



## Chief Executive's Review

**It almost goes without saying that 2020/21 was a challenging year for Edrington. As well as facing severe disruption from the COVID-19 pandemic, we had to navigate Brexit and the impact of US tariffs on Single Malt Scotch Whisky. Whilst our results show a decline after several years of strong growth, I am pleased that we were able to hold this to a moderate level and emerge from a difficult year in sound financial health.**

Our people around the world responded admirably to the pandemic. They demonstrated personal resilience and a caring and supportive approach both to colleagues and the societies in which they live and work. They also showed an agile and collaborative approach to work, which allowed the company to reshape our business to make the most of the opportunities which emerged. I am especially grateful to our manufacturing employees, who were unable to work from home, for their efforts in keeping our products flowing from our distilleries and bottling plants to consumers across the globe.

I would also like to thank our shareholders for their support during the crisis. We appreciate the impact that pausing dividend payments has, but that has allowed us to get through the pandemic with a strong balance sheet and at the same time invest in our brands and capabilities. I believe that this gives us a strong base from which to grow the business in coming years.

### Results

In my last report, I anticipated a significant decline in global sales and profits. After four consecutive years of profit growth, Edrington's core contribution declined by 19% last year, reflecting the impact of COVID-19 and tariffs on Single Malt Scotch Whisky in the USA.

Whilst the decline in profit is disappointing to see, it was less severe than we initially anticipated as consumer demand remained solid in most markets. A significant proportion of purchases previously made in bars, restaurants and Duty Free shops moved to retail stores and online channels. The company adapted quickly to maximise the opportunities, principally by redirecting inventory and reallocating people and investment to growth areas.

Trade destocking caused a significant proportion of the year on year profit decline, driven by the USA. Trade buy-in ahead of the introduction of tariffs in October 2019 and concerns in early 2020 about the reliability of supply chains led to a high

level of trade stock at the start of our financial year. As the pandemic caused on-trade closures, our customers sought to manage stocks down and as a result their purchases from us were lower than sales out to their customers. We believe that we start the new year with in-market stocks close to optimal levels in most markets.

### Strategic Review

As we reacted and adapted to the pandemic, we have taken the time to conduct a full review of the business' 2025 strategy. The refreshed strategy maintains our vision of Giving More and sharpens our focus on ultra-premium spirits. Our expertise in ultra-premium, prestige and luxury spirits has fueled the company's growth in recent years and we believe that we can build on this trend by developing our existing strengths further, and building our skills and capabilities in areas where we need to do better.

### Market Context

COVID-19 had a very significant impact on our operations, affecting our employees, customers and consumers. Lockdowns meant that many outlets selling our products were forced to close, with bars, restaurants, hotels and Duty Free stores especially badly affected. In most markets retail stores remained open and they, along with e-commerce sales, picked up most of the demand from the restricted channels. The business responded by reprioritising channels, stock allocations and brand investment, and by building capability in areas such as e-commerce. We anticipate that disruption will continue for some time, but that demand for our products will remain healthy. The reopening of on-trade and travel retail channels will shift demand back towards these channels so the business will have to remain agile to deploy our resources effectively.

Exports to the USA, which is the world's largest market for premium spirits, were hit hard by a 25% tariff on Single Malt Scotch Whiskies that was in place from October 2019 until March this year. We are encouraged by the recent agreement between the UK and US governments to suspend tariffs for five years, and grateful for the continuing efforts of the Scotch Whisky Association and the UK Government to resolve the dispute permanently.



## Chief Executive's Review (continued)

We have worked hard since the outcome of the referendum in 2016 to be as prepared as possible for Britain leaving the EU. Thanks to the expertise of our Brexit team, the business had planned for a range of scenarios, and we navigated the end of the transition period with minimal disruption.

### Performance Highlights

Despite a decline in its overall net sales and contribution, demand for The Macallan remained high in several markets, particularly in China, South East Asia and Russia. As the world's most valuable single malt Scotch Whisky The Macallan continued to lead the category with a number of new launches including the Red Collection, Edition 6, and extensions to the Fine & Rare Collection of vintage bottlings.

Our other single malt brands, The Glenrothes and Highland Park, continued to build their profile in ultra-premium spirits with a series of highly regarded releases including 50-year-old vintages of The Glenrothes and Highland Park. Naked Malt, Edrington's blended malt started the execution of its re-branding, targeting the fast-growing contemporary whisky category.

Brugal rum generated outstanding growth, driven by demand in its home market of the Dominican Republic.

The Famous Grouse proved resilient in its core markets across northern Europe and particularly in its home market the UK.

### People and Culture

Edrington's culture informs our vision: to give more by crafting exceptional ultra-premium spirit brands.

On countless occasions over the past year, I have seen the behaviours we call out in our new strategy as being key elements of Edrington's culture; the ability to focus on what makes a difference, to adapt at pace, and to challenge and embrace diversity of thinking. We will continue to build on our culture.

### Looking Forward

The roll-out of COVID-19 vaccines gives us hope that the worst of the pandemic is behind us. However, the risk of outbreaks in countries with low vaccination rates and the threats from vaccine-resistant variants will be with us for some time to come. Despite the uncertainties I believe we are well placed to navigate these challenges. We have demonstrated our ability to adapt to a crisis and we have emerged in good shape. A strong balance sheet and the recent and forthcoming investments in brand-building and developing our capabilities provides a solid basis on which to build.

Edrington is powered by great people and exceptional brands. I am proud of our results, and of the people who have achieved them. I am confident that our business is poised for the recovery and ready to power forward.

**Scott McCroskie**  
Chief Executive

22 June 2021