



Financial Review

STATUTORY KEY PERFORMANCE INDICATORS

	2021	2020	% movement
Revenue	£625.6m	£792.2m	(21%)
Earnings before interest and tax	£196.7m	£250.9m	(21%)
Profit before tax	£178.4m	£227.0m	(21%)
Profit for the financial year	£81.5m	£87.7m	(7%)
Total equity	£1,153.8m	£1,105.9m	4%

MANAGEMENT KEY PERFORMANCE INDICATORS

	2021	2020	% movement
Volume (case equivalents)	7.6m	8.1m	(6%)

Presented in constant currency rates:

Core revenue*	£576.2m	£680.3m	(15%)
Brand investment*	£118.9m	£129.5m	(8%)
Core contribution*	£196.5m	£242.5m	(19%)

Presented in actual currency rates:

EBITDA	£220.9m	£273.5m	(19%)
Profit before tax (pre-exceptional)	£171.3m	£222.4m	(23%)
Profit for the year (pre-exceptional)	£77.6m	£90.3m	(14%)
Free cash flow	£122.5m	£64.8m	89%
Net debt/EBITDA	1.7	1.5	
Strategic inventories	£896.9m	£845.1m	6%

Volume

The total quantity of cases sold, where a case equivalent is measured as 12 70cl bottles at 40% abv.

Core revenue

Total revenue from our sales of continuing Edrington branded products on a constant currency basis.

Brand investment

Advertising and promotional expenditure excluding discounts, on our core brands, on a constant currency basis.

Core contribution

Profit from our branded sales and distribution after the deduction of overheads on a constant currency basis.

EBITDA

Earnings before the deduction of interest, tax, depreciation and amortisation.

Profit before tax (pre-exceptional)

Profit before exceptional items and the deduction of tax.

Profit for the year (pre-exceptional)

Earnings after tax and minority interests excluding exceptional items.

Free cash flow

Net cash flow excluding the movements in borrowings, shares, dividend payments, expansionary capital expenditure and exceptional items.

Net debt/EBITDA

The ratio of bank and private placement debt at hedged rates, where applicable, after deduction of cash balances compared to reported earnings before interest, tax, depreciation and amortisation.

Strategic inventories

The net book value of our maturing inventories of whisky and rum and the casks in which they are held.

* A reconciliation of constant currency measures is provided at Note 34 to the accounts.



Financial Review (continued)

Group Financial Performance Overview

The financial results presented reflect a year which has been significantly impacted by the COVID-19 pandemic. We entered the year with several of our key markets in full lockdowns, closures of large parts of the global on-trade, and a sudden contraction of the global travel retail business. Our financial imperatives were to reduce our discretionary spend, conserve cash and secure our liquidity. With the support of a number of different stakeholders including employees, shareholders, pension trustees and funding partners we delivered against these priorities.

Our core revenue declined by 15% on a volume decline of 6% for the year. We have been able to dampen the full impact of this revenue decline with our reduced cost base to deliver a core contribution which has declined by 19%. Investing behind our brands remained a key priority in the second half of the year and with only an 8% decline year on year in brand investment we have ensured that we enter the coming financial year with our brands positioned strongly for the future.

Our improvement in free cash flow of £122.5m (2020: £64.8m) reflects our disciplined cash management supported with reductions in investment in capital expenditure and stock. This has resulted in our net debt reducing to £375.5m (2020: £451.8m) allowing us to enter the new year with strong financial fundamentals.

Group Financial Performance (reported on a constant currency basis)

Core revenue

Core revenue fell by 15% to £576.2m driven by the impact of the pandemic on the demand for our brands particularly through the on-trade and travel retail channels together with a significant reduction in inventories held by our distributors in certain markets.

The reduction in core revenue was higher than the 6% volume decline due to product mix with higher declines of our malts brands which are more exposed to the on-trade and travel retail channels.

Brand investment

We invested £118.9m in brand-building marketing activities this year, which is 8% lower than last year. This lower reduction than our decline in revenue has meant that our investment ratio has increased by 2 percentage points to 21%.

Core contribution

Core contribution decreased by 19% to £196.5m this year, reflecting the trading performance, our cost reduction measures and our focus on protecting the level of brand investment. The measures implemented to reduce our discretionary cost base included the cancellation of annual bonus schemes, pay freezes and salary reductions for our senior leaders.

