naked wines

H1 FY21 Results Presentation

Results for 26 weeks ended
28 September 2020

Acceleration delivering step change in scale

Winemaker: **Jen Pfeiffer, Australia**

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Nick Devlin

Group CEO

Winemaker: **Katie Jones, France**

H1 FY21: Strong performance drives guidance upgrade

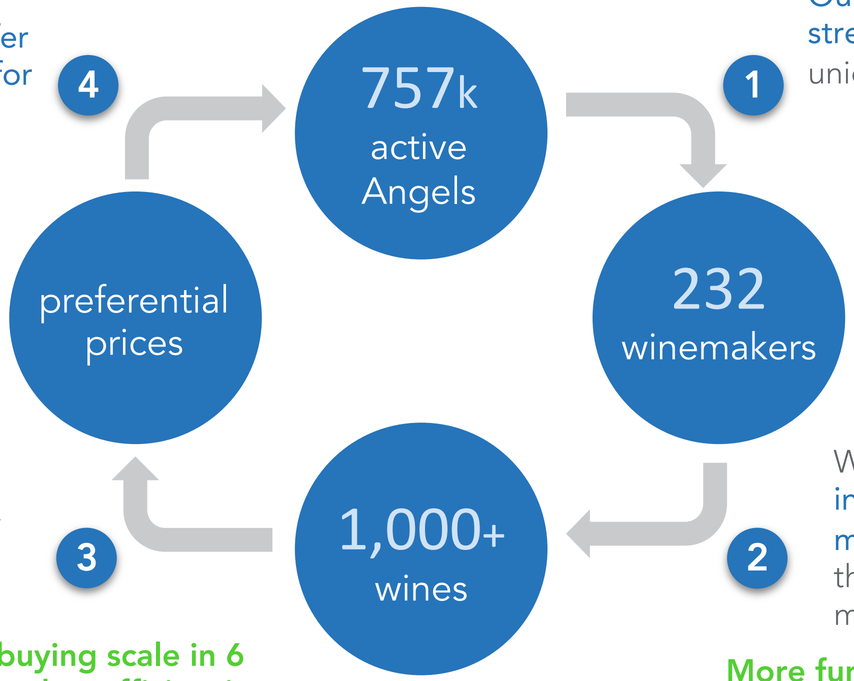
Sales	Repeat contribution	Repeat customer sales retention	Active Angels	Standstill EBIT	Investment	20 year payback
+80% to £157m	**+89%** to £36m	**+16ppts** to 95%	**+37%** to 757k	**+555%** to £26m	**+121%** to £23m	**+100%** to 7.6x

Future value generated
£173m; +341%

5 year payback +70% to 3.9x
Future value generated £89m; +218%

Note: all growth rates are versus H1 FY20

Transformational changes improved the virtuous circle



1. Our subscribers generate a stream of cash subscriptions and unique product rating data

Growing Angel base adds additional £60m+ to annual subscriptions

2. We use this money to back independent winemakers to make wine exclusively for us; the data enables them to make better wine

More funding unlocks faster growth and deeper talent pool with >40 new winemakers in H1 FY21

3. Because our winemakers don't need to waste time and money selling - we get their wines at preferential prices

Nearly doubling buying scale in 6 months unlocks further efficiencies we can share with winemakers

4. Which means that we can offer our customers better wines for less money

Operating cost efficiencies from scale reinforce our ability to offer better wine for less whilst generating attractive margins

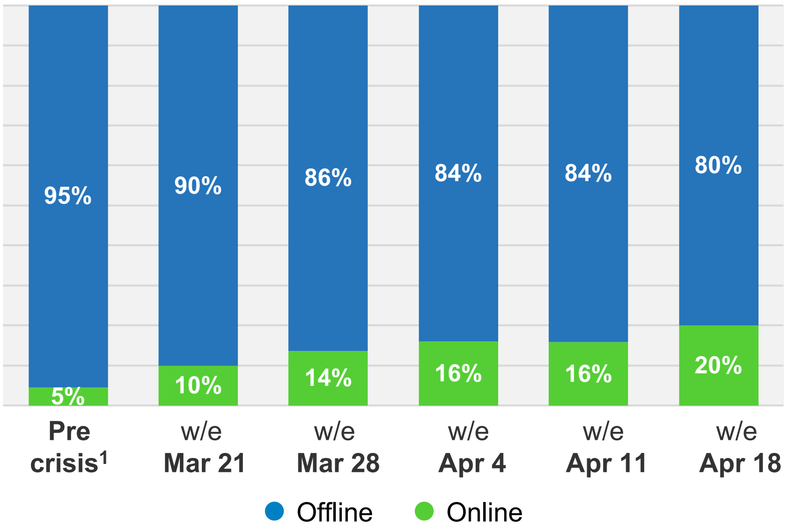
Period of transformational growth

Market	Scale	LTV	Wine
Online opportunity accelerated	Now operating at scale	Customer economics improved	Appeal to winemakers enhanced

