Majestic Wine PLC
("Majestic")

Half Year Results for the 26 weeks ending 1 October 2018

Steady as she goes

- Group revenue growth of 5.4%, accelerating as a result of the previously announced investment plan
  - Naked Wines ("Naked") underlying[1],[7] revenue growth accelerated from 11.6% in H2 FY2018 to 14.0% in H1 FY2019
  - Majestic Retail ("Retail") underlying revenue growth sustained at 1.9% vs H1 FY2018
- Naked repeat customer contribution[7] of £17.5m, +16.5% vs H1 FY2018
- Investment and future value creation is up
  - New customer investment[7] in Naked is £7.9m, up £3.0m (60.6%) vs H1 FY2018
  - Average forecast lifetime payback[7] in Naked on target at 4.0x (H1 FY2018: 5.1x)
  - Retail Concierge service reaches almost 30k customers
- As previously announced, increased new customer investment and fixed costs[7] has reduced profits
  - Reported loss before tax of (£0.2)m (H1 FY2018 profit: £3.1m)

		H1 FY2019	H1 FY2018	% YoY	H1 FY2019 Underlying [1] [7]	H1 FY2018 Underlying [1] [7]	% YoY Underlying [1] [7]
Reported revenue	£m	229.1	217.4	5.4%	227.7	217.3	4.8%
Adjusted EBIT[2] [7]	£m	2.9	7.3	(60.0%)	2.9	7.2	(59.5%)
Adjusted PBT[3] [7]	£m	2.5	6.8	(62.6%)	2.5	6.7	(62.0%)
Adjusted EPS[4] [7]	p	3.7p	7.9p				
(Loss)/ Profit before tax	£m	(0.2)	3.1				
Basic EPS	p	(0.1p)	2.4p				
Interim dividend per share	p	2.0p	2.0p				
Free cash flow[5] [7]	£m	(7.3)	3.6				
Net debt[7]	£m	(20.1)	(25.6)				

To provide a meaningful comparison with last year, operating performance commentary is stated on an underlying basis (unless otherwise stated). A full reconciliation between our reported numbers and these underlying measures is provided in the financial review.

Rowan Gormley, Group Chief Executive, commented:

"We're doing well in a tough market.

We set out a plan at our capital markets day in April 2018 and we are delivering against it. That plan was to accelerate growth by investing in new customers and, so far, the plan is on track.

In this half:

- We've delivered growth in sales, repeat customer contribution and new customer investment

- We've been investing more, and as a result profits are down
- We've continued re-allocating capital to invest more efficiently

Our longer-term expectations remain unchanged despite short-term headwinds:

- We're on track to meet our £500m sales target in FY2019
- The UK retail market is tough and will continue to be a drag on performance in Retail and Majestic Commercial ("Commercial"); whereas we had previously targeted growth, we now expect FY2019 adjusted EBIT across these business units to be flat at best vs FY2018[6]
- Naked growth will accelerate as we increase our investment but this will impact profit near term: our expected level of investment in FY2019 is now £20m or higher, vs £19m or higher indicated in our Full Year Results in June when we stated we would increase by £5-8m from the £14m invested in FY2018

We were planning for tough times and we're investing through tough times because we know that's the route to a more profitable future. As a result, we now have a business that is almost 45% online and over 20% international with both the option, and intention, to invest further in order to drive returns."

Majestic Wine PLC will host an analyst and investor briefing on Thursday 22 November 2018 at 9.00am at the offices of Instinctif, 65 Gresham Street, London, EC2V 7NQ. To attend please contact the Investor Relations Team on the details below.

A webcast will be made available after the meeting on our investor website: http://majesticwineplc.co.uk/investor-centre/results-centre/

Notes:

(1) Underlying movement (a) includes en primeur revenues in year of order not year of fulfilment, and (b) is calculated using constant FX rates for translation of the comparative period

(2) Adjusted EBIT is operating profit adjusted for amortisation and impairments of acquired intangibles and goodwill, acquisition costs, share based payment charges, restructuring costs, net fair value movement through P&L on financial instruments and adjusting en primeur results to reflect profits on orders rather than on wine fulfilment

(3) Adjusted PBT is defined as Adjusted EBIT less net finance charges

(4) Adjusted EPS is calculated by excluding the effect of the adjusted items described in note (2) above from the (loss) / profit for the period

(5) Free cash flow is defined as cash generated from operations less capital expenditure and excluding cash adjusted items

(6) As of the date of this announcement the company calculated consensus of analyst forecasts for the movement in combined Retail and Commercial adjusted EBIT from FY2018 to FY2019 is +£0.6m. Company calculated consensus estimates for the Group can be found on www.majesticwineplc.co.uk

(7) This is an alternative performance measure. See details at the end of this document

For further information, please contact:

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About Majestic Wine PLC:

Majestic Wine PLC is a quality wine specialist, with operations in the UK, France, USA and Australia.

Our goal is to try to beat the market by investing in customer relationships, rather than stores. We do that through:

- Investing in business models that compound, i.e. that get stronger with growth
- Investing with discipline, because we are able to test new opportunities before we roll them out
- Using data and technology to continuously improve - every quarter we double up on our best performing investments, and cut the worst

Our divisions:

1. Naked - Naked's customers in the UK, USA and Australia crowdfund independent winemakers in exchange for preferential prices on exclusive wines.
2. Retail - The UK's largest specialist wine retailer. We help people find wines they will love by employing highly engaged, well trained people equipped with state of the art tools and unique wines.
3. Commercial - A specialist on-trade supplier. We help our customers make more money from their wine list by offering national pricing and scale but local delivery and training.
4. Lay and Wheeler - A specialist fine wine merchant. We are a trusted guide for people who love fine wine, supplying the world's finest wines with a personal service.

Group Chief Executive's Review

In April we set out a plan to accelerate growth by investing in new customers.

Steady as she goes

Six months on, we are delivering against that plan:

- Group revenue up 5.4%
- 60.6% increase in new customer investment in Naked – US up 124.8%
- Lifetime payback forecast on target at 4x
- 29k Retail Concierge customers at end of period - Retail subscription programme working well

Group revenue is increasingly online, at almost 45% of total revenue, we are 20% international, and we continue to focus on customer recruitment and retention.

	Underlying			
Business	**Revenue (£m)**	**% Change**	**Adjusted EBIT (£m)**	**% Change**
Retail	122.9	1.9%	3.3	(28.7%)
Naked	75.7	14.0%	3.2	(29.1%)
Commercial	22.2	(2.0%)	1.1	6.4%
Lay & Wheeler	6.9	(9.4%)	0.3	(22.9%)
Central costs	-	-	(5.0)	47.6%
Total	227.7	4.8%	2.9	(59.5)

In the first half our plan delivered for Naked:

- An acceleration in underlying revenue growth to 14.0% (H2 2018: 11.6%), with US revenue overtaking the UK for the first time

- 17% growth in repeat customer contribution
- 61% growth in new customer investment
- Sustained high levels of customer service and satisfaction

The UK market is sluggish and holding back Retail and Commercial, however:

- Retail online sales were up over 30% strongly driven by sales to our Concierge customers, driving total revenue growth of 1.9%
- Our targeted store management programme in the Franchise-Lite portfolio is driving improved performance in our operational KPIs
- 5* ratings in store remain near 90% reflecting superior customer service and product quality
- Management retention in store improved to 85.3%

The way we measure progress is to look at four operational KPIs. As expected these measures take time to respond to the initiatives we put in place, although we are seeing encouraging results.

