

# DIAGEO RESERVE<sup>®</sup>

## WORLD CLASS

RAISING THE BAR

### BACKGROUND AND FACTS: DIAGEO AND WORLD CLASS

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#### DIAGEO AND ASIA PACIFIC

- Diageo's Asia Pacific business is balanced between the established markets of Korea, Japan and Australia and the emerging markets of China, India and South-east Asia.
- The total beverage alcohol market in Asia Pacific is worth £78 billion and is growing at 6% CAGR. International spirits are at an early stage of development, currently accounting for just £4 billion of that net sales pool<sup>1</sup>.
- Diageo's growth strategy is to move 50% of its business in the emerging markets and Asia Pacific is expected to deliver a significant share of this growth, becoming 20% of Diageo's business by 2015 (At half year ended 31 December 2010 Asia Pacific contributed 11.6% of Diageo's total net sales).
- Diageo's partnerships within Asia-Pacific provide efficient routes to markets for both its global and local brands, build insights into consumer trends, and provide a platform for mutual learning and growth across the region
- By 2015 the Asia Pacific region is expected to be the largest total beverage alcohol value pool in the world - providing significant opportunities for Diageo's business<sup>2</sup>.

#### LUXURY IN ASIA

- With GDP growth of 5% and above across large Asian markets, economies are rapidly developing and shifting with a noticeable emerging middle class with disposable income<sup>3</sup>.
- In India, GDP has grown above 8% in recent years and is expected to continue along the same trajectory for the next 3-4 years, making it one of the fastest growing emerging economies in the world<sup>4</sup>.
- The net wealth of Asian millionaires has now eclipsed that of rich Europeans. The wealth held in Asia now stands at \$9.7 trillion, compared with \$9.5 trillion in Europe, with Asia now home to 3.3 million High Net Worth Individuals<sup>5</sup>.
- Currently 27% of all global luxury goods are bought in Asia and 43% are bought by Asian consumers. The region is expected to account for around 40% of the world's luxury demand by 2014 and to have reached a value of over USD\$310 billion by 2015<sup>6</sup>.
- The Indian luxury market, although relatively small today at around USD\$ 4.7 billion, is also expected to grow at significant pace. By 2015, it is predicted that it will grow by 21% to become almost 3 times its current size, a growth rate second only to China<sup>7</sup>.

#### LUXURY SPIRITS

- The value of the global luxury spirits market is set to grow at 11% CAGR with stronger growth in emerging markets and the whisky and brandy categories. By 2015 we expect the market to be worth around \$28 billion<sup>8</sup>.
- Asia Pacific is forecasted to account for 27% (volume) of the super premium and above spirits by 2015, 73% (volume) of all ultra premium and above spirits and 80% of the Prestige spirits segments in the next 5 years<sup>9</sup>.

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<sup>1</sup> Estimates based on IWSR volume data and China Economic Information Network

<sup>2</sup> TBA forecasts based on IWSR trends, China Economic Information Network

<sup>3</sup> CapGemini/Merrill Lynch 2011 World Wealth Report

<sup>4</sup> IWSR Forecast Report 2010: India

<sup>5</sup> Merrill Lynch World Wealth Report 2011

<sup>6</sup> CLSA ASIA PACIFIC

<sup>7</sup> AT Kearney India Luxury Report 2010

<sup>8</sup> IWSR Data 2010 and Diageo forecasts

<sup>9</sup> IWSR Global Forecasts Report 2010-2015

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- India is starting from a small base, with its luxury spirits market estimated at a value of £16 million today (domestic and duty free combined). Diageo expects to see this grow with a projected CAGR of 36% (value) until 2015.<sup>10</sup>
- By 2025, India's middle and affluent classes will account for 80% of the country's total beverage alcohol consumption.

### DIAGEO RESERVE BRANDS

- Diageo's global Super Deluxe brands are captured within its Reserve portfolio with the brand range including Johnnie Walker Blue Label whisky, Ketel One vodka, Zacapa rum, Don Julio tequila, Cîroc vodka and Tanqueray No. Ten gin.
- Diageo's Reserve brands are defined by authenticity, exquisite craftsmanship and heritage. Each liquid in the Reserve brand range is crafted to unrivalled perfection, creating adoration amongst premium customers and luxury consumers.
- In the first half of fiscal year 2011 Diageo Reserve delivered a 21% increase in organic net sales growth.
- Diageo is investing heavily in its luxury business in Asia Pacific to capture three broad consumer trends; the rise of the luxury Asian consumer, premiumisation and growth within international spirits, and the emergence of the high end on trade.
- Scotch has an important role to play in Diageo's luxury business in Asia as the largest international spirits segment in region. The premiumisation trend in India is at an all time high driving Scotch growth over the last 5 years at a faster pace than the whisky category (26% CAGR)<sup>11</sup>.
- Super Deluxe Scotch is appealing more and more to new luxury consumers with the segment growing at 41% CAGR (2004-2009 IWSR). Whilst it only currently makes up 4% of the total Scotch market by volume, it contributes more than double in value at 10% (2009 figures).
- As the vodka category in India - currently at 6.6 million cases - continues to expand, this growth is now being driven by the premium and above price points with sales of regular and value vodka slowing. The super premium vodka segment has grown at 55% CAGR in the last 5 years and ultra-premium vodka segment is expected to grow at 35% CAGR in the next 5 years<sup>12</sup>.

### WORLD CLASS

- The on trade is an important growth driver for Diageo's Asia Pacific business, with a total of 400,000 outlets across the region, accounting for approximately 50% of our business.
- World Class is Diageo's biggest investment in its on trade luxury customers globally with the one year programme educating, training and inspiring the world's best bartenders in the art of mixology, to drive both sales and better consumer experiences in high end bars and restaurants around the world
- In Asia Pacific alone, 10 markets have been taking part in World Class in 2011 and since last year's final, the region has seen a growth of more than 60% in the number of outlets supporting Diageo Reserve brands.
- Running in 34 countries around the world with over 10,000 bartenders taking part, The World Class programme has continued to drive results for this business:
  - 66% growth in organic net sales of Reserve brands in five star hotels and top bars in Korea.
  - 410% increase in organic net sales of our brands in participating Singapore premium outlets.
  - 1,000% organic net sales uplift in key accounts in Malaysia.

<sup>10</sup> Value calculated using IWSR volume figures and Diageo case estimates

<sup>11</sup> IWSR 2010 India Market Report

<sup>12</sup> Historic figures are IWSR volume figures for domestic and duty free. Projected CAGR is domestic only and based on IWSR data and Diageo forecasts