Enduring change:
Not just a larger business, but a permanently better one

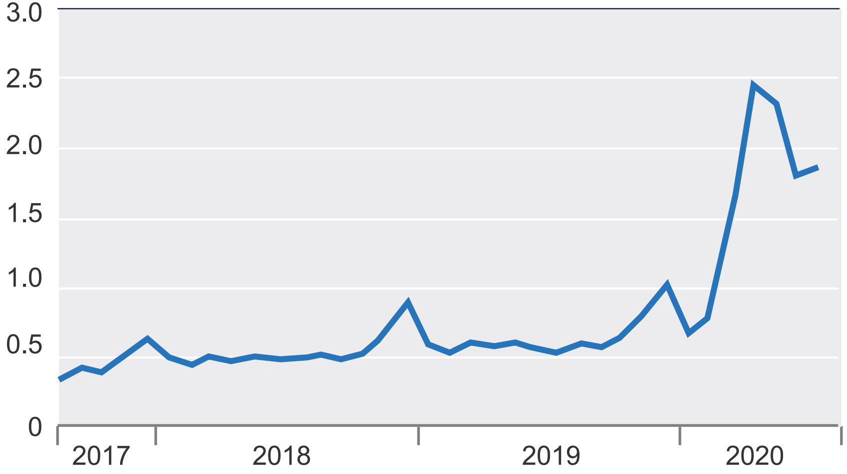
COVID-19 promoted unprecedented level of channel shift . . .

US offline vs online channel growth



Wine e-commerce trend (Aug'17 – Jul'20)

Buyers (m)



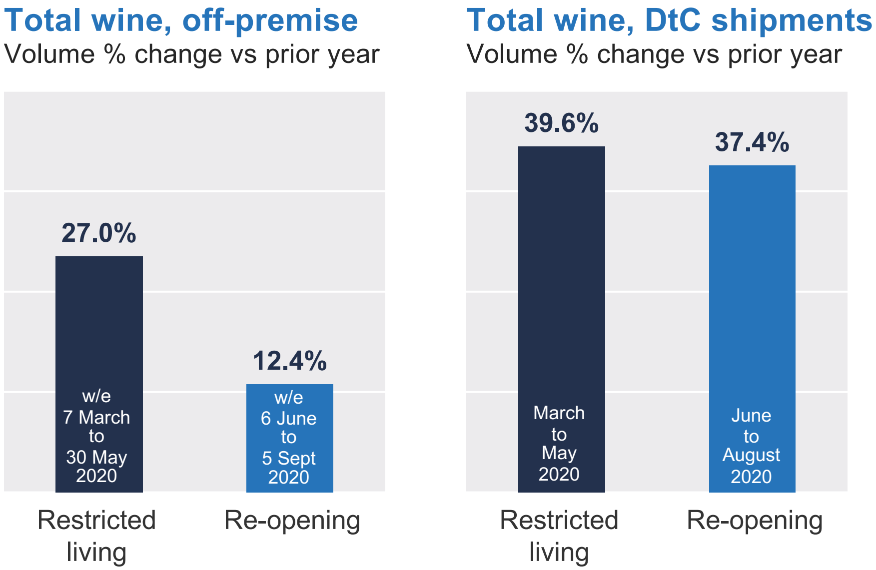
20 years of channel shift in 1 month

3x increase in online buyers, translates to increased marketing efficiency in all channels

1. Pre crisis share based on Nielsen tracked channels for 52 weeks ending 3/28/2020
2. Channel growth data based on Nielsen tracked off premise channels

Source: The Nielsen Company: Nielsen Ecommerce measurement powered by Rakuten Intelligence

Mounting evidence that shift to online DtC models is enduring



- Rapid growth seen by off-premise channels as COVID-19 spread
- The summer has seen a 2 pace market emerge:
  - Direct to consumer ("DtC") growth continuing at c.40%
  - Traditional off-premise has seen growth fall back
- Consumers moved online to explore DtC options
- Value, range, quality and convenience give reasons to stay