Group KPI	Definition	Period	Retail	Naked	Commercial	Lay & Wheeler
Product availability	% of targeted range available in stores / on websites as indicated by our inventory reporting	HY2019	86.7%	93.2%	90.9%	n/a
		HY2018	84.3%	87.5%	87.2%	
Proportion of 5-star service ratings	% of service ratings scoring 5* in last 2 months as recorded by websites / apps / telephone feedback	HY2019	87.2%[1]	89.7%	n/a	n/a
		HY2018	87.7%[1]	90.2%		
Wine Quality (Buy It Again Ratings)	% of "Yes" scores in the last 12 months as recorded by websites / apps	HY2019	92.7%	90.8%	n/a	n/a
		HY2018	89.4%	90.9%		
Team retention	% of key staff (e.g. store managers) as of 12 months ago still working per payroll records	HY2019	85.3%	90.9%	66.9%	54.6%
		HY2018	81.1%	84.3%	60.4%	100.0%

Notes:

1. Now includes web orders in addition to retail. Store only numbers are H1 19 89.6% and H1 18 88.6%.

So in summary:

1. We are doing what we said we were going to do:
    a. Increasing investment in a disciplined way
    b. Pulling underperforming capital out
    c. Finishing the heavy lifting
2. In the short-term the market looks about the same
3. Our long-term outlook remains unchanged

And the longer version:

1. We are doing what we said we were going to do.

The reason we are confident in driving growth despite challenging markets is because we have proven that our model of investing in customer relationships over additional stores works.

a) Increasing investment in a disciplined way

In the first half, we added around £31.6m of future value to Naked by investing £7.9m in acquiring new customers that we expect to deliver a forecast lifetime payback of 4x. Within this we increased our investment in the US in particular and are seeing payback in line with our expectations from this.

As a reminder, in June, we said that we expect to double the level of annual investment to £28m over the next few years, to grow the future value generated from this to over £100m a year.

We are sticking to this plan because:

- Customer lifetime values are trending up
- Investing in your customers makes you value them more and treat them better. This improves loyalty, which builds a better business
- We have early indications that the same techniques work in Retail as well as Naked

We are approaching this sensibly. We planned to invest an additional £9m to £12m in FY2019, of which:

- £7m to £10m is directed towards growth, with £5m to £8m for new customer investment and £2m to £2.5m to drive efficiency
- £1.5m to £2m will ensure we drive growth safely

b) Reallocating underperforming capital

We actively cut underperforming capital and increase high performing capital, constantly improving by testing and learning first.

In the first half:

I. We calibrated our offer in the US and improved the quality of spend

- We increased investment in marketing to drive traffic to the Naked website
- We decreased investment in subsidising customers' first orders with the result that new customer gross margins are higher and the quality of customers acquired is higher

II. We reinvested costs taken out of the UK store estate to drive online growth

- We saved £1.3m achieving a slight reduction in store and admin costs before inflation
- Investment in our online operations and national fulfilment increased by £1.1m supporting the growth in this channel

III. We are seeing increasing efficiency in Naked Wines

- Repeat customer contribution is improving in all markets driven by better gross margin performance

c) Finishing the heavy lifting

We have continued to complete the heavy lifting projects outlined in the Retail transformation plan.

- Our new EPOS system is live
- Our new accounting system is progressing and due to start roll-out early in the next financial year
- Our new online fulfilment warehouse shared by Naked and Retail became operational in the first half of this year
- Online sales growth in Retail has been helped by the performance of the new website implemented during the transformation

These projects mean that we can accelerate investment with confidence.

2. In the short-term the market looks about the same

The US is exciting. Wine sales are growing, direct to consumer wine sales are growing even quicker and we have a business model with attractive margins.

We said we would increase investment in new customers in Naked by £5m to £8m this year. We now expect investment to be at least £6m higher this year than a year ago and we continue to find further investment opportunities.

In the Retail and Commercial businesses we are going into peak season in better shape than ever before:

- A base of repeat customers 5% bigger than a year ago
- A Retail subscription business with almost 30k subscribers
- A pipeline of partnerships generating new customers
- A strengthened Commercial team driving turnaround

Against this, the UK market is sluggish and, whereas we were previously expecting growth in profits, we now expect Retail and Commercial profits to be flat year-on-year at best.

3. Our long-term outlook remains unchanged

In Naked the path is clear. We aim to double investment over the next few years, stepping up the rate of investment this year and going forward.

In Retail and Commercial we are near the end of our three-year transformation plan. On the one hand, the business is in much better shape than three years ago, but the market is also a lot tougher.

I believe that physical retail has a long-term future, but it will need to evolve into a much more experiential component of a multi-channel experience. This is what we have been doing for the last three years and is what we will continue to do.

Therefore, our challenge is to continuously refine our proposition to benefit from these trends, rather than fall victim to them. We look forward to telling you about our further plans next year.

Conclusion

We are in the fortunate position of being able to drive growth despite a tough market, because of the international and online nature of our business.

The plan we outlined in April is working – and we intend to stick to it.

Group Chief Financial Officer's Review

Financial values used in this commentary reflect the adjusted figures, as reconciled in the notes to the financial statements. Any metric marked as "underlying" is a constant FX comparison with en primeur sales recognised on order, not on dispatch.

Group overview

	Reported £m	Adjusted items (see note 4) £m	Adjusted £m	Impact of foreign exchange £m	Underlying £m
H1 FY2019					
Revenue	229.1	-1.4	227.7		227.7
EBIT	0.2	2.7	2.9		2.9
PBT	(0.2)	2.7	2.5		2.5
H1 FY2018					
Revenue	217.4	1.3	218.7	-1.4	217.3
EBIT	3.6	3.7	7.3	-0.1	7.2
PBT	3.1	3.7	6.8	-0.1	6.7

We are beginning to see the acceleration of our top-line growth due to the investments in Naked we announced earlier in the year. We delivered reported revenue growth of 5.4%, or 4.8% on an underlying basis, an acceleration from the levels reported in our full year FY2018 results of 2.3% and 4.0% respectively. As expected, and as a result of these investments and the additional overhead investments made to support the growth effort, our profitability has been impacted. Our statutory loss before tax of £(0.2)m is £3.3m lower than last year's profit of £3.1m, a combination of a £(4.4)m reduction in our adjusted EBIT offset by an improvement of £1.1m in our financing costs and adjusted items - the majority of which reflects the dropping away of the non-cash costs associated with the Naked acquisition.

We summarise our financial performance in the following financial KPIs:

KPI		H1 FY2019	H1 FY2018
Revenue	£m	229.1	217.4
Underlying revenue growth	%	+4.8%	+4.0%
Net debt: Adjusted EBITDA	Ratio	1.0x	1.0x
Fixed costs	£m	19.5	17.8

Investment in growth is at the heart of our plans. In total we invested £8.4m in the half growing and improving our customer base across the Group. As a result new customer sales[7] were 28.4% higher in Naked, the Retail customer base is 5% bigger than a year ago and we now have nearly 30k Retail Concierge customers who trust us to send them a case of wine four times a year. We summarise our investment performance, focused on Naked and Retail, with our Investment KPIs, which we discuss in the business unit commentary below:

KPI		Naked		Retail	
		H1 FY2019	H1 FY2018	H1 FY2019	H1 FY2018
Sales to new customers	£m	10.3	8.0	23.0	23.5
Investment in new customers (= new customer contribution)	£m	(7.9)	(4.9)	0.7+	1.8+
Lifetime payback	Ratio	4.0x	5.1x	n/a	n/a
Repeat customer sales[7]	£m	65.4	58.4	99.9	97.2
Repeat customer sales retention[7]	%	78.0%	80.7%	92.7%	91.4%
Repeat customer contribution	£m	17.5	15.0	8.8	9.7

+ Because Majestic Retail gets a large proportion of their new customers through unprompted footfall the new customers make a positive contribution in aggregate

Naked Wines

	Reported			Underlying		
	H1 FY2019 £m	**H1 FY2018 £m**	**YoY %**	**H1 FY2019 £m**	**H1 FY2018 £m**	**YoY %**
Revenue	75.7	67.8	11.6%	75.7	66.4	14.0%
Gross Profit	29.6	25.1	18.0%	29.6	24.5	20.7%
Gross Margin %	39.1%	37.0%	+2.1pp	39.1%	36.9%	+2.2pp
Distribution Costs	(12.8)	(10.5)	21.8%	(12.8)	(10.2)	24.8%
Administrative Costs						
- Marketing Costs	(7.2)	(4.2)	69.3%	(7.2)	(4.2)	72.9%
- Fixed Costs	(6.4)	(5.7)	13.1%	(6.4)	(5.5)	15.5%
Adjusted EBIT	3.2	4.7	(30.7%)	3.2	4.6	(29.1%)

	H1 FY2019 £m	**H1 FY2018 £m**	**YoY %**
Underlying Revenue			
• New	10.3	8.0	28.4%
• Repeat	65.4	58.4	12.0%
Total	**75.7**	**66.4**	**14.0%**
Underlying Contribution			
• New	(7.9)	(4.9)	(60.6%)
• Repeat	17.5	15.0	16.5%
Total	**9.6**	**10.1**	**(4.8%)**
Repeat Contribution Margin	26.8%	25.8%	1.0%

The Naked growth model continued to deliver reliable growth and future value generation, with total sales up 11.6%, 14.0% on an underlying basis.

