Financial Review

Statutory Key Performance Indicators

	2023	2022	vs. 2022
Revenue	**£1,276.8m**	£981.0m	30%
Earnings before interest and tax	**£424.7m**	£296.8m	43%
Profit before taxation	**£405.1m**	£275.9m	47%
Profit for the financial year attributable to owner	**£181.8m**	£94.9m	92%
Total equity	**£1,215.4m**	£1,226.5m	(1%)

Management Key Performance Indicators

	2023	2022	vs. 2022
Core revenue*	**£1,082.4m**	£885.5m	22%
Brand investment*	**£232.5m**	£181.6m	28%
Core contribution*	**£413.6m**	£329.7m	25%
EBIT (pre-exceptional)	**£407.3m**	£291.6m	40%
EBITDA (pre-exceptional)*	**£442.2m**	£321.1m	38%
Profit before taxation (pre-exceptional)	**£387.7m**	£270.7m	43%
Profit for the year (pre-exceptional)	**£168.5m**	£91.8m	84%
Earnings per share	**£2.70**	£1.46	85%
Free cash flow*	**£123.1m**	£131.4m	(6%)
Net debt/EBITDA	**1.3**	1.1	
Strategic inventories	**£976.7m**	£899.7m	9%

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

BRAND INVESTMENT
Marketing expenditure on our core brands on a constant currency basis.

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

EBIT (PRE-EXCEPTIONAL)
Earnings before the deduction of interest, tax and exceptional items.

EBITDA (PRE-EXCEPTIONAL)
Earnings before the deduction of interest, tax, depreciation, amortisation and exceptional items.

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, 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.

EARNINGS PER SHARE
Profit after tax excluding exceptionals dividend by the weighted average shares for the year.

* A reconciliation of constant currency measures, free cash flow and EBITDA is provided at Note 35 to the accounts.

Group Financial Performance Overview

Our excellent performance this year reflects our ongoing focus on the faster growing ultra-premium category, and our sustained high levels of investment behind our brands which drive increased consumer demand and the growth of our business.

Core revenue and Core Contribution grew by 22% and 25% respectively on the previous year, with growth across all our business units. Pre-exceptional profit before tax increased by 43% with the performance of the underlying business being supplemented by weaker sterling and therefore a higher reported profit. Our retained profit for the financial year (before exceptional items) grew by 84% which was flattered by the non-recurring deferred taxation charge in the prior year.

These results are particularly satisfying at the business has had to navigate a series of external challenges, including supply chain disruption, our exit from the Russian market, and global inflationary pressures.

We have increased our investment in capital expenditure to ensure that we have both the quality and capacity in our operations to provide long-term sustainable growth, along with strategic investments in Grupo Estevez and Wyoming Whiskey. In addition, the Group returned funds to shareholders through share buybacks totalling £220m.

Group Financial Performance (reported on a constant currency basis)

CORE REVENUE

Core revenue grew by 22% to £1,082m, reaching the milestone of £1bn for the first time, with strong momentum across all our business units. Our continued focus on commercial excellence, improved market, channel and product mix together with price increases drove this excellent performance.

BRAND INVESTMENT

Brand investment is a critical factor driving the ongoing growth of Edrington, supporting brand equity and engaging and educating consumers. We have activated record levels of investment during the year, focussing on high quality and creative marketing campaigns, consumer education and experiences, innovative collaborations and the launch of outstanding new products. Our total brand investment of £233m was up 28% on the previous year and represents a re-investment level of 21% of net sales.

CORE CONTRIBUTION

Despite significant increases in our operating costs and our increase in brand investment, Core Contribution grew at 25% to £414m. This growth means that we have been able to maintain our operating margin percentage through an improved product and market mix and the execution of price increases.

The Macallan performance showed exceptional year on year growth as its reputation for quality and innovation continued to drive strong consumer demand for the brand. This innovation was reflected in the outstanding new product launches through the year including The Macallan James Bond Collection, The Red Collection 77 Year Old and M Copper.

All brands within the Malt Whiskies business unit delivered contribution growth this year. We further increased the investment behind Highland Park and The Glenrothes to support the premiumisation strategy of these brands to accelerate their potential future growth. Highland Park had strong performance in the USA, its core market, and delivered an improved net sales per case. The Glenrothes accelerated its focus on prestige with the launch of Glenrothes 42 Years Old in Asia. Our blended malt, Naked Malt, continued to grow volume, as the on-trade continued to recover.

