

# An attractive industry with a runway *for growth*

Our markets are shaped by long-term consumer, economic, cultural and social trends, and the regulatory environment. Total beverage alcohol (TBA) is resilient, and we believe the long-term trends for our industry are attractive.

Drinking occasions and practices vary, depending on local culture and traditions. We believe that drinking in a responsible way can be part of a balanced lifestyle in many societies around the world.

Retail sales value of total global alcohol market<sup>1</sup>

**£865 billion**

Total equivalent units of alcohol sold<sup>2</sup>

**5 billion**

New legal purchase age consumers expected to enter the market by 2032<sup>3</sup>

**600 million**

1. IWSR, 2021

2. IWSR, 2021

3. World Bank, 2022



CONSUMERS WANT TO 'DRINK BETTER'

## Consumers are seeking new experiences and higher quality products

When it comes to beverage alcohol, consumers are 'drinking better, not more'<sup>1</sup> - increasingly choosing brands and categories that offer superior quality, authenticity and taste. This premiumisation trend is supported by product innovation, fuelled by higher levels of prosperity and disposable income - and coupled with a greater desire to explore new experiences, ingredients and serves for social occasions.

Higher price spirits tiers grew **7 times** faster than the total spirits category

IWSR, 2021, volume CAGR for the period 2011 to 2021

### Impact

Over the last 10 years, brands in higher price tiers have grown volume faster than those in lower price tiers.<sup>2</sup> Consumers are buying a broader range of premium products, including no- and lower-alcohol drinks, that reflect their diet and lifestyle choices and their interest in natural ingredients and craft production.

### Our response

We have built an industry-leading portfolio of Reserve brands - through focussed investment, brand building, the creation of a dedicated management team - and, in many countries, a dedicated route to market. Through the development of our Reserve portfolio, we are able to influence the evolution of luxury spirits across different categories and occasions, including super premium scotch and tequila.

We are also growing brands of the future, including no- and lower-alcohol choices. We do this through a combination of acquisition, by developing our own brands, and investing in entrepreneurs through the Diageo-backed accelerator programme, Distill Ventures.



### This market dynamic aligns with these strategic priorities:

Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking, Pioneer grain-to-glass sustainability

CONSUMERS ARE INCREASINGLY CHOOSING SPIRITS

## Consumers who drink alcohol are increasingly choosing spirits over beer and wine

This is a long-term trend we see occurring across the globe. In markets where spirits is a less mature category, mainstream spirits brands can offer quality and affordability. In more mature markets, premium core and Reserve brands offer variety and new experiences.

**+7%** increase in spirits share of total beverage alcohol

IWSR, 2021, between 2011 to 2021

### Impact

In markets such as the United States, household penetration of spirits has grown ahead of wine and beer. And this accelerated during the pandemic. This was driven by consumers adding cocktails more often to their 'at home' repertoires, whilst the spirit-based ready-to-drink category benefitted from increased consumption across more occasions.<sup>3</sup> In many emerging markets, spirits penetration is still low compared to developed markets, with potential for future growth.

### Our response

Our broad, global portfolio across categories and price points provides consumers with product choices to suit different occasions and their disposable income. Our innovation is driven by our consumer insight on trends and occasions, ensuring we provide choices to suit evolving consumer attitudes and motivations.



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AN EMERGING MIDDLE CLASS WHO CAN AFFORD INTERNATIONAL-STYLE SPIRITS

## Global economic development is driving the emergence of consumers with higher disposable income

These consumers are seeking new, aspirational experiences and driving demand for quality drinks at a range of price points. They are also moving away from illicit alcohol, which is estimated to account for around 25% of global alcohol sales despite the associated health risks and loss of tax revenue for governments.<sup>4</sup>

**600m** consumers expected to join 'middle class and above' income bracket by 2032

World Bank, 2022

### Impact

Demand for international-style spirits is rising. Around 600 million new legal purchase age consumers<sup>5</sup> are expected to enter the market globally by 2032. Over the same period, we expect hundreds of millions of additional consumers to be able to afford international-style spirits.

### Our response

We have built a portfolio of lower price point options, such as Smirnoff X1 in Africa, McDowell's No. 1 in India and Black & White in Latin America. As emerging market consumers' disposable incomes rise, these products give them access to quality at affordable prices and enable us to help shape responsible drinking trends.