Total new customer investment increased 60.6%, accelerating new customer sales by 28.4% vs FY2018, driven by the US in particular and through additional digital and partnership spending. Notably we increased the level of marketing spend by 72.9% and reduced the level of discounting on first orders, which is shown to generate greater customer lifetime value through higher customer quality. Our forecast payback on the £7.9m of investment in new customers is in line with our target at 4.0x, resulting in future value generation of £31.6m compared to £25.0m in H1 FY2018 (£4.9m investment multiplied by 5.1x payback).

As expected, as we increased spending, our average payback has reduced due to mix shift between the markets which Naked operates in, and the marketing channels we've deployed.

As our payback measures are forecasts, we think it's important to also track whether those forecasts were accurate as we get more data on the customer's behaviour. At year end we forecast a 4.7x return from customers recruited in FY2018. With six months' more data we now estimate that to be 4.5x. This has been reduced due to the phasing of Easter into the last financial year meaning our forecast model has seen fewer sales than expected from these Angels in the first half. With the exception of this period, our forecast payback has trended up over time as improved Angel quality becomes evident in the sales they generate, but it is worth noting that there will be near term fluctuations as we use our test and learn approach to optimise our investments over time.

The payback from our prior investments is seen in the table above in repeat customer sales growth of 12.0%, which translated into contribution growth of 16.5% as we generated more sales from the higher margin US market, as well as growing margins in all markets. The repeat customer base of Angels continues to display predictable characteristics with repeat customer sales retention of 78.0% in the first half of FY2019 (H1 FY2018: 80.7%). This measure is also impacted adversely by the timing of Easter, as well a mix shift to the lower retention US market.

The fixed cost base at Naked grew by 15.5% to £6.4m reflecting the additional resources supporting the growth plan, consistent with the growth we indicated in our update in April.

Retail

	Reported			Underlying		
	H1 FY2019 £m	**H1 FY2018 £m**	**YoY %**	**H1 FY2019 £m**	**H1 FY2018 £m**	**YoY %**
Revenue	122.9	120.6	1.9%	122.9	120.7	1.9%
Gross Profit	27.8	28.3	(1.9%)	27.8	28.4	(1.9%)
Gross Margin %	22.6%	23.5%	(0.9pp)	22.6%	23.5%	(0.9pp)
Distribution Costs	(15.9)	(14.7)	8.1%	(15.9)	(14.8)	8.0%
Administrative Costs						
- Marketing Costs	(2.4)	(2.1)	10.1%	(2.4)	(2.1)	10.1%
- Fixed Costs	(6.2)	(6.9)	(9.1%)	(6.2)	(6.9)	(9.1%)
Adjusted EBIT	3.3	4.6	(28.6%)	3.3	4.6	(28.7%)

	H1 FY2019 £m	**H1 FY2018 £m**	**YoY %**
Underlying Revenue			
• New	23.0	23.5	(1.9%)
• Repeat	99.9	97.2	2.8%
Total	122.9	120.7	1.9%
Underlying Contribution			
• New	0.7	1.8	(60.2%)
• Repeat	8.8	9.7	(8.7%)
Total	9.5	11.5	(16.9%)
Repeat Contribution Margin	8.8%	9.9%	(1.1%)

It is no secret that the environment for Retail in the UK is currently very challenging with significant structural change taking place and lower consumer confidence. Against this backdrop, and without an Easter trading period in the half, sales growth of 1.9% represents a credible performance by the Retail team and demonstrates that the growth initiatives that we have taken into the Retail business show signs of success.

This growth has been achieved through:

- Having more customers year on year
- Sales from orders placed online 34% higher
- Our Concierge service delivering £4.7m of sales (H1 FY2018: £0.2m) to 29k customers

The Retail gross margin was 0.9% lower year on year at 22.6%, a combination of a 1.0% reduction in the trading margin offset by 0.1% improvement due to lower store operating costs year on year. Of the 1.0% of trading margin reduction, approximately a third is attributable to our investment in recruiting customers into the Concierge proposition, the remainder is reflective of the performance achieved on the ongoing business.

We have continued to adapt our cost base to reflect the shift online. We spent an additional £1.1m operating national fulfilment at increased scale supporting the growth in our online business and the high levels of service and availability we have been striving for in store. Inflation added a further £1m to the cost base in the half. Offsetting these two drivers we achieved savings of £1.3m across the store portfolio, marketing and administrative areas.

We finished the half with a store portfolio of 211 sites (H1 FY2018: 212) and anticipate a small decline in the remainder of the year to around 205 sites at year end. This expected decline is a combination of decisions we have made to exit underperforming sites opportunistically and the ongoing challenge of retaining economic sites in some locations when landlords have the opportunity to generate higher returns through residential development.

Commercial

	Reported			**Underlying**		
	H1 FY2019 £m	**H1 FY2018 £m**	**YOY %**	**H1 FY2018 £m**	**H1 FY2019 £m**	**YOY %**
Revenue	22.2	22.6	(2.0%)	22.2	22.6	(2.0%)
Gross Profit	3.6	3.5	0.8%	3.6	3.5	0.8%
Gross Margin %	16.1%	15.7%	+0.4pp	16.1%	15.7%	+0.4pp
Distribution Costs	(1.6)	(1.5)	7.3%	(1.6)	(1.5)	7.3%
Administrative Costs	(0.9)	(1.0)	(14.8%)	(0.9)	(1.0)	(14.8%)
Adjusted EBIT	1.1	1.0	6.4%	1.1	1.0	6.4%

The rate of Commercial sales decline improved to -2.0% (H1 FY2018: -3.4%, H2 FY2018 -7.6%). The improvement in the trajectory was due to:

- A positive trend in our business development performance in the half
    - New customer sales were 36.6% higher YoY and we forecast the new accounts won in the half will generate higher levels of annual sales than those lost
- Offset by the performance of our repeat customers, with repeat sales retention reducing to 90% in the half (H1 FY2018: 93%):
    - Account like for like sales were lower. From the accounts that we retained we lost £0.9m of sales in the half, compared to £0.4m in H1 of FY2018, reflecting the ongoing challenging leisure environment
    - The remaining repeat customer sales decline reflected account losses. Notably, 50% of account losses recorded since we implemented new tracking tools in the half were related to customer credit/solvency issues

Gross margin improved by 0.4% due to better execution of price reviews and focus on new business margins, resulting in flat year on year gross profit. Adjusted EBIT has grown by 6% as costs reduced through a combination of cost control within the division and reduced cross-charges from Retail as a result of a decline in Commercial's share of overall business.

Lay & Wheeler

	Reported			Underlying		
	H1 FY2019 £m	**H1 FY2018 £m**	**YoY %**	**H1 FY2019 £m**	**H1 FY2018 £m**	**YoY %**
Revenue	8.3	6.3	31.4%	6.9	7.6	(9.4%)
Gross Profit	1.9	1.9	2.0%	1.9	1.9	2.0%
Gross Margin %	22.9%	29.5%	(6.6pp)	27.5%	24.4%	+3.1pp
Distribution Costs	(0.6)	(0.6)	12.5%	(0.6)	(0.6)	12.5%
Administrative Costs	(1.0)	(0.9)	6.4%	(1.0)	(0.9)	6.4%
Adjusted EBIT	0.3	0.4	(22.9%)	0.3	0.4	(22.9%)

Underlying sales in the half were £0.7m lower (-9.4%) driven by a significantly poorer Bordeaux vintage than last year's offer (£1.7m lower En Primeur orders year on year). Reported revenue grew by 31.4% reflecting the shipment of high levels of En Primeur orders taken in H1 FY2018. The team were successful in mitigating the margin impact of the underlying sales decline by increasing sales of other products at higher margins and achieving higher levels of broking sales. As a result, the underlying gross margin of 27.5% on the orders taken in the half was 3.1% better than FY2018 (24.4%).

