

# Offense Wins Games, Defense Wins Championships

*3 Years Autocallable Note with Memory Coupons and 70% Capital Barrier on Defense WoF Basket*

## Product Overview

<b>Issuer</b>	A+
<b>Maturity</b>	3 Years
<b>Currency</b>	EUR
<b>Underlyings</b>	BAE Systems (BA/ LN) Thales (HO FP) Dassault Systemes (DSY FP)
<b>Memory Coupon (p.a.)</b>	9.54%

<b>Coupon Barrier</b>	70%
<b>Capital Barrier</b>	70%
<b>Autocall Trigger</b>	100%
<b>Stepdown</b>	2%
<b>Stepdown Frequency</b>	Quarterly
<b>Observation</b>	Quarterly
<b>Format</b>	EMTN (Euro Medium Term Note)

Observation Dates	Coupon Trigger Level	Coupon Amount	Autocall Trigger Level / Capital Barrier	Redemption Amount
Quarter 1	70.00%	2.39%	100.00%	100.00%
Quarter 2	70.00%	2.39%	98.00%	100.00%
Quarter 3	70.00%	2.39%	96.00%	100.00%
Quarter 4	70.00%	2.39%	94.00%	100.00%
Quarter 5	70.00%	2.39%	92.00%	100.00%
Quarter 6	70.00%	2.39%	90.00%	100.00%
Quarter 7	70.00%	2.39%	88.00%	100.00%
Quarter 8	70.00%	2.39%	86.00%	100.00%
Quarter 9	70.00%	2.39%	84.00%	100.00%
Quarter 10	70.00%	2.39%	82.00%	100.00%
Quarter 11	70.00%	2.39%	80.00%	100.00%
Quarter 12	70.00%	2.39%	70.00%	100.00%

## Product Description

This is a partially capital protected and autocallable product with the underlyings being BAE Systems (BA/ LN), Thales (HO FP) and Dassault Systemes (DSY FP).

### 5 Scenarios Possible:

- 1) At each observation, if the worst performing underlying is above the autocall barrier, the product is redeemed early and the investor receives 100% of its initial investment + a coupon of 2.39% + unpaid coupons.
- 2) At each observation, if the worst performing underlying is above the coupon barrier but below the autocall barrier, a coupon of 2.39% + memory coupons are paid and the product continues.
- 3) At each observation, if the worst performing underlying is below the coupon barrier, the coupon of 2.39% is not paid but kept in memory.
- 4) At Maturity, if the worst performing underlying is above the capital barrier, the investor receives 100% of its initial investment + a coupon.
- 5) At Maturity, if the worst performing underlying is below the capital barrier, the investor receives a percentage of its initial investment corresponding to the Worst Of performance.

## Risk Analysis

### Pros:

Coupons are kept in memory and can be paid later even if the underlying goes below the coupon barrier at observation dates.

The investor is well protected as the worst performing underlying would need to lose more than 30% at maturity for the product performance to be negative.

There is a stepdown of 2% per quarter which increases the chance of being autocalled over time.

### Cons:

The product offers partial capital protection at maturity only.

There is a risk of capital loss.

The investor takes a credit risk on the issuer, i.e. the insolvency.

## WHY NOW ?

### **The Aerospace & Defense industry continues to grow**

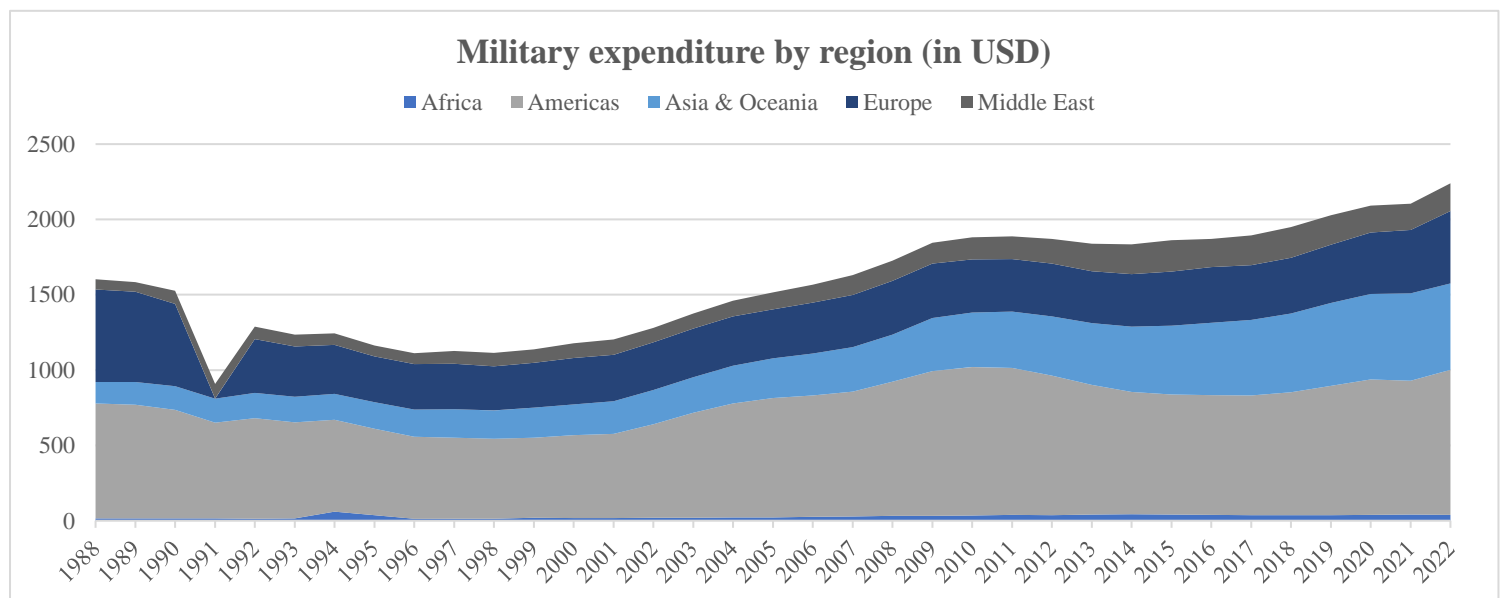
World military expenditure rose by 3.7% in real terms in 2022, to reach a record high of \$2.2 trillion (SIPRI), with approximately a third allocated towards R&D, equipment acquisitions, and related services. Military expenditure in Europe rose by 13% during the year, which was the largest annual increase in total European spending in the post-cold war era. The on-going war in Ukraine certainly pushed governments to improve their military capacities.