The Macallan saw a significant decline in contribution of 28% driven by the contraction of the travel retail channel, on-trade closures and distributor and trade destocking in the US. Brugal rum had an exceptional year with contribution growing by 93% driven by the high demand and ongoing premiumisation in its home market in the Dominican Republic. Malt whiskies saw a significant contribution decline of 53% due to the reduction in sales from the on-trade together with the decision to continue to support brand investment for Highland Park and The Glenrothes. The Famous Grouse contribution declined by 16% which reflects strong performance in its key equity markets of the UK and Sweden, offset by a reduction in travel retail and Southern European countries

From a regional perspective our REEMEAT region (led by Russia) and the Dominican Republic were strong growth drivers. Asia Pacific was flat year on year with growth in China and South East Asia offset by trade de-stocking in other markets. Europe was marginally down with strong growth in off-trade dominated markets being offset by declines in Southern Europe markets where on-trade closures had a significant impact. In the Americas, the underlying demand for our brands was resilient as consumption moved from the on-trade to the off-trade however our sales to distributors were materially affected by de-stocking due to the combined effects of COVID-19 and purchasing patterns related to the US tariffs imposed on Malt Whisky in October 2019. The significant decline in travel retail sales reflects the shutdown of large parts of the travel industry across the world for the majority of the financial year.

Statutory results (reported at actual currency rates)

Statutory group revenue (pre-exceptional) fell by 21% to £625.6m and pre-exceptional profit before tax decreased by 23% to £171.3m. The decline in statutory revenue is greater than the decline in core revenue due to a negative impact from average foreign exchange rates versus the prior year.

Profits attributable to Edrington Shareholders (before exceptional items) declined by 14% to £77.6m. The underlying rate of decline for the year is 20% with a non-recurring prior year deferred tax charge of £6.5m (net of minority interests) benefitting the comparison this year.



Financial Review (continued)

Exceptional items

The disposal of a 33% shareholding held by Brugal in Vinicola del Norte, a company specialising in the production and marketing of spirits, wines and mass consumer products in The Dominican Republic, has been treated as an exceptional item in the year resulting in a gain of £7.1m.

Profits attributable to Edrington Shareholders including exceptional items declined by 7% to £81.5m. We have included a table which sets out the movement before and after exceptional items in the current and prior year along with the prior year deferred tax rate change to aid the understanding of their effect compared to the underlying trading performance.

Statutory results table adjusted for non-recurring items

	2021	2020	% movement
Profit for financial year before adjustment for impact on deferred tax of changes to future UK tax rates	£77.6m	£96.8m	(20%)
Impact of deferred tax rate change (net of Minority interest of £5.0m)	-	(£6.5m)	
Profit for the financial year pre-exceptional items	£77.6m	£90.3m	(14%)
Exceptional items	£3.9m	(£2.6m)	
Profit for the financial year	£81.5m	£87.7m	(7%)

Interest

Net finance charges, totalling £18.3m, largely comprised interest costs on funding from the Group bank and US private placement debt.

The constituent elements of the interest charge were:

	2021	2020
Interest payable on funding	(£25.7m)	(£25.5m)
Interest expense on lease liabilities	(£0.7m)	(£0.9m)
Non-qualifying cash flow hedge	£3.2m	(£1.1m)
Other finance costs	(£1.4m)	(£1.4m)
Interest on defined benefit pension scheme (note 27)	£1.4m	£0.3m
Other interest receivable	£4.9m	£4.7m
	(£18.3m)	(£23.9m)



Financial Review (continued)

Cash flow and financial position

Despite the significant fall in profits our net debt at 31 March 2021 was £375.5m (excluding the impact of IFRS 16), a decrease of £76.3m from 2020.

The reduction in net debt reflects the cash conservation measures implemented with the support of all our stakeholders from the beginning of the pandemic.

The Group is financed by both US private placement notes and bank debt. The consolidated group net debt to EBITDA ratio at 31 March 2021 was 1.7 times (2020: 1.5 times) and within the 1887 group, where the debt is principally held, we finished the year with a ratio of 2.3 times (2020: 2.0 times) which is comfortably within the limit of our debt covenants.

