



Chief Executive's Review

This annual report details a highly successful year for Edrington and its brands. While this is welcome in its own right, it has also helped to ensure that our business is on a sound financial footing as it deals with the immediate impact of the COVID-19 crisis and prepares for the challenges that are yet to come.

Edrington has achieved a 13% year on year increase in core contribution in 2020, marking four consecutive years of profit growth. A buoyant spirits market has provided a helpful backdrop, but we have been able to outperform market value growth due to consistent long-term investment in our brands and the strengthening of our critical business capabilities.

We consider that the global trend for consumers to 'drink less but drink better' will continue beyond the current crisis, and that our core strategy of developing a portfolio of premium brands, supported by carefully targeted brand investment, remains the right path to future growth.

COVID-19

The strong financial results set out in this report largely reflect a pre-COVID-19 world. At the year-end, Asia had just passed the initial peak of the outbreak, and limited activity in February and March adversely impacted our results. A sharp reduction in air travel also affected our business in airport shops. The negative impact on our results was partly mitigated as we postponed brand-building investment and reduced overhead expenditure as the threat from the virus became clear.

At the time of writing some of our major markets have started to reopen, with tentative steps being taken to restart economies. Our key concerns are that social distancing and consumer safety worries will lead to a prolonged period of closure or suppressed trading in bars and restaurants, where a meaningful proportion of the consumption of our brands takes place. We believe it will take several years for air travel to recover, which will adversely affect our sales in airport shops for some time. On top of this, high levels of unemployment, economic contraction and the impact of government efforts to repair national balance sheets could all affect consumer spending levels and consumption habits for some time to come. We expect these factors to make the trading environment in 2020 and beyond extremely challenging.

Our immediate response has been to minimise cash outflows and reduce costs and investment levels. We are actively seeking to capitalise on growth opportunities in e-commerce

and retail and are adapting the shape of the organisation accordingly. The long-term health of our brands is critical, so we will restore investment as performance shows signs of sustained recovery.

The response of our people to the pandemic has been inspiring. Our colleagues in Asia set an excellent example to the rest of our business of how to act during and after the immediate lockdown phase of the crisis and we are seeing teams around the world following suit. We are particularly grateful to our employees in manufacturing who have been unable to work at home and who have designed and implemented industry-leading safe working systems to ensure our production is sustained at levels not far below normal levels despite the challenges of social distancing.

It has been inspirational to see how Edrington people have brought our ethos of 'giving more' to life by looking for ways to support their communities all over the world during this crisis. We will highlight just a few examples in the sustainability section of this report. We have been proud to support essential workers by donating high strength alcohol to be used in the production of medical-grade hand sanitiser to support the relief effort in both the UK and the Dominican Republic.

We do not underestimate the challenges that the business will continue to face as we work to navigate through this crisis, and we expect all our stakeholders to be adversely affected. This report sets out some of the difficult decisions we have made across the business, to ensure that we emerge fit for future growth.

Shareholder Transactions

Earlier this year we announced an agreement under which Suntory Holdings purchased a 10% stake in Edrington through the acquisition of ordinary 'B' shares from The Robertson Trust and the Edrington Employee Benefit Trust, our internal market-maker for employee share transactions.

This builds on the successful, long-standing strategic partnership between our two companies; Suntory has been a minority investor in The Macallan Distillers Ltd for more than three decades, as well as an important distributor of Edrington brands in several key international markets including Japan, Germany and Canada.



Chief Executive's Review (continued)

The agreement has provided an inflow of funds to Edrington's principal shareholder, The Robertson Trust, which will allow it to give more to good causes across Scotland.

Market Context

The global market for Scotch Whisky grew by 4.4% last year with exports approaching £5bn, and we are encouraged that Edrington's total Scotch portfolio has outperformed that benchmark.

In the USA, which is the world's leading market for premium spirits, Scotch Whisky was hit hard in October 2019 by the imposition of a 25% tariff on exports of single malts to the United States. Despite this, our portfolio of single malts has performed strongly and The Macallan maintained its leadership position in the category.

Our business in Hong Kong saw a modest adverse impact from social unrest.

Edrington Mexico completed its first year of operation by capturing a significant share of the single malt Scotch Whisky market for The Macallan. Unfortunately, we felt compelled to close our wholly-owned subsidiary in South Korea due to an increasingly difficult consumption, taxation and regulatory landscape in that market. I would like to record my appreciation of the excellent work done by our employees over the years in South Korea. Their efforts will ensure that The Macallan and other brands will enjoy growth in the future through our new distribution arrangements.