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CONSUMERS ARE CHANGING HOW THEY SOCIALISE

## Consumers in developed markets are moving towards lower-tempo, food-related occasions

As the on-trade has reopened following the pandemic, high-tempo, late-night occasions are recovering. However, the long-term shift towards occasions before, during and after meals, and in choices that suit 'at home' occasions, persists.

**+7%** increase in lower-tempo share of TBA occasions in Great Britain

Kantar, 2022, between 2018 to 2022

1. IWSR, 2021  
2. IWSR, 2021  
3. Numerator, 2022  
4. WHO, 2021  
5. World Bank, 2021



© DON JULIO TEQUILA

## Luxury tequila positioned for premiumisation in North America

In North America, tequila accounts for 15% of total spirits retail sales value and is gaining share. It continues to premiumise at pace, with premium price tiers growing the fastest.<sup>1</sup>

Our luxury tequila portfolio includes Don Julio 1942, which is the number one luxury spirit brand variant by retail sales value in the United States.<sup>2</sup> Its success as a luxury icon has been driven by a combination of outstanding liquid and powerful brand building, deeply rooted in culture. We've built consumer desire over the past decade through targeted distribution, influencer partnerships and cultural collaborations.

This year, under the Don Julio brand, we launched two new luxury innovations in North America, both of which exceeded expectations on launch. This included Don Julio Primavera, a limited edition Reposado tequila finished in European casks, which previously held wine infused with macerated orange peel; and Don Julio Ultima Reserva, a 36-month aged luxury Extra-Añejo tequila, making use of the final agave harvest planted by Don Julio González and his family in 2006. Both variants are built on key consumer insights. Don Julio Primavera drives relevance within informal and outdoor daytime occasions, whilst Don Julio Ultima Reserva delivers an authentic and credible brand experience, coupled with eye-catching packaging.

1. IWSR, 2021

2. Nielsen + NABCA combined, 2021

### Impact

Spirits, which are versatile and adaptable, are benefitting from the recovery of high-tempo socialising, as well as the long-term shifts in consumers' discovery of new serves which are suitable for a broader range of occasions.

### Our response

Our consumer insight enables us to innovate within existing brands, anticipate new consumer occasions and meet emerging consumer demand. This insight is supported by our ability to develop and launch products and campaigns rapidly and effectively, reaching the right consumers fast. This year, we launched Johnnie Walker Blonde in six markets globally to recruit new scotch consumers, using a refreshing long serve to appeal to casual, lower-tempo occasions. After a successful launch, we'll be extending Johnnie Walker Blonde to more markets in fiscal 23.



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Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking

CONSUMERS ARE CHANGING HOW THEY BUY

### Digital and technology are changing the way consumers find and buy our brands

Online shopping for alcohol is still low compared to other retail categories, but it continues to be a fast-growing channel that dramatically accelerated during the pandemic. Consumers are increasingly using the internet to discover and learn about brands and products.

**+16%** retail sales value growth of global e-commerce TBA

IWSR, 2021

### Impact

The lines between channels are blurring as consumers expect a seamless omnichannel experience. And as regulations continue to evolve and e-commerce expands further, digital channels will play an ever-increasing role in bringing our products to consumers.

### Our response

Our mission is to delight consumers across both digital and physical touchpoints, transforming our route to consumer approach. We continue to build strength on key platforms, such as Amazon in Europe and Drizly in the United States, whilst development of our owned e-commerce channels and capabilities has been a key global focus this year. We rolled out TheBar.com to four new markets and re-launched in one; upgraded and repositioned malts.com as the digital hub for our Scotland brand homes and distilleries; and extended Diageo Rare & Exceptional to a global audience. These channels enable us deepen our relationship with consumers, as well as help them find the right drink for the right occasion.



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A COMPLEX REGULATORY ENVIRONMENT

**The beverage alcohol industry is highly regulated**

Regulation varies widely around the world, often evolving in response to changes in society. Compliance with law and regulation wherever we operate is a minimum requirement, and we have long understood that a responsible alcohol company must go beyond mere compliance.

We are proud of our brands and we want them to be enjoyed responsibly. Through our work, we are aligned with the World Health Organization’s goal of reducing harmful drinking by 10% by 2025. We also advocate policies and industry standards, including minimum legal purchase age laws and maximum blood-alcohol concentration driving limits, in countries where these are not already in place.