The Famous Grouse performed well, increasing net sales across all regions through a combination of price increases and market mix. The brand is in good health and continues to hold leadership positions in its key markets.

The Brugal business unit delivered another year of excellent growth. This is driven by the innovation and consumer demand for the brand in The Dominican Republic and the continued recovery of the on-trade in Spain. It has been an exceptional year of double-digit growth for Brugal 1888, our ultra-premium rum expression.

We have seen our Global Travel Retail business rebound strongly this year, with a recovery above our pre-pandemic performance. In the Americas, Asia Pacific and Dominican Republic we have continued to accelerate growth, particularly in our prestige expressions. The impact of our exit from Russia is reflected in our results for the EMEIA region, however, excluding the impact of that market, we have seen strong growth in our performance.

Statutory results (reported at actual currency rates)

Statutory group revenue grew by 30% to £1,277m and pre-exceptional profit before tax increased by 43% to £388m. The growth in our reported statutory results for revenue and profit exceed those on a constant currency basis as we experienced a weaker sterling against our key currencies during this financial year.

Profits attributable to Edrington Shareholders (before exceptional items) increased by 84% to £169m.

EXCEPTIONAL ITEMS

During the year the Group entered into an agreement, alongside its joint venture partner Beam Suntory, to sell our investment in Maxxium Cyprus Limited and its Russian subsidiary, to the local management. Prior to the disposal we received a dividend from Maxxium Cyprus Limited of £10m and a gain of £2m against the previous year impairment of our investment in the Maxxium Cyprus joint venture.

The acquisition of a further 30% of the issued share capital of Wyoming Whiskey has been treated as an exceptional item in the year resulting in a net gain of £6m.

After including these exceptional items and after adjusting for minority interests, profits attributable to Edrington Shareholders increased by 92% to £182m. The table below sets out the movement before and after exceptional items in the current and prior years to aid the understanding of their effect compared to the underlying trading performance.

Statutory results table adjusted for non-recurring items

	2023	2022	vs. 2022
Profit for the financial year - *before adjustment for impact on deferred tax of changes to future UK tax rates*	**£168.5m**	£118.4m	42%
Impact of deferred tax rate change in prior year	-	(26.6m)	
Profit for the financial year - *pre-exceptional items*	**£168.5m**	£91.8m	84%
Exceptional items	**£17.4m**	£5.2m	
Non-controlling interest and taxation on exceptional items	**(£4.1m)**	(£2.1m)	
Profit for the financial year	**£181.8m**	£94.9m	92%

INTEREST

Net finance charges, totalling £20m, largely comprised interest costs on funding from the Group bank and US private placement debt.

Constituent elements of the interest charge

	2023	2022
Finance income	**£7.7m**	£2.2m
Finance costs	**(£25.9m)**	(£15.7m)
Non-qualifying cash flow hedge	**(£0.1m)**	(£6.0m)
Other finance costs	**(£1.3m)**	(£1.4m)
	(£19.6m)	(£20.9m)

CASH FLOW AND FINANCIAL POSITION

Our net debt at 31 March 2023 was £598m, an increase of £223m from 2022.

Operating cashflow remains robust and reflects the underlying strong performance of the business, allowing for further investment in capital expenditure to ensure that we have both the quality and capacity in our operations to provide long-term sustainable growth.

The Group executed two share buybacks during the year, returning £220m in total to shareholders. In addition, strategic investments were made in in Grupo Estevez and Wyoming Whiskey.

The Group is financed by both US private placement notes and bank debt. The consolidated group net debt to EBITDA ratio at 31 March 2023 was 1.3 times (2022: 1.1 times) and within the 1887 Group, where the debt is principally held, we finished the year with a ratio of 2.1 times (2022: 2.3 times) which is comfortably within the limit of our debt covenants.

