



## Chief Executive's Review

In 2018 the group successfully completed the third year of Edrington 2020, a five year strategy to increase consumer focus and accelerate growth.

The strategy created new business units with clear direction to *Perfect The Macallan*, *Accelerate Highland Park*, *Develop Super Premium*, *Optimise Regional Power Brands*, and *Focus for Success*.

During this period Edrington has significantly increased brand investment expenditure at the same time as investing in people, stocks, systems, and processes.

As a consequence of this approach all business units grew contribution in 2018, leading to Edrington delivering core contribution growth of 7% whilst strengthening brands' equities.

### MARKETPLACE CONTEXT

The geopolitical context contributed to a disruptive and uncertain climate. Many of the major political relationships which in turn govern trading arrangements fluctuated during the year.

For the first time since the global financial crisis, the World Bank reported that all major regions of the world are experiencing an upturn in economic growth. This helped increase the number of consumers who have the lifestyle and aspiration to drink premium brands.

This dynamic flowed through into growth for Scotch whisky in 2018. Last year Scotch grew in both volume and value (by 1.6% and 8.9% respectively) to a total of £4.36bn - the equivalent of 1.23bn bottles exported globally.

There was further growth in exports of Single Malt Scotch Whisky, increasing by 14.2% in 2017 to £1.17bn, and now accounting for 27% of all Scotch whisky exports.

A similar acceleration is taking place in the Rum category leading to confidence about the momentum in premium spirits.

### STRATEGIC FOCUS

Launched in 2015, Edrington's 2020 strategy continues to have traction.

Although the strategy has been successful over the last three years, it has benefitted from two recent amendments:

After a period of extreme competition, especially in blended Scotch whisky, the Regional Power Brands business unit revised their strategic priority from *Optimise* to *Energise Regional Power Brands*, which in turn delivered further momentum into the business.

Similarly, the Super Premium business unit has refined its intention from *Develop* to *Transform Super premium*. Following the return of The Glenrothes, 'Transform' better reflects the belief that the Super Premium unit will grow earnings rapidly in the future.

We believe that Edrington 2020 - *Perfect The Macallan*, *Accelerate Highland Park*, *Transform Super premium*, and *Energise Regional Power Brands* – will remain powerful and drive even more consumer recruitment in its final two years.



## Chief Executive's Review (continued)

### PERFORMANCE HIGHLIGHTS

Core contribution grew by 7% last year as a consequence of all business units growing their contribution versus 2017.

#### The Macallan

The group's business model allows it to invest for long term growth. The Macallan benefitted from this approach as brand investment has increased by 38% in the last 2 years resulting in contribution growth of 7% this year.

The brand enjoyed success in areas of regional strength, the USA and Taiwan. Those markets have been joined by double figure contribution increases in the emerging markets of China and Russia. Success in these markets has strengthened the brand's position as the world's leading Scotch malt whisky by value.

The brand recently revealed its new distillery and visitor centre. Edrington is investing £500 million in the brand of which the £140 million distillery is the centrepiece. This programme increases investment in whisky, warehousing, and particularly in The Macallan's signature sherry-seasoned oak casks.

It is the first distillery on Speyside to be designed by an internationally acclaimed architect, Rogers Stirk Harbour + Partners, and was constructed in collaboration with Elgin-based Robertson and Scottish coppersmiths Forsyths.

The unsurpassed quality of The Macallan is in high demand and we face the future confidently with this new distillery. It's an authentic, abiding, ambitious investment that will match consumer expectations for generations to come.

Following the public opening in June, we expect this new Macallan enterprise to deliver significant benefits for the tourism industry, Scotch whisky exports, and the economy.

#### Super Premium

The Super Premium unit also enjoyed growth this year. Highland Park is the leading brand in this unit and following a year of aligning all marketing material behind its Viking Soul proposition, it delivered an exceptional 17% contribution growth and outperformed the malt category.

During its first year of repatriation Glenrothes has been worked on intensively and a new range with improved packaging will reach consumers during the summer.

In the USA our partnership with Tequila Partida continues to blossom as the brand capitalises on the momentum behind the category and its proposition as 'the World's freshest expression of blue agave'.

#### Regional Power Brands

In the last year the Regional Power Brands (RPB) business unit delivered contribution growth of 4% in a highly competitive marketplace. Central to this delivery was the exceptional performance of Brugal which grew brand contribution by 20%.

Brugal strengthened its leading position in the key markets of The Dominican Republic and Spain at the same time as growing its premium expression Brugal Extra Viejo to over 1M cases.

Edrington also announced an investment programme at the Brugal distillery in San Pedro de Macoris, a sign of confidence in the future potential of the brand.

The marketplace for blended Scotch remained extremely tough. Investment in consumer promotion remains at high levels making contribution growth difficult to deliver. The Famous Grouse performance reflected this trend although it was encouraging to deliver the highest ever UK share (37%) in the UK market in combination with share growth in the key Swedish market.

Cutty Sark delivered a resilient performance with volume and contribution growth, with a market share gain in its key Spanish market and continued growth in Japan.



## Chief Executive's Review (continued)

### CULTURE

*Great People, Leading Brands, Giving More* characterises Edrington. In the last year we have set out the values that underpin the organisation and map well against our founders' intentions.

*Great People* are united by their ability to Inspire, Engage, Collaborate, Deliver, and encourage a climate open to Change.

The group's *Leading Brands* are defined by their capacity to Anticipate, be Trustworthy, pursue premium Quality, create consumer Affinity, and Deliver.

And *Giving More* distinguishes and harmonises Edrington around Progress, Partnership, and Sustainability.

As we set out later in this report it was also pleasing to see a 9% increase in funds raised for charity through the Giving More Together scheme in which employee funds raised are double-matched by Edrington and The Robertson Trust.

Outside Scotland, the Giving More International programme which allocates 1% of pre-tax profits to good causes designated by Edrington's overseas offices, exceeded £7M since its inception in 2012.

I would like to thank our employees for both their high levels of engagement in Giving More and their outstanding contribution to last year's company performance.

### LOOKING FORWARD

Economic and market developments remain encouraging in the near term. All regions are experiencing an upturn in economic growth and Scotch Whisky exports are also in growth.

The premium segment of Scotch Whisky and other spirit categories is the fastest growing, reinforcing Edrington's emphasis on premium brand building.

Whilst the economic and market context are encouraging the geopolitical context remains volatile. With unilateral stances becoming more popular in some major economies, the risk to trade has become greater. Scotch whisky is a robust and successful industry but it does face increasing competition from other authentic spirit categories leading to the 400+ trade barriers faced currently. Against this backdrop we want our governments to create a climate where economic development and growth is actively encouraged and rewarded.

Despite the geopolitical uncertainty that characterises our times we are confident about the medium and long term prospects for the business and will continue to invest in our people, brands, and processes.

With its premium brand portfolio, proven strategy, and management capability, Edrington remains well-positioned to deliver further growth.

**Ian Curle**

Chief Executive

15 June 2018