Source: The Nielsen Company: Nielsen Ecommerce measurement powered by Rakuten Intelligence

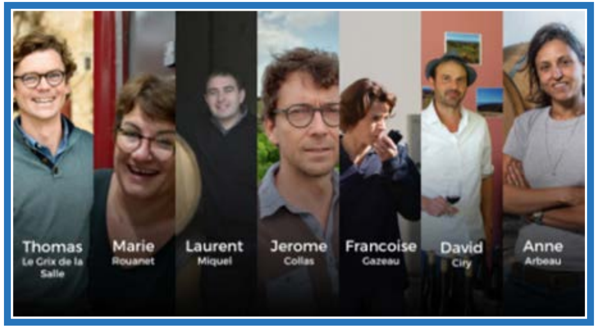
Infrastructure scales efficiently

Scaled our fulfilment whilst preserving the customer experience

- Increased capacity by >100%
- New distribution centre in UK
- Availability 92%

Customer Happiness Team goes remote

- Contacts +80% driven by volume
- Fully remote model rolled out
- New chat-bot launched
- 5* ratings for H1 FY21 at 91%



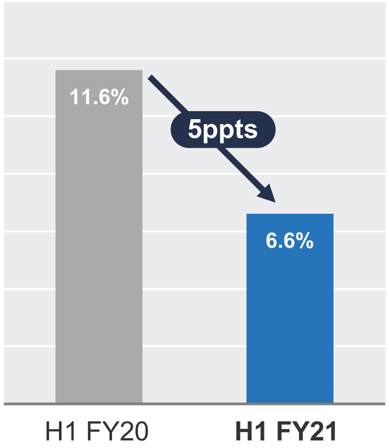
Working with winemakers to support transformative growth whilst maintaining quality

- 13 million additional bottles to plan
- Onboarded 36 new winemakers through COVID Relief Fund
- ‘Buy it Again’ rating to 92% (vs 91% PY)