Closer to home, as a business with a significant proportion of its trade with Europe, we continued to work hard to be as prepared as possible for the outcome of Brexit negotiations with the EU.

Performance Highlights

The Macallan is the world's number one single malt Scotch Whisky by value and one of the world's foremost luxury spirits. The brand had another outstanding year, most notably in China. Our European key city strategy has driven growth for The Macallan, particularly within its Prestige range.

Last year The Macallan released its oldest ever bottling with The Macallan Genesis, while the fifth annual release of The Macallan Edition series celebrated the natural colour that the brand is known for, with the Pantone Color Institute creating a unique shade of purple for Edition No. 5.

On our other single malts, Highland Park came under competitive pressure in the US and Europe, where the brand had a challenging 2020, but achieved double-digit growth in Russia and grew across Asia. The Glenrothes followed a digital-first approach, supported by a more premium product mix that included the launch of The Glenrothes 40-year-old as well as its existing 18-year-old and 25-year-old expressions, demand for which outstripped supply.

Our blended malt, Naked, has achieved its third year of double-digit volume growth, accelerating faster than both the blended malt and contemporary whisky categories. The brand is now available in more than 60 markets around the world, where its quality and distinctively naked packaging are encouraging consumers to 'Live Naked' in their own way.

The Famous Grouse invited the world to 'spend time in Grouse Country' this year. This skilfully tailored campaign led to volume and value growth in several key markets including Sweden, the Netherlands, Russia, Poland and Turkey. The brand has performed strongly in a challenging market, achieving a record market share in Scotland and the UK, however we saw contribution decline due to increased cost of goods which we have been unable to pass through in consumer pricing.

In its home market of the Dominican Republic, Brugal's value share of the market grew by double-digits as consumers show increased appetite for premium brands, while in Spain, a new consumer campaign has accelerated the growth of Extra Viejo in the premium rum category. Through the brand's super-premium expression, 1888, Brugal shared the mastery and complexity of rum making at events in Miami, Madrid, Cologne, Milan, London and Mexico City, doubling sales as a result.

Our partnership and innovation brands are continuing to develop within the USA market. We saw particularly promising results last year for Noble Oak bourbon, and we continue to be excited by the long term potential for Wyoming Whiskey and Tequila Partida. However, given the current economic environment and a revised outlook for these brands in the medium term, we have taken an impairment charge on our investments in Partida Tequila and Wyoming Whiskey in the year.



Chief Executive's Review (continued)

Strategy and Culture

Edrington's culture sets us apart. It informs our vision: to give more by building the world's leading portfolio of exceptional super premium spirits.

We will achieve that vision through relentlessly focusing our efforts on developing the right capabilities, carefully targeted investment in our brands and assets and through sharper ways of working.

We continued to invest in our people and skills last year. We increased the reach and scope of the Edrington Academy, which provides development tools on-demand to every employee. We extended the global Learning at Work festival and we brought together emerging and established leaders from around the world to learn from experts and - just as importantly - each other.

We have made further progress this year in creating a more diverse and inclusive workplace where everybody feels able to give their best. We have set targets for gender diversity in senior leadership and have made progress towards these.

Employee wellbeing was prioritised in 2019/20 as we seek to encourage our people to live healthy and well-balanced lives. The most recent example of this is our Modern Family Leave policy launched in April this year, which gives each employee who becomes a new parent around the world the right to 26 weeks' fully paid leave.

This year's excellent results and our future growth are underpinned by the Edrington values of giving, integrity, excellence and respect.

These values also form the foundation of our new sustainability strategy. We are proud of the relaunched strategy and it has been well received across the industry and by our colleagues. This year's sustainability report sets out six areas that we have identified as central to Edrington's responsibilities to our people, the communities in which we operate and the environment. These are expressed as performance targets and underpinned by a governance structure and performance indicators.

Looking Forward

We do not underestimate the challenges that the business will continue to face as we navigate the COVID-19 crisis and emerge into an uncertain new environment. Having secured four consecutive years of growth, we anticipate a significant decline in global sales and profits in 2020/21.

We will manage the business prudently whilst we adapt rapidly to our new situation and seek to capitalise on new opportunities.

We consider that the business is well-equipped to respond to changes in both consumer preferences and the channels through which spirits are sold. Fundamentally our capabilities are strong, and our brands are in good health and remain desirable to consumers.

Edrington is powered by great people and exceptional brands. I am proud of the results we have achieved for the business this year, and I am confident that we will navigate through this crisis and emerge with a business fit for future growth.

Scott McCroskie
Chief Executive

18 June 2020