We maintained a robust financial position this year, total equity decreased by £11m (-1%) on the previous year, reflecting the share buybacks during the year. Total assets increased by £173m to £2,624m, primarily as a result of further investments in casks and maturing stock, as well as our investments in Grupo Estevez and Wyoming Whiskey. Property, plant and equipment increased by £38m reflecting our cask purchases in the year. Inventories, of which maturing whisky stocks account for the majority of the value, increased by £97m. The value of our investments has increased principally due to our new joint venture with Grupo Estevez. A decrease in our cash and other liquid resources of £51m reflects the purchase of investments and share buyback during the year.

Total liabilities increased by £184m to £1,409m, primarily reflecting our increased borrowings.

POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group has obligations for three main defined benefit pension schemes for employees. Two of these have been closed since 2014 and the third scheme has been closed since 2015. As at the 31 March 2023, the Group had a surplus of £24m in relation to the post-employment benefit obligations of these schemes, as calculated in accordance with accounting standards. This is a decrease of £24m from the £48m asset recognised on 31 March 2022.

The present value of the schemes' liabilities decreased by £133m, principally due to changes in the mortality and discount rate assumptions. Further deficit repair contributions of £11m were made in the year.

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 2023, the deficit was valued at £21m.

DERIVATIVES AND FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange. The fair value of these instruments at 31 March 2023 is included in the Statement of Financial Position.

Assets of £14m (2022: £5m) principally reflect the fair value of forward and option foreign exchange contracts outstanding as at the 31 March 2023. The year-on-year increase in the value of these assets is due to cross currency swap hedges which matured during the year.

There were no liabilities in the current year (2022: £1m).

SUMMARY

The Group has successfully mitigated the various external challenges during the year to deliver an excellent financial performance and this has allowed us to increase our returns to shareholders through both the dividend and two share buybacks this year.

The continued strong demand for our brands, together with the significant investment we have made in our marketing, assets and organisational capabilities, give us a business that is well placed to navigate future challenges and exploit the continued growth in the ultra-premium spirits category.

Whilst the underlying business performance remains robust, it is worth noting that in the coming financial year our reported results will be impacted by several factors. Our net debt and interest rates will be higher, our effective tax rate will increase due to the increase in the UK corporation tax rate and the value of sterling against our basket of key currencies is currently higher than the average rates experienced in the year to March 2023.

Going Concern

To assess the appropriateness of adopting the going concern basis for the Group, the directors have reviewed the strategic and financial plan over the next three years. The underlying assumption continues to be that our operations, both in Scotland and Dominican Republic will remain open, and that our global supply chain continues to support the shipment of product to our markets.

The experience of the Covid-19 driven uncertainty over the last three years has given us the confidence that we have the ability to adapt quickly and decisively. With the support of our multiple stakeholders, we have the potential to flex the level of dividends and investment levels to manage our liquidity.

Our updated three-year plan shows Core Contribution continuing to grow each year and it is expected to exceed the levels set in the previous three-year plan cycle.

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.

Based on a scenario showing a contribution decline of 10% from our plan, the business has the ability to remain within our lenders' covenant conditions through a reduction in the cost base and investment levels.

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 2026. 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).

The results of these assessments were reviewed considering the financial position of the Group at 31 March 2023, the cost and cash mitigation measures available, and the access to ongoing funding facilities. Based on these assessments the Board of Directors has a reasonable expectation that the Group will be able to meet its financial obligations for the foreseeable future and has 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 Risks and Uncertainties

OUR APPROACH TO MANAGING RISK

The Board is responsible for risk management and the controls and compliance environment supported by the Executive Committee and the Audit Committee. The Audit Committee has direct oversight of the Group Risk Management Committee and the Assurance, Risk & Compliance function.

Edrington's risk management framework focuses on identifying, evaluating and managing financial and non-financial risks. It seeks to minimise exposure to unforeseen events and identified risks, allowing the business to focus on delivering its strategic objectives. During the year we have continued to enhance the culture of risk management throughout the Group through wider and deeper reviews at a market and functional level.

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 November 2022, allowing 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. The assessment includes a review of the impact and likelihood of each risk, together with the controls in place to mitigate the risk. This will include detailed scenario planning for our most critical risks. Given the dynamic nature of Edrington's operating environment and external factors, the review of principal risks is performed by both the Executive Committee and the Board on an annual basis, and specific risk reviews are carried out on a quarterly basis at both the Audit Committee and the Group Risk Management Committee.