…driving enhanced economic performance

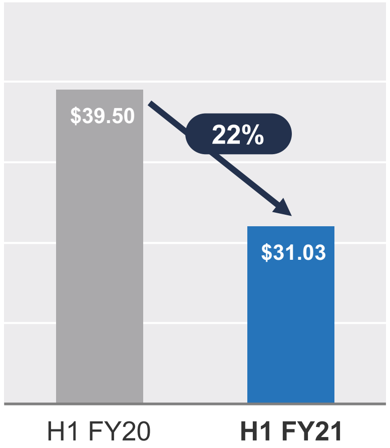
Fixed costs/sales

%



Fulfilment costs/order

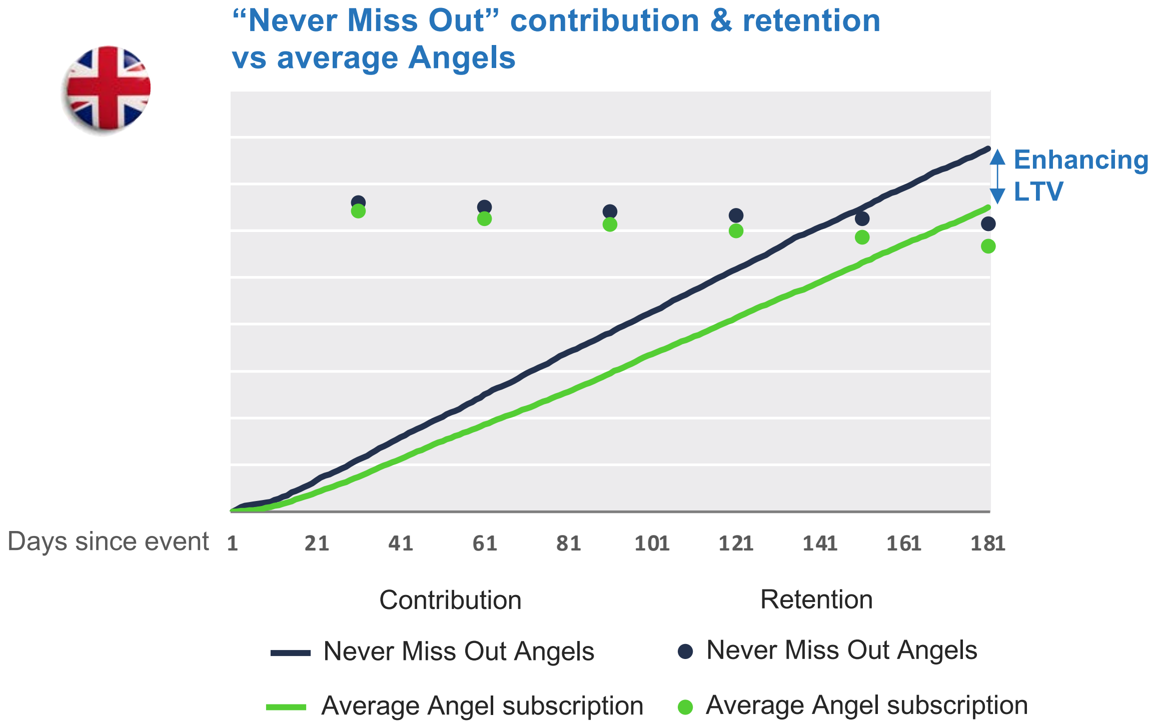
$



- Rapid growth in demand has demonstrated scale potential for US economics
- Potential to leverage existing infrastructure in the US to service substantially larger business

Investment to increase LTV is paying off

Example: **New subscription options enhancing lifetime value ("LTV")**

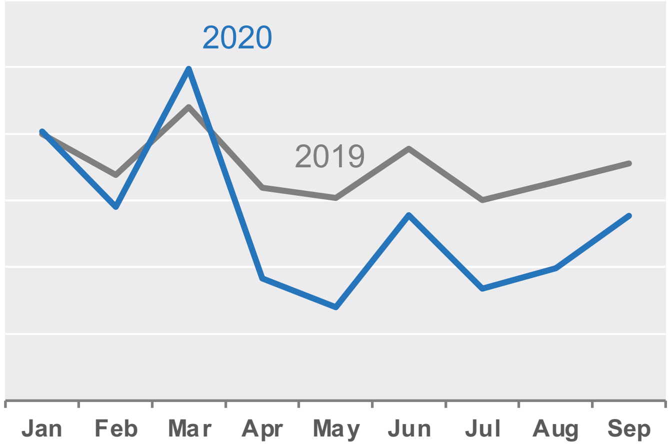


- Over 180k Never Miss Out sign-ups globally
- Highly incremental: +9% value in 6 months
- High quality revenue (contribution margin enhancing)
- Driving higher rates of customer retention
- £11m of future revenue in orders placed

COVID-19 has driven change in existing cohort behaviour

Monthly cancellation of Angels

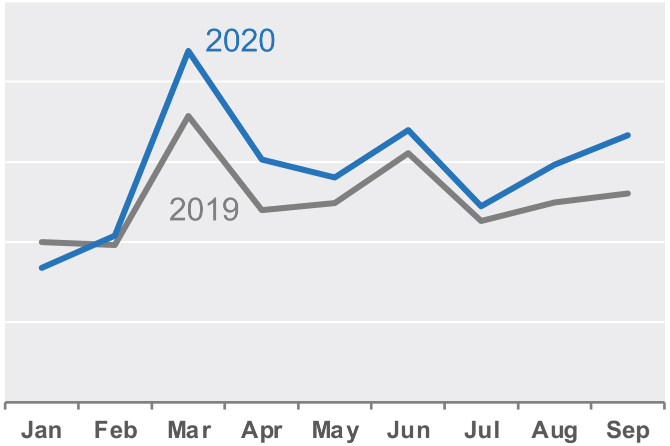
>12 months tenure (index, Jan 2019 = 100)



- Naked model highly resilient
- Cancellation down despite reminder during COVID-19 that cancellations are possible

Monthly order rate of Angels

>12 months tenure (index = Jan 2019)

