the company's next generation AI chip, Blackwell, was on track to generate several billion in revenue for the further quarter with samples already being shipped to Nvidia partners and customers. Anticipation for Blackwell remains high with the new chip presenting a clear leader in inference applications. • Whilst Data centre is clearly the dominant division we are seeing attractive gains elsewhere in the business. Gaming and Professional Visualisation divisions saw double-digit top line growth of 16% and 20% respectively, both being supported by new AI applications. Meanwhile the Automative business saw signs of acceleration with revenue expanding 37% on the pcp and seeing traction in demand for its Isaac robotics platform amongst industry leaders such as BYD. • Finally the company announced a $US50b increase to its share repurchase authorisation which should add support to investor returns going forward.
Our comments	• Nvidia remains a leading "picks and shovels" play with management continuing to execute and innovate with its leading chip designs amidst still resilient customer demand for AI solutions. • One concern remains in the weaker relative growth being experienced in other business segments, meaning the company is inevitably relying on data centre demand to drive growth. This is undoubtedly a good problem to be faced with given the scale of demand but it will likely pose an issue if growth begins to slow. • Those same growth expectations (EPS to increase over 55% p.a. over next 3 years) are critical to the valuation of the business and any signs of a slowdown in spending by the major technology names is likely to coincide with a share price correction. • Another factor that may contribute to a slowdown in demand will be if Nvidia's leading customers develop their own chip infrastructure that allows them to circumvent its general-purpose solutions in favour of more customised and cost-efficient options. This is not a near-term threat given supply chain challenges within the industry but it could become an emerging problem over the medium term as Nvidia's key customers are likely to be amongst the only players with sufficient financial means to develop cost-effective alternatives in a viable timeframe. One example of this threat can be seen in Apple's choice of using Google's Tensor Processing Units (TPUs) to support Apple Intelligence over Nvidia chips though we note that TPU use cases may lack the breadth of Nvidia's flexible designs (i.e. more efficient for some cases but less so for others), putting a natural cap on their long-term usage and threat to Nvidia. • We are content to maintain a more modest exposure to Nvidia given its high margins and strong growth narrative with the shares remaining attractively priced on the caveat that the business delivers on what are now lofty investor expectations.

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Universal Music Group (UMG: EU)[5]

Share price	10/9/24: €23.06
Result	1H FY24
Revenue	€5.53b, up 8.7% on the pcp.
Underlying EBITDA	€1.24b, an increase of 11.5% on the pcp.
Key points	• UMG has a strong first half in 2024 with both revenue and EBITDA (a profitability measure) ahead of consensus expectations by 0.8% and 0.6% respectively. • Currency volatility was a headwind with a stronger euro dragging on sales growth by 0.9% on the pcp and similarly reduced EBITDA growth by 1.3% over the same period. • Its Recorded Music division was a point of weakness with only 4.7% revenue growth on the pcp. A meaningful slowdown in streaming revenue which only grew 1.8% on the pcp was a point of concern triggered by weaker growth for some platform partners as well as timing delays on deal renewals (e.g. TikTok) • Ultimately it was other divisions that helped deliver the beat against consensus expectations. • Music Publishing saw double digit growth of 13.4% for the half driven by strong performance and digital-related revenues while EBITDA grew 11.6%. • Merchandising also enjoyed strong topline growth of 29.2% for the half with a comparably weaker EBITDA result driven by share-based compensation charges as well as higher artist-related costs due to the sales mix skewing towards artists that earned a higher share of merchandising revenues.
Our comments	• UMG in our view remains a quality record label with an enviable selection of artists, most notably Taylor Swift, and strong catalogue of recorded music to underpin revenue growth over the longer term. • The quarterly weakness in streaming was a concerning result and triggered a share correction in the share price as it was a sharp contrast to consensus expectations and has not been well corroborated by peer Warner Music's latest results. We will be closely monitoring this division to see if this marked the beginning of a weaker trend in operational performance. We should see some signs of relief in the September quarter thanks to the resumption of previously halted arrangements such as the TikTok deal. • Overall, we believe the business is well-placed to continue compounding earnings in the high single digits over the medium term with a growing dividend payout further underpinning returns to investors. The shares currently trade in line with long-term valuation averages suggesting limited scope for further downside unless business fundamentals markedly deteriorate.

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Visa Inc. (V: US)[5]

Share price	10/9/24: US$285.34
Result	Q3 FY24
Revenue	$US8.9b, up 10% on the pcp.
Underlying EPS	$US2.42, an increase of 12% on the pcp.
Key points	• Visa saw a slightly weaker quarter with the company marginally falling short of consensus forecasts on both sales and earnings by 0.6% and 0.3% respectively. • Key business drivers were broadly stable albeit with some signs of deceleration as payment volumes grew 7% on the pcp (down from 8% in the March quarter) whilst cross-border volumes were up 14% and processed transactions grew 10%. • Management remains positive on cross border volume growth driven mainly by growth in e-commerce with travel demand being seen as largely normalised after a period of pandemic-related disruption. • The weaker economic climate in China contributed to a slowdown in Asia-Pacific payments volumes to less than 0.5% growth in constant-currency terms. • Foreign currency was a slight headwind, detracting 1% from earnings growth on the pcp. • Operating expenses rose 14% on the pcp driven by broad-based increases in marketing and general & administrative costs which rose 27% and 22% respectively. • The company spent $US5.7b in capital returns to investors mainly via share repurchases with the residual being returned as dividends. • Management maintained their outlook for FY24 with revenue expected to grow in a low double-digit range. Operating leverage is expected to support EPS growth in the low teens on an underlying basis. Operating cost pressures may ease however with the company revising the outlook to high single digit to low double-digit growth, down from low double-digit growth in the prior quarter.
Our comments	• Visa continues present attractively with strong profitability and the prospect of low double-digit earnings growth over the medium term coupled with disciplined capital allocation in the form of steady dividends and share buybacks. • The company also trades at a reasonable valuation of ~26x FY25 consensus EPS, in line with its long-term average. This pricing relative to both its quality and growth track record potentially set the company up for above-market returns over the medium term. • Efforts to circumvent the Visa network continue to warrant close observation. Management's commitment to entrench its network via additional services and new product offerings should reduce any prospective erosion of the company's moat by alternatives. It is one threat that we continue to monitor closely given it remains critical to the pricing and growth that Visa is set to enjoy.

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This view is general advice only and does not take into account your personal circumstances or finances. If you have further questions, we encourage you to consult with your adviser.

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