

[Naked Wines plc: Frequently Asked Questions](#)

Thank you for stopping by to learn more about Naked Wines. We recommend you check out some of the videos we have recently produced which are on our website, along with the Q&A below.

How does direct-to-consumer work and what is the three-tier model in the US?

In general, the US states require that alcohol be sold via the three-tier system, which requires separation between each of the tiers in the alcohol distribution channel (producers, wholesalers, and retailers). In practice, this means that retailers, including on and off-premise, source wine through wholesalers, who in turn buy the wine from producers. This results in multiple mark-ups before the wine reaches a consumer.

Naked Wines, a producer, sells wine directly to consumers. We produce our wines at multiple wineries in the US, including a dedicated facility that we lease in Kenwood, Sonoma, CA. We can, therefore, ship as a winery, providing high quality wine to our Angels for a fair cost whilst achieving good margins:

- Our Angels (subscribers) save around 25-45% vs buying the same quality of wine from a retail supplier.
- We retain a repeat contribution margin of 26% (in FY20) and earn superior payback.

The direct-to-consumer winery shipping channel has increased dramatically in the past 15 years. In January 2006, only 17 states allowed direct winery shipping. Today, Naked Wines can ship directly to 43 states and DC. These 43 states comprise over 90% of US wine drinkers.

Is there a risk that wineries lose the right to sell direct-to-consumer?

While one can never eliminate risk entirely, we believe the risk of Naked Wines losing the right to ship directly in the US is very low. Indeed, US law is trending in favour of less restrictive direct shipping, not more, with Alabama making a direct winery shipping permit available for the first time in 2021.

Naked also invests in legal and compliance teams and actively monitors developing trends.

What is the risk that the three-tier system in the US abolished?

Similar to direct winery shipping, the risk of the three-tier system being abolished is very low. The three-tier-system has been around for almost 90 years, since prohibition was repealed in 1933. It generates significant tax revenue for each state, enjoys broad legislator and industry support, and is validated by legal precedent.

Hypothetically, if the three-tier system were abolished, we believe Naked would continue to succeed based on our best-in-class distribution network, community of 235 winemakers making high-quality, exclusive wines, and loyal base of 886k Angels (at FY21). This gives us a USP beyond our price advantage.

As mentioned above, we have a strong legal and compliance team who actively monitor trends to ensure that Naked is in the best regulatory position possible.

What prevents competitors from doing what you are doing?

We have significant barriers to entry which prevents competitors being able to replicate exactly what we do or to reach the scale we have achieved. There are three key areas which protect us:

1. Our model is hard to replicate. It has taken us years and required significant investment to reach the scale we have achieved, with 886k active Angels and 235 winemakers (at FY21), all of whom have loyal and deep relationships with the company. We have an established and optimised network of marketing partners and a best-in-class distribution network.

2. We have unique and valuable technology and data. This is our own proprietary technology and data, which we have built and/or accumulated since our founding in 2008. This technology and data includes valuable information, such as data on Angels' behaviour, which helps us predict future life-time value of new customers.
3. We have an extensive wine production network. We work with 235 (at FY21) experienced and talented winemakers, providing them with resources and support that they could not obtain anywhere else. In addition, we have strong supplier relationships, long contracts, and strong relationships across all areas of the business, which have been established over the last 13 years.

What benefits are there to being an Angel?

Angel subscriptions are £20 a month in the UK and \$40 a month in the US and Australia. Angels can then place orders as often as they like, using the balance on their account and any additional spend is paid by card.

Naked Wines offers a community for our Angels, so they are able to engage with other wine drinkers and with the people who produce the wine they are drinking, and they are given exclusive access to a wide range of high-quality brands, at preferential prices. Our Angels enjoy that they are supporting winemakers through their subscription payments, which fund winemaker advances, and that they can engage with those winemakers.

We recommend you take a look at slide 10 of our FY21 investor presentation which demonstrates the value vs quality our Angels enjoy versus the market average.

How do the winemakers' agreements work?