Central Costs

	Reported			Underlying		
	H1 FY2019 £m	**H1 FY2018 £m**	**H1 FY2019 £m**	**H1 FY2018 £m**	**H1 FY2019 £m**	**H1 FY2018 £m**
Administrative Costs	(5.0)	(3.4)	47.6%	(5.0)	(3.4)	47.6%
Adjusted EBIT	(5.0)	(3.4)	47.6%	(5.0)	(3.4)	47.6%

Central Costs increased by 47.6% or £1.6m with investments in:

- An expanded digital marketing team
- Additional IT development capacity
- Online product management
- The Group Finance and Legal and Company Secretarial functions

Tax and Adjusted items

Tax for the six month period represents an adjusted effective rate (defined as current tax charge divided by adjusted PBT) and reporting effective tax rate of 19.0% and 37.0% respectively (H1 FY2018: 22.0% and 49.0%).

We recognised costs of £2.7m as adjusted items in the period (H1 FY2018: £6.8m). These are almost entirely non-cash expenses (amortisation of acquired intangibles and share based payment charges) relating to the acquisition of Naked Wines and continue to reduce as the performance related equity consideration vests and the intangibles balance reduces.

Cashflow and dividend

The group consumed £7.3m of free cash flow in the reporting period (£3.6m generation in FY2018). The main drivers of the £10.9m variance were:

- £4.3m reduction in EBITDA as a result of the growth investments and trading performance described previously
- £4.1m of additional working capital invested in inventory and prepayment of marketing expenditure
- £2.5m higher capital expenditure year on year as we completed the store shelving and EPOS roll-outs in Retail

We ended the half with net debt of £20.1m (H1 FY2018: £25.6m). We have ample room to our banking covenants with a Net Debt: EBITDA ratio of 1.0x (covenant maximum 3.0x) and a Fixed Charge cover ratio of 2.8x (covenant minimum of 1.75x). The reduction in our average net debt over the period is reflected in the finance charges for the period of £0.4m being reduced by 29.6% year on year (H1 FY2018: £0.6m).

The Board has declared an interim dividend of 2.0p per share, which will be paid on 21 December 2018 to shareholders on the register on 30 November 2018. The Board remains minded to continue to pay a progressive dividend this year but will make that decision as normal in June with the full year results and in light of the latest outlook for accelerating our successful growth investment plans.

Outlook for the year

Naked is growing well as we continue to increase the level of new customer investment. As the customer pipeline continues to build, we now expect to increase investment in new customers by at least £6m year on year, ahead of previous guidance of at least £5m year on year, to at least £20m total by the end of FY2019. We also currently see an opportunity for a further step up of £2m or more in FY20 to at least £22m total investment to capitalise on the growth potential in the US.

While we expect both Retail and Commercial businesses to be stronger in H2 FY2019 than H1 FY2019, we now expect EBIT to be at best flat year on year in FY2019, whereas we were previously expecting growth. Following the reduction in profitability in H1 FY2019, this requires stronger performance in the second half. There are a number of factors that give us reasons to believe this should be the case:

- We have a substantially bigger repeat customer base going into peak trading;
- During H1 the level of sales per repeat customer in Retail has been running near to the prior year level. Assuming this continues over the key Christmas trading period customer base growth will translate to sales growth;
- We had 29k Concierge customers at the end of H1 FY2019 from which we expect to generate substantial sales in H2 given the scheduled delivery profile of their wine subscription, ongoing sign-up to the service, and current levels of retention and
- We expect sales to new customers to be generated from partnerships that we have already agreed.

We are planning to bring £5-8m of additional inventory into the UK above our normal levels, shortly prior to our financial year end, in order to mitigate any potential supply chain Brexit disruption in March 2019. We are also planning to build additional inventory to support future Naked growth, in the US in particular, reflecting our confidence in this exciting opportunity.

In summary, increased investment in Naked is driving accelerating growth in that business while Retail is performing relatively well in a tougher environment than we forecast. With capital available and attractive investment opportunities visible, we will continue to invest in our plan with the confidence that it creates future value for our shareholders.

James Crawford
Group Chief Financial Officer
21 November 2018

INDEPENDENT REVIEW REPORT TO MAJESTIC WINE PLC We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 1 October 2018 which comprises the income statement, the statement of comprehensive income, the statement of changes in equity, the balance sheet, the cash flow statement and related notes 1 to 8. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 1 October 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Deloitte LLP

Statutory Auditor

St Albans, United Kingdom

21 November 2018

Unaudited consolidated income statement

	Note	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	Year ended 2 Apr 2018
		£'000	£'000	£'000
Revenue		**229,071**	**217,361**	**476,134**
Cost of sales		(165,981)	(158,676)	(349,032)
Gross profit		**63,090**	**58,685**	**127,102**
Distribution costs		(30,939)	(27,288)	(58,806)
Administrative expenses		(32,343)	(28,154)	(59,850)
Other operating income		438	402	846
Operating profit		**246**	**3,645**	**9,292**
Net finance charge		(398)	(566)	(994)
(Loss)/profit before taxation		**(152)**	**3,079**	**8,298**
Analysed as:				
Adjusted profit before taxation		**2,534**	**6,771**	**17,184**
Adjusted items:				
- Non cash charges relating to acquisitions	*4*	(2,670)	(3,857)	(8,018)
- Other adjusted items	*4*	(16)	165	(868)
(Loss)/profit before taxation		**(152)**	**3,079**	**8,298**
Taxation	*5*	56	(1,503)	(901)
(Loss)/profit for the period		**(96)**	**1,576**	**7,397**
(Loss)/earnings per share				
Basic	*6*	-0.1p	2.4p	10.9p
Diluted	*6*	-0.1p	2.2p	10.1p

The results are all derived from continuing operations.

Unaudited consolidated statement of comprehensive income

	26 weeks ended 1 Oct 2018 £'000	26 weeks ended 2 Oct 2017 £'000	Year ended 2 Apr 2018 £'000
(Loss)/profit for the period	**(96)**	**1,576**	**7,397**
Other comprehensive income/(losses)			
Currency translation differences	730	(207)	(1,352)
Other comprehensive income/(losses)	**730**	**(207)**	**(1,352)**
Total comprehensive income/(losses) for the period	**634**	**1,369**	**6,045**

The total comprehensive income for the period and the prior periods is wholly attributable to the equity holders of the parent company, Majestic Wine PLC.

Other comprehensive income relates to foreign currency translation differences on consolidation of foreign currency subsidiaries. These gains and losses are recycled to the income statement in the event of the disposal of a foreign currency subsidiary.

Unaudited consolidated statement of changes in equity

	Share capital	Share premium	Capital reserve - own shares	Capital redemption reserve	Currency translation reserve	Retained earnings	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 3 April 2017	5,309	20,505	(17)	363	3,838	84,574	114,572
Total comprehensive income/(losses) for the period	-	-	-	-	(207)	1,576	1,369
Shares issued	45	52	-	-	-	(43)	54
Share based payment charges - ongoing	-	-	-	-	-	490	490
Share based payment charges - acquisition related	-	-	-	-	-	1,813	1,813
Dividends paid	-	-	-	-	-	(2,564)	(2,564)
Deferred taxation	-	-	-	-	-	(22)	(22)
At 2 October 2017	**5,354**	**20,557**	**(17)**	**363**	**3,631**	**85,824**	**115,712**
Total comprehensive income for the period	-	-	-	-	(1,145)	5,821	4,676
Shares issued	9	432	-	-	-	-	441
Share based payment charges - ongoing	-	-	-	-	-	117	117
Share based payment charges - acquisition related	-	-	-	-	-	1,987	1,987
Dividends paid	-	-	-	-	-	(1,429)	(1,429)
Deferred taxation	-	-	-	-	-	257	257
At 2 April 2018	**5,363**	**20,989**	**(17)**	**363**	**2,486**	**92,577**	**121,761**
Total comprehensive (losses)/income for the period	-	-	-	-	730	(96)	634
Shares issued	48	127	-	-	-	(44)	131
Share based payment charges - ongoing	-	-	-	-	-	1,194	1,194
Share based payment charges - acquisition related	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(3,745)	(3,745)
Deferred taxation	-	-	-	-	-	112	112
At 1 October 2018	**5,411**	**21,116**	**(17)**	**363**	**3,216**	**89,998**	**120,087**