**607,374<sup>Δ</sup>** young people, parents and teachers educated on the dangers of underage drinking this year

Diageo, fiscal 22

**Impact**

While most people who choose to enjoy alcohol do so responsibly, the misuse of alcohol can harm individuals and those around them, damage our industry’s reputation and make it harder for us to create value.

**Our response**

We want to offer consumers the opportunity to ‘drink better, not more’ – an approach that is rooted in our social values and aligns with our business model as a producer of premium drinks. We’re committed to promoting moderation while campaigning to reduce harmful drinking and advocating for better laws and industry standards. Our approach to positive drinking includes ambitious targets for areas in which we can have the greatest impact in reducing harm: drink driving, underage drinking and binge drinking.



**This market dynamic aligns with these strategic priorities:**

Sustain quality growth, Embed everyday efficiency, Promote positive drinking

Δ Within PricewaterhouseCoopers LLP’s (PwC) independent limited assurance scope. For further detail and the reporting methodologies, see our ESG Reporting Index.

CONSUMERS EXPECT BUSINESSES TO ACT RESPONSIBLY

**Consumers are increasingly challenging businesses to show how they make a positive impact across all aspects of society**

They expect to see that businesses are generating wealth, fostering inclusion and diversity, respecting human rights, supporting their communities and acting on important societal and environmental issues, including climate change and water stress.

**56%** of global households expected to be ‘Eco Actives’ (the most environmentally conscious shoppers) by 2031

‘Who Cares, Who Does?’, Kantar, 2021

**Impact**

Earning trust and respect is fundamental to achieving our ambition. We know our brands must continue to play an active role in society to meet consumer demands. This must be underpinned by a business that reduces environmental impact and promotes inclusive economic growth, while making sure that we do business with integrity and respect for human rights.

**Our response**

The 25 goals in our ‘Society 2030: Spirit of Progress’ ESG action plan provide a platform for many of our global brands’ sustainability programmes. These include Baileys’ launch of the Sustainable Farming Academy in Ireland; Guinness’ regenerative agriculture plans; and a circular packaging pilot with Smirnoff and Captain Morgan in South East Asia. This year, we started removing cardboard gift boxes from our premium scotch portfolio, increased spend with diverse suppliers by more than 50%, and have trained over 190,000 hospitality workers through the Diageo Bar Academy. In response to the conflict in Ukraine, we’ve pledged €2 million via The Red Cross and Care International UK for immediate humanitarian aid, and pivoted our Learning for Life programme in Europe to support Ukrainian refugees into work.



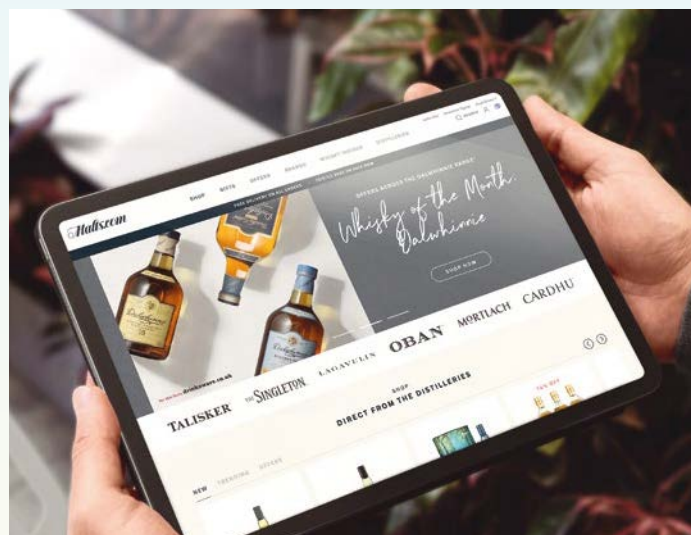
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**Unlocking the omnichannel Scotch whisky opportunity through malts.com**

We’re actively building our omnichannel participation through a number of initiatives. In scotch, malts.com is our direct-from-distillery platform, offering consumers access to our scotch portfolio, connecting them with our community of whisky makers and providing a central hub to plan visits and book tickets to our Scotland brand homes, wherever they are.

This year, we re-launched malts.com across five markets with a new look and feel to reflect the changing values of our growing audience. Designed with more than just an e-commerce platform in mind, we set out to create a premium destination for experiences, exclusive and personalised products, gifts and events. This allows us to nurture a relationship with our consumers directly, whilst maintaining relevance with consumer trends and behaviours.



MALTS.COM DIGITAL HUB