Each relationship is different as each winemaker is unique. Many winemakers will come to us directly and we also have a team in each geography who will actively seek out high quality producers, with experience, to build a relationship.

Typically, the process starts with a small volume order where we agree a fixed price per bottle. If the winemaker needs financial support, we can advance a portion of the funds to help them source high quality grapes, so they start on the front foot with their production. We can also offer support through our third-party bottling facilities, collective sourcing on glass and packaging and input into labelling, design and marketing.

Why do we do this? Because we want to support independent winemakers in doing what they do best: making good quality wine which we can then provide to our Angels. We take the stress and hassle out of the process to enable them to be creative. Because of these deep relationships we see little churn in our winemakers. Furthermore we build in exclusivity to the labels we help build up as they cannot be sold elsewhere.

Do you take the risk on advance payments to winemakers?

We do take some pre-demand risk but we start by ordering in small batches and build certain protections into the agreements. We mitigate this risk by starting out with small orders to test demand with our Angels and gather their feedback. We also don't just work with anyone. All our winemakers come with some form of industry experience, such as a sommelier at a high-end restaurant or a background of family winemaking. Obviously sometimes we get things wrong and end up with too much of a given wine, but luckily most of our wines will keep (often improving) for a number of years, and we are able to use merchandised offers like our premixed cases to help clear through slower moving wines.

What stops winemakers from leaving once they build their brand?

Many winemakers join Naked because the wine industry is incredibly tough on independent winemakers and we do everything we can both financially and through our deep understanding of the wine industry to support them in becoming successful.

Giving winemakers the foresight of order volumes while taking away the administration, time and travel pressures from marketing products and providing the extra support we offer such as bottling and labelling means that winemakers can do what they do best – make good quality wine.

We want to make sure our winemakers retain their independence and creative freedom, which is why we ask that the brands they sell through us are exclusive and are contractually unavailable elsewhere, apart from in a small

handful of cases. This leaves winemakers able to produce other products, including wines and spirits, and sell them under other brands and through different channels – we don't want to restrict them.

Our winemakers also build scale with us: as we bring on more customers, we then secure higher volumes from them. Some of our winemakers are producing 2-3 million bottles per vintage through us, so they can make a very good living.

How easy is it to ramp up supply with your wineries to meet demand?

We have a number of ways to increase supply including:

- Increasing supply through existing winemakers, who are able to secure more grapes and lease more tanks to crush grapes to meet a higher order with enough notice on the existing products – our winemakers build scale as we do.
- Take on further winemakers; there is no shortage of good quality of winemakers out there and we have a good pipeline of relationships being built.
- When we saw a significant surge in demand with COVID-19, we put together a \$5m COVID Relief Fund, which picked up high quality stock which was not being sold through its usual methods, such as to bars and restaurants. This solved the short-term issue and has also introduced a number of small and well-known winemakers to the way we work and we are forming long-term relationships with some of these.

Is there the possibility to upgrade the quality of wine going forward?

Naked's range today is full of world-class wines at a range of price points. In 2021 our winemakers took home 162 medals at the Decanter World Wine Awards (the world's largest wine show). Winemakers for our US business claimed a third of the most prestigious Platinum and Gold awards won by US based wineries.

That said we always believe we can raise the bar further on quality. In particular we see two opportunities:

- Increasing the range of "Luxury" wines in our range (>\$25 bottle). With the growth of our business and our reputation within the industry we have been able to commit to projects with extended production time aimed at competing with \$100+ wines sold elsewhere. Look out for releases from winemakers like Dan Baron & Jesse Katz from fall 2021.
- Increasing the variety of wine regions and styles we sell in all our markets. As we improve our personalised recommendations, we see the opportunity to support more quality producers of niche styles of wine that will support continued discovery and exploration for our most adventurous consumers

Our measure of quality, which we believe is a powerful indicator, is our "Buy It Again" rating, which is 91% (FY21). We look to maintain a minimum rating which ensures that the wine range we offer is of a high quality.