We retained a robust financial position this year with total equity increasing by £47.9m to £1,153.8m. Total assets fell by £46.3m (2%) to £2,221.2m, primarily as a result of the reduction in the defined benefit pension asset. Property, plant and equipment increased by £5.6m reflecting our cash purchases in the year. Inventories, of which maturing whisky stocks account for the majority of the value, increased by £48.0m. The value of our investments has decreased due to the disposal of Vinicola del Norte, previously held by Brugal, and the purchase of the remaining 50% of Row & Co Limited which moves this out of our Joint Venture assets. An increase in our cash and other liquid resources of £51.2m reflects the suspension of dividends.

Total liabilities reduced by £94.2m to £1,067.4m, primarily reflecting the reduction in borrowing of £25.2m.

Post-employment benefit obligations

The Group operates two defined benefit pension schemes for employees of its principal UK subsidiaries. These have been closed since 2014. At the 31 March 2021, the Group had a surplus of £13.4m in relation to the post-employment benefit obligations of these schemes, as calculated in accordance with accounting standards. This is a decrease of £39.5m from the £52.9m asset recognised at 31 March 2020.

Changes in the mortality and discount rate assumptions increased the present value of the schemes' liabilities by £29.3m. Deficit repair contributions of £5.6m were made in the year following the agreement to reinstate the postponed deficit repayments 5 months earlier than planned from November 2020. The postponed deficit repair contributions will be fully paid by November 2021.

While this surplus position reflects the required accounting treatment for the post-employment benefit obligations, on an actuarial basis, the defined benefit schemes are in deficit. At 31 March 2021, the deficit was valued at £48.9m, £5.6m

lower than last year. The Group is committed to make payments to close this deficit by 2026.

Derivatives and financial instruments

The Group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange and interest rates. The fair value of these instruments at 31 March 2021 is included in the Statement of Financial Position.

Assets of £26.1m (2020: £41.1m) related primarily to cross currency swaps. These are used to hedge the value of our private placement debt which is denominated in US dollars. At the prevailing year-end rate, the value of the asset decreased compared with the prior year.

Liabilities of £1.9m (2020: £12.4m) principally reflect the fair value of forward foreign exchange contracts outstanding as at the 31 March 2021. The liability decreased from the prior year in line with the movement in the year-end exchange rates on our key trading currencies which we hedge on a rolling 24-month basis and floating interest rates.

Summary

Whilst the results are showing a material decline in revenue and profitably the Group has managed successfully through a difficult and challenging year. We have sought to ensure that our brands continue to have the level of investment required for future growth, and we move forward with a strong underlying business and strengthened balance sheet. This gives us the confidence that we can continue to navigate the ongoing uncertainties and the inevitable short-term challenges and return to growth in the coming year.

Going Concern

To assess the appropriateness of adopting the going concern basis for the Group, the directors have reviewed the strategic and financial plan together with the continuing impact that COVID-19 will have on performance for the next two years. The underlying assumption is that our operations, both in Scotland and Dominican Republic will remain open in line with safe working practices, and that our global supply chain continues to support the shipment of product to our markets.

Whilst the impact of the pandemic has been material on the sales in 2020/21, the Group has managed to dampen the impact by reducing expenditure to manage our EBITDA, and scale back significantly on cash outflows to protect our debt and covenant position. This has given us the confidence that we have the ability to adapt quickly and decisively and with the support of the multiple stakeholders, flex the level of dividends



Financial Review (continued)

and investment levels to manage our liquidity. The Group ended the fiscal year to 31 March 2021 with results that reflect this.

The plan for 2021/22 shows core contribution recovering to 2019/20 levels and then continuing to grow over the two-year period to 2024. The geographic and channel mix of our sales is different to that in 2019/20 with the assumption that our travel retail business will still be affected longer term by the pandemic but offset by increases in contribution from developing markets, the gradual reopening of the on-trade and a greater contribution from ultra-prestige products.

The Group has reviewed a number of different scenarios of revenue decline, together with cost and cash savings, to assess the impact on the Group liquidity and our debt covenant conditions.

We have modelled a further year of sales in line with 2020/21, a decline of 21% from our plan.

The business has the ability to manage such a decline in sales with reductions in the cost base and the levels of investment to maintain the lenders covenant conditions.

Debt facilities and covenant tests

The scenario planning shows that there is adequate headroom within the debt facilities and that the covenant tests are met in each test period to 31 March 2023. The Group has two underlying financial covenants, one that measures net debt/ EBITDA and the second EBITDA/net interest (banking covenant), EBIT/net interest (private placement covenant).