Unaudited consolidated balance sheet

	1 Oct 2018 £'000	2 Oct 2017 £'000	2 April 2018 £'000
Non current assets			
Goodwill and intangible assets	46,835	49,610	48,126
Property, plant and equipment	65,484	66,561	65,032
En primeur purchases	956	2,315	2,390
Prepaid operating lease costs	1,549	1,791	1,640
Deferred tax assets	2,219	1,264	2,243
	117,043	**121,541**	**119,431**
Current assets			
Inventories	119,345	110,649	97,259
Trade and other receivables	20,587	15,125	15,880
En primeur purchases	4,026	3,716	3,779
Financial instruments at fair value	9	230	-
Cash and cash equivalents	14,412	11,878	15,618
	158,379	**141,598**	**132,536**
Total assets	**275,422**	**263,139**	**251,967**
Current liabilities			
Trade and other payables	(70,509)	(64,775)	(59,579)
En primeur deferred income	(5,135)	(4,653)	(4,824)
Deferred Angel income	(39,454)	(30,986)	(32,542)
Bank overdraft	(12,157)	(11,804)	(8,837)
Provisions	(351)	(232)	(564)
Deferred lease inducements	(448)	(645)	(657)
Bond financing	(159)	(157)	(2,445)
Financial instruments at fair value	(235)	(179)	(897)
Current tax liabilities	(173)	(1,318)	(246)
	(128,621)	**(114,749)**	**(110,591)**
Non-current liabilities			
En primeur deferred income	(1,139)	(2,729)	(2,822)
Deferred lease inducements	(1,676)	(1,841)	(1,672)
Provisions	(1,209)	(865)	(917)
Bank loan	(22,168)	(23,112)	(12,793)
Bond financing	-	(2,445)	-
Deferred tax liabilities	(522)	(1,686)	(1,411)
	(26,714)	**(32,678)**	**(19,615)**
Total liabilities	**(155,335)**	**(147,427)**	**(130,206)**
Net assets	**120,087**	**115,712**	**121,761**
Shareholders' funds			
Called up share capital	5,411	5,354	5,363
Share premium	21,116	20,557	20,989
Capital reserve - own shares	(17)	(17)	(17)
Capital redemption reserve	363	363	363
Currency translation reserve	3,216	3,631	2,486
Retained earnings	89,998	85,824	92,577
Equity shareholders' funds	**120,087**	**115,712**	**121,761**

Unaudited consolidated balance sheet

We confirm that to the best of our knowledge:
(a) the condensed set of financial statements has been prepared in accordance with IAS 34"Interim Financial Reporting";
(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months of the year);
(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein); and
(d) the Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 2 April 2018.

By order of the Board

James Crawford
Chief Financial Officer
21 November 2018

Unaudited consolidated cash flow statement

	Note	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	Year ended 2 Apr 2018
		£'000	£'000	£'000
Net cash generated by operating activities				
Cash generated by operations	*8*	**(3,204)**	**5,183**	**28,670**
Foreign exchange differences				
UK income tax paid		(520)	(605)	(2,035)
Overseas income tax paid		(110)	184	-
Net cash from operating activities		**(3,834)**	**4,762**	**26,635**
Cashflows from investing activities				
Purchase of property, plant and equipment		(3,218)	(1,255)	(2,921)
Purchase of intangible fixed assets		(878)	(362)	(869)
Purchase of prepaid lease assets		(17)	-	-
Proceeds from sale of non-current assets		24	-	2
Net cash outflow from investing activities		**(4,089)**	**(1,617)**	**(3,788)**
Cashflows from financing activities				
Interest paid		(323)	(468)	(802)
Issue of ordinary share capital		131	54	495
Draw down of borrowings		13,800	-	19,500
Repayment of borrowings		(6,786)	(10,517)	(40,174)
Loan arrangement fees paid		-	-	(411)
Equity dividends paid		(3,745)	(2,564)	(3,993)
Net cash inflow/ (outflow)from financing activities		**3,077**	**(13,495)**	**(25,385)**
Net (decrease)/increase in cash		**(4,846)**	**(10,350)**	**(2,538)**
Cash and cash equivalents at beginning of year		6,781	10,470	10,470
Effect of foreign exchange rate differences		320	(46)	(1,151)
Cash and cash equivalents at end of year		**2,255**	**74**	**6,781**

Notes to the unaudited financial statements

1. General information

Majestic Wine PLC is a public limited company ("Company") and is incorporated in the United Kingdom under the Companies Act 2006. The Company's ordinary shares are traded on the Alternative Investment Market ("AIM").

The address of the registered office is Majestic House, The Belfry, Colonial Way, Watford WD24 4WH. The Group's principal activity is the retailing of wines, beers and spirits. The Company's principal activity is to act as a holding company for its subsidiaries.

2. Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the accounting policies set out in the annual report for the year ended 2 April 2018.

In the period the Group has adopted new accounting standards that are mandatorily effective for the current period. Their adoption has not had any material impact on the disclosures or amounts reported in these financial statements.

IFRS	Amendment
IFRS9 (Financial instruments)	IFRS 9 introduces, inter alia and pertinently to the Group, the requirement to adopt an impairment model approach to the valuation of trade and lease receivables. The Directors have determined that adoption of this standard has no material impact on the results of the Group in the current and prior periods.
IFRS15 (Revenue from Contracts with Customers)	IFRS 15 establishes a comprehensive framework for recognition of revenue from contracts with customers. IFRS 15 introduces a five-step model for revenue recognition that focuses on the "transfer of control" rather than the "transfer of risks and rewards". The Directors have reviewed the existing accounting policies and procedures for recognition of all sources of revenue across the operating segments and have determined that they are materially consistent with the framework set out in IFRS15.

As disclosed in the Annual Report for the year ended 2 April 2018 the Group expects to adopt IFRS16 Leases for the year ending 30 March 2020. Preparation for the implementation of this standard is well developed and the Directors are confident that the Group will be ready to report under this new accounting standard from the beginning of the next financial year. Disclosure of the expected effect of the implementation of this standard will be reported in the Annual Report for the year ended 01 April 2019.

The condensed set of financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union. The condensed financial statements are not statutory accounts. The financial reporting period represents the 26 week period ending 1 October 2018 and the prior period, 26 weeks to 2 October 2017.

Going concern

The Directors have, at the time of approving the interim financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the interim financial statements.

Reallocation of prior year comparatives

As disclosed in the Annual Report for the year ended 2 April 2018 the group revisited and changed the recharge and cost allocation model between Retail and Commercial business segments. The group believes that this process best represents operations of these segments. The impact of these reclassifications on the previously reported results for the 26 weeks ended 02 October 2017 is an increase in Cost of sales and reduction in Distribution costs of £213,000 in the Retail segment, with a corresponding decrease in Cost of Sales and increase in Distribution cost in Commercial.

3. Segmental reporting

IFRS8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Board as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The Group's operating segments are organised into four distinct business units, each operating in a separate segment of the overall wine market. Retail is a customer based wine retailer, selling wine, beer and spirits from stores across the UK, and online, and also incorporates the Group's French business. Commercial is a Business to Business ("B2B") wine retailer selling to pubs, restaurants and events. Lay & Wheeler is a specialist in the fine wine market and also provides cellarage services to customers. Naked Wines is a customer funded international online wine retailer.

Performance of each operating segment is based on sales, adjusted EBIT (being operating profit less any adjusted items) and adjusted PBT (being profit before taxation less any adjusted Items). These are the financial performance measures that are reported to the CODM, along with other operational performance measures, and are considered to be useful measures of the underlying trading performance of each segment. Adjusted items are not allocated to the operating segments as this reflects how they are reported to the Board.

