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.

<table>
<thead>
<tr>
<th>Retail sales value of total global alcohol market</th>
<th>Total equivalent units of alcohol sold</th>
<th>New legal purchase age consumers expected to enter the market by 2032</th>
</tr>
</thead>
<tbody>
<tr>
<td>£865 billion</td>
<td>5 billion</td>
<td>600 million</td>
</tr>
</tbody>
</table>

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’ — 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.

Impact

Over the last 10 years, brands in higher price tiers have grown volume faster than those in lower price tiers. 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

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. 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.

This market dynamic aligns with these strategic priorities:
Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking

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.

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 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 XI 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.

This market dynamic aligns with these strategic priorities:
Sustain quality growth, Embed everyday efficiency, Invest smartly, Promote positive drinking

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
Our market dynamics continued

Impact

Spirits, which are versatile and adaptable, are benefiting 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.

This market dynamic aligns with these strategic priorities:
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.

This market dynamic aligns with these strategic priorities:
Sustain quality growth, Invest smartly, Promote positive drinking

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.¹

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.² 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
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.