Risk categories are predominantly macroeconomic or operational in nature. Macroeconomic risks related to the external environment and the international markets in which Edrington operates, over which the Group has less control. Operational risks are more internally focused and include issues such as supply chain disruption, or a failure in business technology.

The environment in which Edrington operates is constantly evolving so the Group remains vigilant to new and emerging risks. These are assessed on a timely basis and appropriate actions are taken where possible to mitigate the impact of these risks on the business.

During the year the Audit Committee assessed reports received from the internal audit teams and has reviewed the actions in place to manage the key strategic risks. These have allowed the committee to assess the general control environment, identify control weaknesses, and quantify associated risks.

The internal controls in place are 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. The system includes both financial and non-financial controls and is regularly reviewed to ensure it remains robust and embedded in business processes to enable Edrington to continuously manage the relevant business risks.

OUR PRINCIPAL RISKS

Whilst the overall level of risk in our operating environment continues to be extensive across the different geographies in which Edrington operates, there has not been a significant increase in risk exposure during the year.

As part of our annual review of risk exposure and evolving risks, we have updated our assessment of principal risks as follows:

- Sustainability and Climate Change has been included as a separate risk, given the increased number of climate-related events and the ongoing changes to sustainability regulatory requirements.
- The risk of supply chain disruption has increased as a result of delays in supplier order fulfilment and increases in shipping lead-times.
- The risk of product contamination has been removed from our principal risks given recent improvements to our quality control processes.
- The risk of changing consumer drinking behaviours having a material impact on the group performance has reduced and therefore has been removed from the principal risks.

Both risks removed in the year will continue to be closely monitored as part of our standard risk management processes.

The table below provides details of our updated assessment of the principal risks for the business, including key risk drivers, risk outlooks, and current mitigating actions. The developments section provides details of actions taken in the last year to manage key risks effectively as they evolve.

FINANCIAL REVIEW (CONTINUED)

Risk and Risk Impact	Risk Mitigating Actions	Developments in 2022-2023
Inter-state conflict & Protectionism **RISK OUTLOOK:** ↔ Economic or political instability restricts market activity, affecting market access, demand or increased costs.	• Continuous local and global monitoring of changes in economic, political and operational environments that could impact business performance. • Group level strategic analysis and scenario planning to support strategy delivery, risk management and avoid over-reliance on a single country or region. • Regular pricing, tax and customs reviews to enable a timely reaction to changes in legislation.	• Scenario and contingency planning reviews have been performed based on current global events and potential international responses. • Introduction of a new screening tool to enable real-time monitoring of changes in sanctioned parties to ensure compliance with international regulations. • We do not trade with sanctioned parties however there is always a risk around changes in status globally. The sale of our business in Russia has significantly reduced our exposure to trading with sanctioned parties in the current year.
Cyber Attack **RISK OUTLOOK:** ↔ Continued development of cyber threats increases the risk of theft, failure or corruption of digital assets and/or key systems which could lead to business disruption, reputational damage and financial loss.	• Group-wide cyber risk management processes and policies. • Regular review of effectiveness measures including vulnerability management monitoring, penetration testing and testing measures. • Annual cyber security review in line with National Cyber Security Principles.	• Updated mandatory cyber awareness training and phishing simulations. • Scenario testing of cyber attacks to stress-test our risk management measures, crisis management and business continuity plans.
Misuse of Personal Data **RISK OUTLOOK:** ↔ Inadequate management of personal data could lead to reputational damage, penalties, and financial loss.	• Reviews of consumer data, with safeguards developed to ensure ongoing compliance. • Enhanced data privacy measures, including brand and market specific data privacy policies, and revised data processing agreements. • IT security measures are regularly reviewed, including data encryption and contractual protections with key third party data processors.	• The Group's biennial mandatory data privacy training has been refreshed and issued to all employees. • An in-depth review of data retention procedures and a data mapping exercise is underway to ensure ongoing compliance. • A review of our data breach management process has been carried out in conjunction with initiatives to test the effectiveness of the measures in place.