The revenue and profits of the Lay & Wheeler operating segment as presented to the CODM are recognized on the receipt of orders, cash receipts and payments in relation to en primeur campaigns. The segment performance is reviewed in this way as resources utilized in generating these sales are expensed as incurred. This differs from the revenue recognition policy required under IFRS 15 where revenue is recognized on delivery of the wine to the customer, which may be up to two years after the original order and payment. Consequently, a reconciling item is presented between the total operating segments revenue and results and the IFRS statutory measure.

Costs relating to centralized group functions are not allocated to operating segments for the purposes of assessing segmental performance and consequently Central Costs are presented as a separate segment.

Inter-segment transactions are conducted on an arm's length basis. The Group is not reliant on a major customer or group of customers.

All activities are continuing.

3. Segmental reporting (continued)

26 weeks ended 1 October 2018	Retail	Commercial	Naked Wines	L&W	Unallocated	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Segment revenue	122,949	22,190	75,663	6,897	-	227,699
Movement in en primeur sales	-	-	-	1,372	-	1,372
Reported third-party revenue	**122,949**	**22,190**	**75,663**	**8,269**	**-**	**229,071**
Segment result - adjusted EBIT	**3,278**	**1,100**	**3,272**	**302**	**(5,020)**	**2,932**
Net finance costs						(398)
Adjusted profit before taxation						**2,534**
Adjusted items:						
- Non cash items relating to acquisitions						(2,670)
- Other adjusted items						(16)
Profit before taxation						**(152)**
Depreciation	2,522	-	232	45	-	2,799
Amortisation	244	-	1,823	171	39	2,277

Geographical analysis	UK	Rest of Europe	US	Australia	Group
Reported third party revenue	178,548	4,585	31,744	14,194	229,071
Non-current assets	112,305	2,996	1,105	637	117,043

3. Segmental reporting (continued)

26 weeks ended 2 October 2017	Retail	Commercial	Naked Wines	L&W	Unallocated	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Segment revenue	120,640	22,636	67,794	7,614	-	218,684
Movement in en primeur sales	-	-	-	(1,323)	-	(1,323)
Reported third-party revenue	**120,640**	**22,636**	**67,794**	**6,291**	**-**	**217,361**
Segment result - adjusted EBIT	**4,592**	**1,033**	**4,720**	**392**	**(3,400)**	**7,337**
Net finance costs						(566)
Adjusted profit before taxation						**6,771**
Adjusted items:						-
- Non cash items relating to acquisitions						(3,857)
- Other adjusted items						165
Profit before taxation						**3,079**
Depreciation	2,444	-	172	53	-	2,669
Amortisation	316	-	1,834	164		2,314

Geographical analysis	UK	Rest of Europe	US	Australia	Group
Reported third party revenue	173,044	4,321	27,267	12,729	217,361
Non-current assets	118,823	127	2,504	87	121,541

3. Segmental reporting (continued)

Year ended 2 April 2018	Retail	Commercial	Naked Wines	L&W	Unallocated	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Segment revenue	263,754	43,360	156,058	14,549	-	477,721
Movement in en primeur sales	-	-	-	(1,587)	-	(1,587)
Reported third-party revenue	**263,754**	**43,360**	**156,058**	**12,962**	**-**	**476,134**
Segment result - adjusted EBIT	**13,349**	**2,435**	**8,666**	**937**	**(7,209)**	**18,178**
Net finance costs						(994)
Adjusted profit before taxation						**17,184**
Adjusted items:						
- Non cash items relating to acquisitions						(8,018)
- Other adjusted items						(868)
Profit before taxation						**8,298**
Depreciation	4,894	-	353	106	-	5,353
Amortisation	332	-	3,882	106	-	4,320

Geographical analysis	UK	Rest of Europe	US	Australia	Group
Reported third party revenue	378,826	7,812	61,481	28,015	476,134
Non-current assets	114,666	2,977	1,027	761	119,431

4. Adjusted items

The Directors believe that adjusted profit before tax and adjusted diluted earnings per share measures provide additional useful information for shareholders on underlying trends and performance. These measures are used for performance analysis. Adjusted profit is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to IFRS measurements of profit. The adjustments made to reported profit before tax are:

Notes to the unaudited financial statements

4. Adjusted items (continued)

	26 weeks ended 1 Oct 2018 £'000	26 weeks ended 2 Oct 2017 £'000	Year ended 2 Apr 2018 £'000
Non-cash charges relating to acquisitions			
Amortisation of acquired intangibles	(1,935)	(1,947)	(3,882)
Acquisition related share based payment charges	(735)	(1,910)	(4,136)
	(2,670)	**(3,857)**	**(8,018)**
Other adjusted items			
Fair value movement through P&L on foreign exchange contracts	464	915	193
En primeur adjustment	185	(163)	(289)
Share based payment charges	(665)	(587)	(772)
	(16)	**165**	**(868)**
Total adjusted items	**(2,686)**	**(3,692)**	**(8,886)**

Amortisation of acquired intangibles

These items reflect costs of customer acquisition from prior to the purchase of the Naked Wines business. As we expense ongoing customer acquisition in full each year we remove the amortisation as otherwise we overstate the level of investment driving the current rate of growth

Acquisition related share-based payment charges

A substantial portion of the consideration for acquiring Naked Wines was structured in Majestic shares. Due to the recipients having continued employment obligations IFRS2 requires this to be accounted as an expense. As this expense reduces over the vesting period of the shares and is not an operating expense of the business we adjust it out to better reflect the business' ongoing profitability.

Fair value movement on foreign exchange contracts

We commit in advance to buying foreign currency to purchase wine in order to mitigate exchange rate fluctuations. International accounting standards require us to mark the value of these to market at year end. As this may fluctuate materially we adjust it out to better reflect our trading profitability.

En primeur adjustment

We sometimes secure wine orders, generally for fine wines, a substantial period before the wine is ready to ship as it continues to mature in barrel on the winemaker's premises. While these transactions do not reach the statutory definition of a sale (as title has not passed to the customer) we include the sales and profits in our adjusted profit before tax at the time of the order, not shipment, to align the financial impact with the sales team's activity and cost.

Share based payment charges

We operate SIP and LTIP schemes to incentivise employees. The majority of shares have been awarded under the LTIP scheme which delivers the shares to the employee subject to continued employment and the relative performance of the Group vs a set of peers in terms of Total Shareholder Return Performance. The relative nature of this performance criterion means that short term fluctuations in share prices prior to the date of award can have a material impact on the calculated expense of these schemes. To mitigate the volatility of these charges we adjust them out, while ensuring we report the maximum total dilution from all share schemes so that our shareholders can calculate our financial performance per share on a fully diluted basis.

Acquisition and restructuring costs

Accounting standards require all acquisition and restructuring costs to be expensed in the Group Income Statement. Due to their nature these costs have been excluded from adjusted profit before tax as they do not reflect the underlying performance of the Group.

5. Taxation

Tax for the six month period is charged at an adjusted effective tax rate of 19% (2018: 22.0%) representing the best estimate of the average annual effective tax rate expected for the full year, applied to the profit before taxation of the period. The adjusted effective tax rate is the ratio of the current tax charge to the adjusted profit before taxation.

6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of the Company, excluding 1,214,671 (2018: 3,067,028) contingently returnable shares issued as a result of the acquisition of Naked Wines (which have been treated as dilutive share options) and 235,512 (2018: 143,543) held by Employee Share Trusts.

The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. These comprise contingently returnable shares and share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the year. Share options granted over 89,021 (2018: 260,408) ordinary shares have not been included in the dilutive earnings per share calculation because they are anti-dilutive at the period end.

Adjusted earnings per share is calculated by excluding the effect of Adjusted items (see note 4) from the (loss)/profit for the period. This alternative measure of earnings per share is presented so that users of the financial statements can better understand the Group's underlying trading performance.