Performance in the initial two months of the financial year to March 2022 show that the Group is currently outperforming our plan however we will continue to monitor and adjust our resources as we see the evolving performance across the different markets and channels.

The results of these assessments were reviewed considering the financial position of the Group at 31 March 2021, the cost and cash mitigation measures available, and the access to ongoing funding facilities. Based on these assessments the Board of Directors have a reasonable expectation that the Group will be able to meet its financial obligations for the foreseeable future and have adequate resources to continue to operate for at least 12 months from the date of this annual report. The directors therefore consider it appropriate to adopt the going concern basis in preparing these financial statements.

Principal Risk and Uncertainties

The board is responsible for risk management and the controls and compliance environment with a framework to support the process for identifying, evaluating and managing financial and non-financial risks. They are supported by the Executive Committee, and the Audit Committee which has direct oversight of the Group Risk Management Committee and the internal control and assurance function.

Edrington's risk management processes minimise its exposure to unforeseen events and identified risks, allowing the business to focus on delivering its strategic objectives.

The board regularly reviews the principal risks facing the Group including those that would impact its business model, future performance and solvency. A full review and assessment of principal risks was carried out in March 2021 to help update the principal risks facing the Group. These reviews allow the board to assess the Group's risk appetite and ensure that the nature and extent of the significant risks facing the business are identified and adequately managed. In line with best practice, the assessment includes a review of the impact and likelihood of each risk, together with the controls in place to mitigate the risk. Given the fast-evolving nature of Edrington's operating environment and external factors, the review of principal risks will be performed by both the Executive Committee and the board on an annual basis going forward.

Risk categories are predominantly macroeconomic or operational in nature. Macroeconomic risks relate to the external environment and the international markets in which Edrington operates, over which the Group has less control. Operational risks include issues such as product quality, supply chain, or failure in business technology. The environment in which Edrington operates is becoming increasingly volatile and is constantly evolving, so the Group remains vigilant to be sure that new and emerging risks are identified and assessed on a timely basis, and that appropriate actions are taken where possible to mitigate the impact of these risks on the business.

The COVID-19 outbreak resulted in several of the previously identified risks materialising simultaneously. These included increased financial risks, the ability of the Group to manufacture and a reduced demand across the markets. The Group was able to react promptly and apply the necessary mitigating actions to protect our people and our operations. The knock-on effect of measures required to address the ongoing impact of COVID-19 continues to be monitored closely, including the interdependency of principal risks and how the size and speed of the impact of these can be accelerated with a single event such as a pandemic or a natural disaster.



Financial Review (continued)

During the year, the Audit Committee reviewed reports received from the internal audit teams. These have allowed the committee to assess the general control environment, identify control weaknesses and quantify associated risks.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only therefore provide reasonable assurance against material misstatement or loss. It is continuously reviewed to ensure it remains robust and embedded in business processes to enable Edrington to continuously address its relevant business risks.

Principal Risks

Below is the list of risks that the board believes to be the most important risks and uncertainties that may impact the Group's ability to deliver its strategy effectively. Following the board's

most recent triennial risk review changes and updates have been made to the principal risks disclosed in previous annual reports, including:

- > Risk reprioritisation: given the current macroeconomic environment, the impact and likelihood of some risks materialising have increased. These include changes on tariffs and the risk of material cyber-attacks;
- > New risk additions: these include misuse of consumer personal data, due to the increase in digital activity and the ongoing shift towards e-commerce and sustainability, due to the increased focus on the sustainability of our end to end supply chain; and
- > Risks removed: generic risks that are under management's control, such as regulatory compliance or financial risks have been deprioritised from the list of principal risks given that, whilst still relevant, they are considered to be part of the day-to-day management of our operating activities.