### **Countercyclical defensive value**

In contrast to the civil aerospace sector, which tends to fluctuate with the global economic cycle, defense contractors primarily depend on their respective domestic governments as their main clientele. The consistent growth in global defense budgets across the world indicates that this industry is more resilient to debt/GDP limitations, and its performance is influenced more by geopolitical factors, socio-political shifts, and technological advancements.

### **A recipient of national defense budgets**

Total world military spending accounted for 2.2 per cent of global gross domestic product (GDP) in 2022. Governments must allocate resources and investments toward defense, not out of a desire for conflict, but out of the necessity to safeguard their nations and prevent war.



## **WHICH INVESTMENT VEHICLES?**

### **BAE Systems (BA/ LN)**

BAE Systems is a British global defense, security, and aerospace company and the largest defense contractor in Europe; it is one of six prime contractors to the U.S. Department of Defense.

- Improved FCF conversion.
- Bolt-on M&A or more share buybacks.
- Margins improving on the back of the two recent acquisitions and greater efficiencies.


### **Thales (HO FP)**

Thales is a global defense electronics company serving the aerospace, defense and security markets worldwide. It is one of Europe's largest defense contractors with EUR 18 billion in sales.

- Booming space orders, aerospace recovery, digital security, etc.
- Transport division sold at EUR1.66bn.
- Redeployment of proceeds into higher-growth, higher-return digital security assets.

### **Dassault Systèmes (DSY FP)**

Dassault Systèmes is a leading provider of computer-assisted design and product lifecycle management software, serving customers like Boeing and Tesla throughout the production process.

- Growth in Medidata is expected to reaccelerate early 2024 on the back of strong bookings.
  - EPS growth is likely to keep supporting the shares.
  - Growth in cloud is likely to reaccelerate from a weaker Q2.
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## REDEMPTION MECHANISM

The product has an autocall feature, meaning that it can be redeemed early if specific conditions are met. At observation 1 (3 months after the product launching date), the autocall trigger is 100%, meaning that the product will be automatically redeemed if the worst performing underlying is at least at its strike level (price when product was launched). In this case, the investor receives a coupon and 100% of the initial investment. If the worst performing underlying is below the strike level at observation, the product continues.

At each following observation date, the autocall trigger decreases by 2%, meaning that the underlying price required to redeem the product early decreases over time. For example, at observation 2 the autocall trigger is 98% (of strike level) and at observation 3 the autocall trigger is 96%. It gives a higher probability of being autocalled over time.

The coupon payment mechanism is relatively straightforward. At each observation date and at maturity, a coupon is paid if the worst performing underlying is at least at 70% of its strike level. If it is not the case at observation date, the coupon is kept in memory and could be paid at a further observation date if the underlying rose back to at least 70% of its strike level. If it is not the case at maturity, no coupon is paid.

At each observation	Is the Worst Of above or equal to the Coupon Trigger of 70%?	Yes	The investor receives a coupon of $2.39\% \times (1+n)$
		No	The coupon is stored
	From observation 1 and onwards, is the Worst Of above or equal to the Autocall Trigger?	Yes	The product is redeemed early and the investor receives 100% of its initial investment
		No	The product continues

At maturity	Is the Worst Of above or equal to the Coupon Trigger of 70%?	Yes	The investor receives a coupon of $2.39\% \times (1+n)$
		No	No coupon paid
	Is the Worst Of above or equal to the Barrier Level of 70%?	Yes	The investor receives 100% of its initial investment
		No	The investor receives a percentage of his initial investment corresponding to the Worst Of performance

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