6. Earnings per share (continued)

	26 weeks ended 1 Oct 2018 £'000	26 weeks ended 2 Oct 2017 £'000	Year ended 2 Apr 2018 £'000
(Loss)/earnings per share			
Basic earnings per share	-0.1p	2.4p	10.9p
Diluted earnings per share	-0.1p	2.2p	10.1p
Adjusted basic earnings per share	3.7p	7.9p	23.9p
Adjusted diluted earnings per share	3.5p	7.4p	22.3p

	Note	26 weeks ended 1 Oct 2018 £'000	26 weeks ended 2 Oct 2017 £'000	Year ended 2 Apr 2018 £'000
(Loss)/profit for the period		(96)	1,576	7,397
Add back adjusted items:				
- Non-cash charges relating to acquisitions	*4*	2,670	3,857	8,018
- Other adjusted items	*4*	16	(165)	868
Adjusted profit after taxation		**2,590**	**5,268**	**16,283**

	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	Year ended 2 Apr 2018
Weighted average number of shares in issue	70,350,639	66,940,255	68,051,900
Dilutive potential ordinary shares:			
Employee share options and contingently returnable shares	3,036,173	4,554,269	5,036,886
Weighted average number of shares for the purpose of diluted earnings per share	**73,386,812**	**71,494,524**	**73,088,786**
Total number of shares in issue	**72,134,618**	**71,375,986**	**71,499,086**

If the Group's share option schemes had vested at 100% the Company would have 74,824,241 (2017: 75,182,557) issued shares.

7. Dividend

	26 weeks ended 1 Oct 2018 £'000	26 weeks ended 2 Oct 2017 £'000	Year ended 2 Apr 2018 £'000
Equity dividends paid and proposed			
Final dividend	3,745	2,564	2,565
Interim dividend	-	-	1,428
Total Equity dividends paid and proposed	**3,745**	**2,564**	**3,993**

An interim dividend of 2.0 pence per share was approved by the Board of Directors on 14 November 2018. This has not been included as a liability as at 1 October 2018.

8. Notes to the cash flow statement

	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	Year ended 2 Apr 2018
	£'000	£'000	£'000
Cash generated by operations			
Operating profit	246	3,645	9,292
Add back:			
- Depreciation and amortisation	5,076	4,983	9,899
- Profit on disposal of property, plant and equipment	-	-	28
- Impairment of property plant and equipment	-	-	447
- Impairment of prepaid operating leases	-	-	39
- Fair value movement on foreign exchange contracts	(464)	(1,141)	(193)
- En primeur movement in income statement	(185)	163	289
- Share based payment charges	1,194	2,497	4,407
Operating cash flows before movements in working capital	**5,867**	**10,147**	**24,208**
Increase in inventories	(22,086)	(16,812)	(2,425)
Increase in customer funds in deferred income	6,912	2,620	4,137
Increase in trade and other receivables	(5,483)	(824)	(130)
Increase in trade and other payables	11,586	10,052	2,880
Cash (utilised)/generated by operations	**(3,204)**	**5,183**	**28,670**

Cash and cash equivalents			
Cash and cash equivalents	14,412	11,878	15,618
Bank overdraft	(12,157)	(11,804)	(8,837)
Total cash and cash equivalents	**2,255**	**74**	**6,781**

Alternative performance measures (APMs)

Alternative performance measures	
Adjusted EBIT	Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, share based payment charges, impairment of goodwill, restructuring costs, fair value movement through the Income Statement on financial instruments and adjusting en primeur results to reflect profits on orders rather than on wine fulfilment.
Adjusted EBITDA	Adjusted EBIT plus depreciation and amortisation, but excluding any costs included in our adjusted items e.g. amortisation of acquired intangibles.
Adjusted effective tax rate	Defined as the current year's tax charge divided by the adjusted profit before tax.
Adjusted PBT	Adjusted EBIT less net finance charges.
EBIT	Operating profit as disclosed in the Group income statement.
Free cash flow	Cash generated by operating activities less capital expenditure and before adjusting items and taxation. A reconciliation of this metric is provided below.
Net debt	Borrowings less cash and debt issuance cost.
Operating costs	Defined as administrative expenses less other operating income excluding adjusted items.
Underlying	a) includes en primeur revenues in year of order not year of fulfilment and (b) is calculated using constant FX rates for translation .
Investment Measures	
Fixed costs	Administrative costs by division excluding marketing spend.
Investment in new customers (also referred to as new customer contribution)	The contribution earned from sales to new customers. A reconciliation and analysis of this metric is shown below for the Retail and Naked businesses.
Lifetime payback	The ratio of the future contribution we expect to earn from the customers recruited this year to the investment we made recruiting them. We calculate this by reviewing the level of sales and contribution generated in the current year from new customers and compare this to a reference level based on historic behaviour of all new customers, then projecting forwards to a 20 year lifetime to estimate the payback ratio. As this is an undiscounted forward looking estimate it cannot be reconciled back to reported financial results. As we can refine this expectation over time, we also update the expected returns from prior year investment in the financial review.
New customer sales	Revenues derived from transactions with customers who meet our definition of a new customer. A reconciliation and analysis of this metric for Retail and Naked is shown below.
Repeat customer contribution	The profit attributable to those sales after fulfilment and service costs. A reconciliation and analysis of this metric for Majestic Retail and Naked Wines is shown below.
Repeat customer sales	These are the revenues derived from orders placed by customers meeting our definition of a repeat customer at the time of ordering. A reconciliation and analysis of this metric for Retail and Naked is shown below.
Repeat customer sales retention	The proportion of sales made to customers who met our definition of "Repeat" last year that were realised again this year from the same customers. Using our till and website data the population who were active in the prior year are identified and their sales in the current year then assessed. This is done for each month and summed to calculate the full year retention. This APM replaces customer retention as it gives a better indicator of our retention rates.

Alternative performance measures (APMs)

Definitions	
Contribution	A profit measure between gross profit and EBIT, calculated as gross profit less the costs of fulfilling and servicing (e.g. credit card fees, delivery costs, customer facing staff costs) and marketing expenses. We often split contribution into that from new and repeat customers as they can have different levels of profitability. A reconciliation and analysis of this metric for Retail and Wines is shown below.
New customer	A customer who, at the time of purchase, does not meet our definition of a repeat customer; for example, because they are brand new, were previously a repeat customer and have stopped shopping with us at some point or cannot be identified.
Repeat customer	A customer that has bought from one of our businesses more than once, recently. For Naked Wines these are "Angels" who have subscribed. For Majestic they are people who have shopped with us at least once within the last 12 months, with that shop not being their first time.

1. Free Cash Flow reconciliation

	26 weeks ended 1 Oct 2018	**26 weeks ended 2 Oct 2017**
	£'000	**£'000**
Adjusted EBIT	**2,932**	**7,337**
Add back depreciation & amortisation (excludes adjusted amortisation of acquired tangibles)	3,141	3,036
Adjusted EBITDA	**6,073**	**10,373**
Working capital movement		
- Inventories	(22,086)	(16,812)
- Deferred income	6,912	2,620
- Trade and other receivables	(5,483)	(824)
- Trade and other payables	11,382	9,826
Working capital movement	**(9,275)**	**(5,190)**
Pre-tax operating cash flow	**(3,202)**	**5,183**
Capital expenditure	(4,113)	(1,617)
Pre-tax operating cashflow / 'Free cash flow'	**(7,315)**	**3,566**
Reconciliation to statutory cash flow statement		
Free cash flow	(7,315)	3,566
Cash adjusted items	(2)	-
Capital expenditure	4,113	1,617
Cash (utilised)/ generated by operations	**(3,204)**	**5,183**

Alternative performance measures (APMs)

To provide a meaningful comparison with last year, further analysis is presented below on an underlying basis which means:-

- En-primeur revenues are included in year of order, not year of fulfilment
- Results are calculated using current period foreign exchange rates for re-translation of the comparative period

Alternative performance measures (APMs)

Reconciliation of reported to underlying

	Constant currency (FY19 fx rate)						
	Retail						
	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	**26 weeks ended 2 Oct 2017**	H1 FY2019 vs H1 FY2018 underlying
	Reported £'000	As Reported £'000	Cost reallocation £'000	Restated £'000	Constant FX £'000	**Underlying £'000**	YoY **%**
UK revenue	118,364	116,319		116,319	-	116,319	1.8%
France revenue	4,585	4,321		4,321	29	4,350	5.4%
Total revenue	122,949	120,640	-	120,640	29	120,669	1.9%
Gross profit	27,822	28,561	(213)	28,348	10	28,358	-1.9%
Gross margin	*22.6%*	*23.7%*		*23.5%*	*34.5%*	*23.5%*	-0.9%
Distribution costs	(15,940)	(14,963)	213	(14,750)	(2)	(14,752)	8.0%
Administrative costs	(8,604)	(9,006)		(9,006)	(3)	(9,009)	-4.5%
Adjusted EBIT	**3,278**	4,592	-	4,592	5	**4,597**	**-28.7%**