Identified Risk	Impact	Mitigating Actions
Geopolitical and Economic Conditions	Economic or political instability restricts market activity, affecting market access, demand or increased costs.	Edrington's diverse geographic spread reduces the exposure to specific market risks. Direct ownership of the Group's route to market in its major markets provides local insight combined with a robust central overview. This enables the Group to react quickly and flexibly to such changes.
Cyber Attack	Theft, failure or corruption of digital assets and/or key systems could lead to business disruption, reputational damage and have an adverse impact on profit.	Edrington has further enhanced our system and information management security in the light of increased remote working as a result of the pandemic. An annual business-wide information risk management assessment is carried out which reviews and updates the cyber incident response plan. Additional guidelines and training are provided regularly to all employees as part of a user awareness training and education programme. Edrington carries out ongoing activities to review and enhance security, including vulnerability management monitoring and testing measures, the segregation of the network to protect business critical systems, and ongoing enhancements on authenticating user access to our systems.
Product Contamination	Product contamination due to human error or malicious intent may result in reputational damage and financial loss due to fines and damage management.	Manufacturing processes are reviewed and monitored regularly to ensure full compliance with Hazard Analysis and Critical Control Point (HACCP), ISO and Food Safety standards. All relevant employees have received appropriate training and there is an internal program in place to continuously review and ensure compliance with all relevant manufacturing standards.



Financial Review (continued)

Identified Risk	Impact	Mitigating Actions
Misuse of Consumer Personal Data	Inadequate management of consumer data could lead to reputational damage and financial loss due to penalties and fines.	<p>Further resource is being put in place to ensure the business continues to comply with all necessary data privacy and data security regulations as the business expands its digital activities and increases the use of personal data.</p> <p>Data Privacy compliance is a core element of Edrington's Code of Conduct and annual training is provided to support this.</p> <p>Additional IT Security measures have been introduced including data encryption and contractual protections with key third party data processors.</p>
Long-Term Impact of COVID-19 on Consumer Drinking Behaviours	The impact of ongoing COVID-19 measures may significantly change consumer behaviours and choice of category, resulting in loss of revenue.	<p>Ongoing monitoring of consumer behaviours and brand performance are performed both at local market and brand strategy reviews. Regular monitoring of key performance indicators including brand performance, and brand health across key market segments and geographies, are in place.</p> <p>Continued focus on delivering the premiumisation strategy is enabled through the increase in e-commerce footprint and Direct to Consumer activities.</p>
Adverse Political and Social Attitudes to Alcohol	Tighter restrictions on alcohol promotion, sales and/or consumption may limit market access resulting in loss of revenue.	<p>Edrington supports a responsible approach to alcohol and considers this a core element of its strategy to grow a sustainable, long-term business.</p> <p>Edrington is a member of national and international organisations that work to encourage the responsible promotion and consumption of alcohol and reduce alcohol-related harms.</p> <p>Our Company Code of Conduct and Global Marketing Code proactively promote responsible drinking and are reinforced through the group-wide training programme.</p> <p>Edrington's policies and campaigns are reviewed annually by the Marketing Code Committee.</p>
Counterfeit Products and Brand Protection	Ineffective or inadequate protection of intellectual property rights, resulting in reputational damage, an increase in counterfeit goods and a decline in sales volumes and/or market share.	<p>The Group invests considerable effort in proactively protecting its intellectual property rights. Edrington has a clear brand protection strategy with processes aimed at addressing the principal exposures and risks likely to affect alcoholic beverage brands.</p> <p>Cross-functional brand protection reviews are performed and complemented by activities on brand security education, surveillance and enforcement in order to identify and address any potential counterfeit.</p> <p>A group-wide review of brand protection activities and oversight is being performed in order to further enhance efficiency and effectiveness of brand protection effort.</p>



Financial Review (continued)

Identified Risk	Impact	Mitigating Actions
Sustainability	Failure to meet our key sustainability goals results in supply chain disruption or revenue loss.	With the appointment of the Head of Sustainability, a sustainability strategy has been developed to address the key environmental concerns, including carbon emissions, habitat conservation, raw material protection and the promotion of a circular economy.
Disruption of Production / Supply Chain	Major supply chain failure affecting the supply of raw materials or equipment, loss of maturing inventory or the customer orders process.	<p>Assets managed by the business include plant and equipment, people and business technology. Disaster recovery, incident management plans and contingency measures are in place and tested regularly.</p> <p>Contingency bottling/blending options are in place and assessed regularly to ensure that Edrington's operations can be maintained in the event of a loss or impairment of its own facilities.</p> <p>Energy and water supplies are reviewed to ensure continuity, sufficiency and quality of supply.</p>

Approved and signed on behalf of the board

Paul A Hyde
Chief Financial Officer

22 June 2021