FINANCIAL REVIEW (CONTINUED)

Risk and Risk Impact	Risk Mitigating Actions	Developments in 2022-2023
Supply Chain Disruption **RISK OUTLOOK:** ↑ Our ability to maintain the continuity of our supply chain is hindered due to constraints in logistic operations and shipment of raw materials or finished goods leading to revenue loss.	• Proactive collaborative business forecasting provides insight into demand requirements that allow for real-time management of potential shortages. • Ongoing relationship management of key vendors and continuous review of raw material quality and availability. • Ongoing review of stockholding levels of both raw materials and finished goods to mitigate the impact of disruption.	• A change in manufacturing shift patterns to enable an increase in production capacity and the ability to support increased stockholding levels. • A review of contingency bottling arrangements to identify additional sources of capacity. • Contingency sourcing of packaging materials and geographical diversification of suppliers.
Scarcity of Sustainable Raw Materials **RISK OUTLOOK:** ↔ Our ability to secure the appropriate quality and quantity of core raw materials due to environmental concerns, climate change and industry demands.	• We have established long term contracts with key raw material suppliers in line with projected manufacturing requirements. • Ongoing audits of the quality and sustainability credentials of our raw materials are performed prior to manufacturing. • Circular economy KPIs have been introduced to monitor our compliance to this commitment	• Fully recyclable packaging being identified for our core and prestige ranges. • Increased use of recycled glass. • Elimination of non-essential packaging materials. • Glass weight reduction research has been completed. Design reviews and trials are being performed. • Acquisition of Grupo Estevez to provide greater control of vineyards and sherry wine supply for seasoning casks.
Adverse Political and Social Attitudes to Alcohol **RISK OUTLOOK:** ↔ Tighter restrictions on alcohol promotion, sales and/or consumption may limit market access resulting in loss of revenue.	• Membership of national and international organisations that work to encourage the responsible promotion and consumption of alcohol and reduce alcohol-related harms. • Annual review of our policies, communications, and requirements, including Code of Conduct and Marketing Code. • Edrington's policies and campaigns are reviewed annually by the Marketing Code Committee.	• We continue to partner with relevant organisations, including the Scotch Whisky Association, spiritsEUROPE, and other trade organisations, to monitor potential restrictions. • A full review of restrictions across all geographies has been performed to enable proactive monitoring of any changes.

FINANCIAL REVIEW (CONTINUED)

Risk and Risk Impact	Risk Mitigating Actions	Developments in 2022-2023
Counterfeit Products & Brand Protection **RISK OUTLOOK:** ↔ 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.	• Ongoing monitoring of the principal exposures of our brands. • Brand security education, surveillance and enforcement activities are performed to identify and address any potential counterfeit and/or refilling operations. • Ongoing monitoring of global trademark applications, opposing those that infringe our rights. • Implementation of Custom's Notices in conjunction with a programme of market inspection and raiding and shutting down of counterfeit/refilling operations in key countries.	• New trademarks in various classes registered across key geographies. • Clearance and application/ registration process built into new product development. • Joint raids conducted with peer brands to broaden enforcement actions at cheaper rates due to cost savings.
Sustainability & Climate Change **RISK OUTLOOK:** ↑ Global warming results in adverse weather conditions, increased risk of wildfire, flooding, sea level rises or other events that cause significant operational disruption.	• Sustainability related KPIs have been defined and assigned across the different Business Units to ensure requirements are built into their strategic objectives. • Sustainability risk assessments are reviewed regularly to ensure risks are managed at both a local and Group level.	• A climate change risk assessment has been performed in line with TCFD recommendations and a specific review of the sustainability risks are detailed in the Corporate Sustainability and Responsibility Report.
Pandemics **RISK OUTLOOK:** ↔ Ongoing impact of the Covid-19 pandemic or a new global outbreak of a health threat that results in government-imposed restrictions to travel, trading, and human interaction, which could have a negative effect on business operations, trading, or logistic activities.	• Scenario planning carried out to ensure business continuity plans remain relevant and supportive of our operations. • Increased stockholding levels will support challenges to distribution should there be supply chain disruptions.	• Although economies have resumed normal trading, monitoring of health risks across different geographies will be maintained.

RISK OUTLOOK LEGEND FROM PRIOR YEAR:

↑ Increased
↔ Stayed the Same
↓ Reduced

Approved and signed on behalf of the Board.

Paul A Hyde
Chief Financial Officer

20 June 2023