	Commercial						
	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	**26 weeks ended 2 Oct 2017**	H1 FY2019 vs H1 FY2018 underlying
	Reported £'000	As Reported £'000	Cost reallocation £'000	Restated £'000	Constant FX £'000	**Underlying £'000**	YoY **%**
Total sales	22,190	22,636		22,636	-	22,636	-2.0%
Gross profit	3,572	3,331	213	3,544	-	3,544	0.8%
Gross margin	*16.1%*	*14.7%*		*15.7%*	-	*15.7%*	*0.4%*
Distribution costs	(1,618)	(1,295)	(213)	(1,508)	-	(1,508)	7.3%
Administrative costs	(854)	(1,003)		(1,003)	-	(1,003)	-14.8%
Adjusted EBIT	**1,100**	1,033	-	1,033	-	**1,033**	**6.4%**

	Lay & Wheeler						
	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	**26 weeks ended 2 Oct 2017**	H1 FY2019 vs H1 FY2018 underlying
	Reported £'000	As Reported £'000	Cost reallocation £'000	Restated £'000	Constant FX £'000	**Underlying £'000**	YoY **%**
Total sales	8,269	6,291		6,291	-	6,291	31.4%
En primeur	(1,372)	1,323		1,323	-	1,323	NM
Sales on management basis	6,897	7,614		7,614	-	7,614	-9.4%
Gross profit	1,894	1,856		1,856	-	1,856	2.0%
Gross margin	27.5%	24.4%		24.4%	-	24.4%	*3.1%*
Distribution costs	(616)	(548)		(548)	-	(548)	12.5%
Administrative costs	(976)	(916)		(916)	-	(916)	6.4%
Adjusted EBIT	**302**	392		392	-	**392**	**-22.9%**

Alternative performance measures (APMs)

	Constant currency (FY19 fx rate)						
	Naked Wines						
	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	**26 weeks ended 2 Oct 2017**	H1 FY2019 vs H1 FY2018 underlying
	Reported £'000	As Reported £'000	Cost reallocation £'000	Restated £'000	Constant FX £'000	**Underlying £'000**	YoY **%**
Total sales	75,663	67,794		67,794	(1,417)	66,377	14.0%
Gross profit	29,617	25,100		25,100	(562)	24,538	20.7%
Gross margin	39.1%	37.0%		37.0%	39.7%	37.0%	*2.2%*
Distribution costs	(12,765)	(10,482)		(10,482)	254	(10,228)	24.8%
Administrative costs	(13,580)	(9,898)		(9,898)	204	(9,694)	40.1%
Adjusted EBIT	**3,272**	4,720		4,720	(104)	**4,616**	**-29.1%**

	PLC						
	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	**26 weeks ended 2 Oct 2017**	H1 FY2019 vs H1 FY2018 underlying
	Reported £'000	As Reported £'000	Cost reallocation £'000	Restated £'000	Constant FX £'000	**Underlying £'000**	YoY **%**
Administrative costs	(5,020)	(3,400)		(3,400)	-	(3,400)	47.6%
Adjusted EBIT	**(5,020)**	(3,400)		(3,400)	-	**(3,400)**	**47.6%**
Net finance charge	(398)	(566)		(566)	-	(566)	-29.6%
Adjusted profit/(loss) before taxation	**(5,418)**	**(3,966)**		**(3,966)**	**-**	**(3,966)**	**36.6%**

	Group						
	26 weeks ended 1 Oct 2018	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	26 weeks ended 2 Oct 2017	**26 weeks ended 2 Oct 2017**	H1 FY2019 vs H1 FY2018 underlying
	Reported £'000	As Reported £'000	Cost reallocation £'000	Restated £'000	Constant FX £'000	**Underlying £'000**	YoY **%**
Sales	227,699	218,684	-	218,684	(1,388)	217,296	4.8%
Gross profit	62,905	58,848	-	58,848	(552)	58,296	7.9%
Gross margin	27.6%	26.9%		26.9%	39.8%	26.8%	*0.8%*
Distribution costs	(30,939)	(27,288)	-	(27,288)	252	(27,036)	14.4%
Administrative costs	(29,034)	(24,223)	-	(24,223)	201	(24,022)	20.9%
Adjusted EBIT	**2,932**	7,337	-	7,337	(99)	**7,238**	**-59.5%**
Net finance charge	(398)	(566)	-	(566)	-	(566)	-29.7%
Adjusted profit/(loss) before taxation	**2,534**	**6,771**	**-**	**6,771**	**(99)**	**6,672**	**-62.0%**

	Group			
	26 weeks ended 1 Oct 2018		**26 weeks ended 2 Oct 2017**	
	Revenue £'000	**Gross profit £'000**	**Revenue £'000**	**Gross profit £'000**
Underlying	227,699	62,905	217,296	58,296
En primeur adjustment	1,372	185	(1,323)	(163)
Constant FX			1,388	552
Reported	**229,071**	**63,090**	**217,361**	**58,685**

Alternative performance measures (APMs)

Naked Wines split by country

	Reported			Underlying		
	H1 19 Sales	H1 18 Sales	YoY Variance	H1 19 Sales	H1 18 Sales	YoY Variance
	£'000	£'000	%	£'000	£'000	%
UK	29,725	27,798	6.9%	29,725	27,798	6.9%
USA	31,744	27,267	16.4%	31,744	26,615	19.3%
Australia	14,194	12,729	11.5%	14,194	11,964	18.6%
Total Naked Wines	75,663	67,794	11.6%	75,663	66,377	14.0%

Business Unit highlights

Majestic Retail:

		Impact of foreign exchange	Underlying	Analysed as "Repeat"	Analysed as "New"
	£'000	£'000	£'000	£'000	£'000
26 weeks ended 1 October 2018					
Revenue	122,949	-	122,949	99,948	23,001
Contribution (=EBIT exc. Fixed Costs)	9,521	-	9,521	8,793	728
Adjusted EBIT[7]	3,278	-	3,278	n/a	n/a
Memo:					
Admin costs, analysed as:	(8,605)	-	(8,605)		
- Marketing	(2,362)	-	(2,362)		
- Fixed costs	(6,243)	-	(6,243)		
26 weeks ended 2 October 2017					
Revenue	120,640	29	120,669	97,211	23,458
Contribution (=EBIT exc. Fixed Costs)	11,454	8	11,462	9,633	1,829
Adjusted EBIT[7]	4,592	5	4,597	n/a	n/a
Memo:					
Admin costs, analysed as:	(9,006)	(3)	(9,009)		
Marketing	(2,144)	(1)	(2,145)		
Fixed costs	(6,862)	(2)	(6,864)		

Alternative performance measures (APMs)

Naked Wines:

		Impact of foreign exchange	Underlying	Analysed as "Repeat"	Analysed as "New"
	£'000	£'000	£'000	£'000	£'000
26 weeks ended 1 October 2018					
Revenue	75,663	-	75,663	65,381	10,282
Contribution (=EBIT exc. Fixed Costs)	9,669	-	9,669	17,527	(7,858)
Repeat contribution margin				26.8%	
Adjusted EBIT[(7)]	3,272	-	3,272	n/a	n/a
Memo:					
Admin costs, analysed as:	(13,580)	-	(13,580)		
- Marketing	(7,183)	-	(7,183)		
- Fixed costs	(6,397)	-	(6,397)		
26 weeks ended 2 October 2017					
Revenue	67,794	(1,417)	66,377	58,367	8,010
Contribution (=EBIT exc. Fixed Costs)	10,376	(219)	10,157	15,050	(4,893)
Repeat contribution margin				25.8%	
Adjusted EBIT[(7)]	4,720	(104)	4,616	n/a	n/a
Memo:					
Admin costs, analysed as:	(9,898)	204	(9,694)		
Marketing	(4,243)	87	(4,156)		
Fixed costs	(5,655)	117	(5,538)		