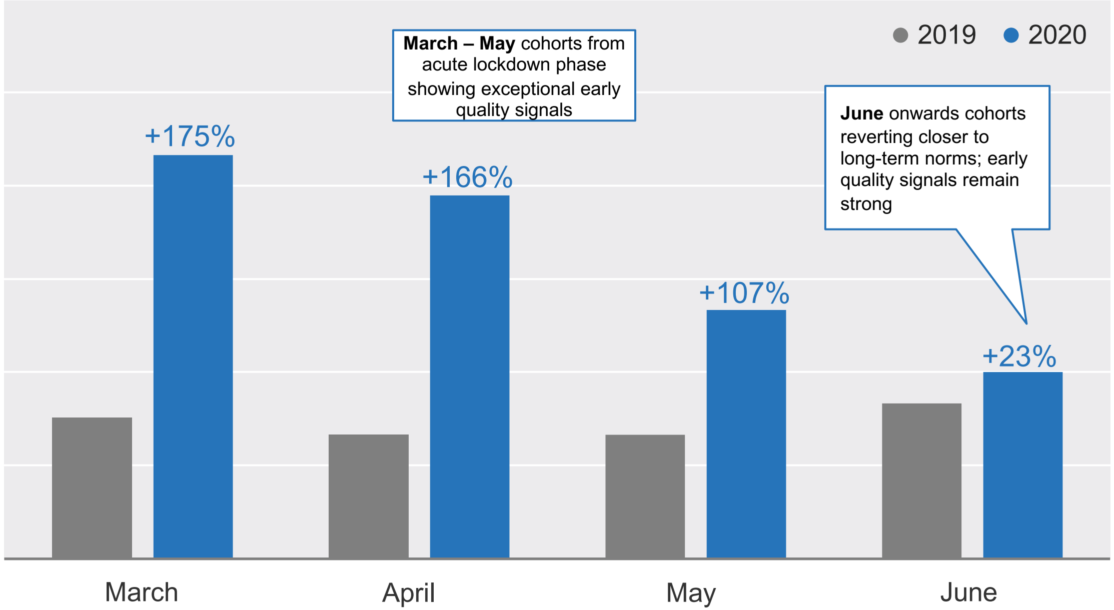


- Frequency increased in all markets
- Consumers place increased value on convenience of model

As data builds so does confidence in COVID-19 cohort quality

COVID-19 cohorts

first 90 days contribution (£ per Angel)



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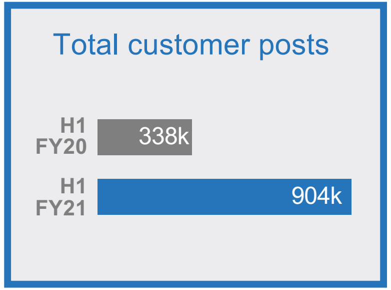
Focus on driving community engagement to support retention during lockdown



Supporting the wider wine industry

- $5m COVID Relief Fund
- Supported 36 winemakers
- Sold 776k bottles of rescued wine
- Supported Jennifer Buck (small family-run organic production) sell 1,200 cases in hours rather than months

Delivering digital experience

- 10 virtual tours hosted in UK, experienced by 18k Angels
- 31 Thirsty Toosdays toasted by 58k Angels

Vibrant Angel community

- 168% increase in Angel posts
- >900k comments on winemaker and Angel walls in H1 FY21
- Engagement driver of LTV

Enhancing appeal to world’s best winemakers

Jesse Katz launch one of largest in Naked US history

- ‘Aperture’ range launched 4 July
- $250k sold in 24 hours
- Average price per bottle of $42
- Launching exclusive ‘Exposed’ range with Naked from vintage 2019

Matt Parish sold $350k in first week

- Sold out in 6 weeks
- 93% rated
- >$300k pre-sold for vintage 2019

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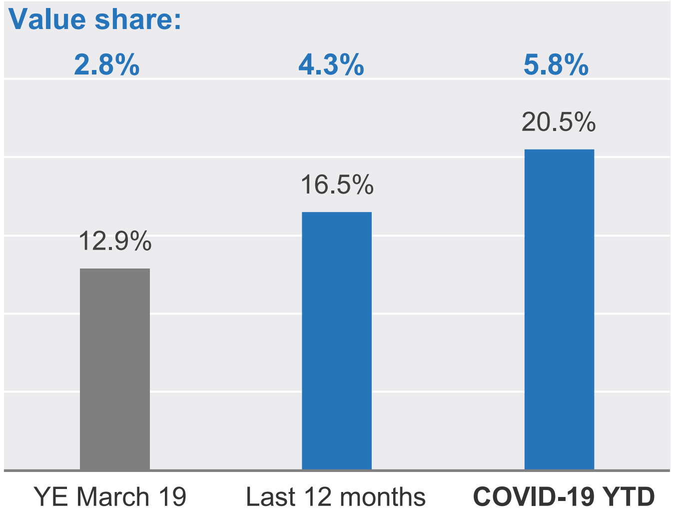
The USA’s #1 wine club

- Nakedwines.com awarded #1 wine club in USA for 2nd year running
- A National award, voted by readers of ‘USA Today 10 Best’

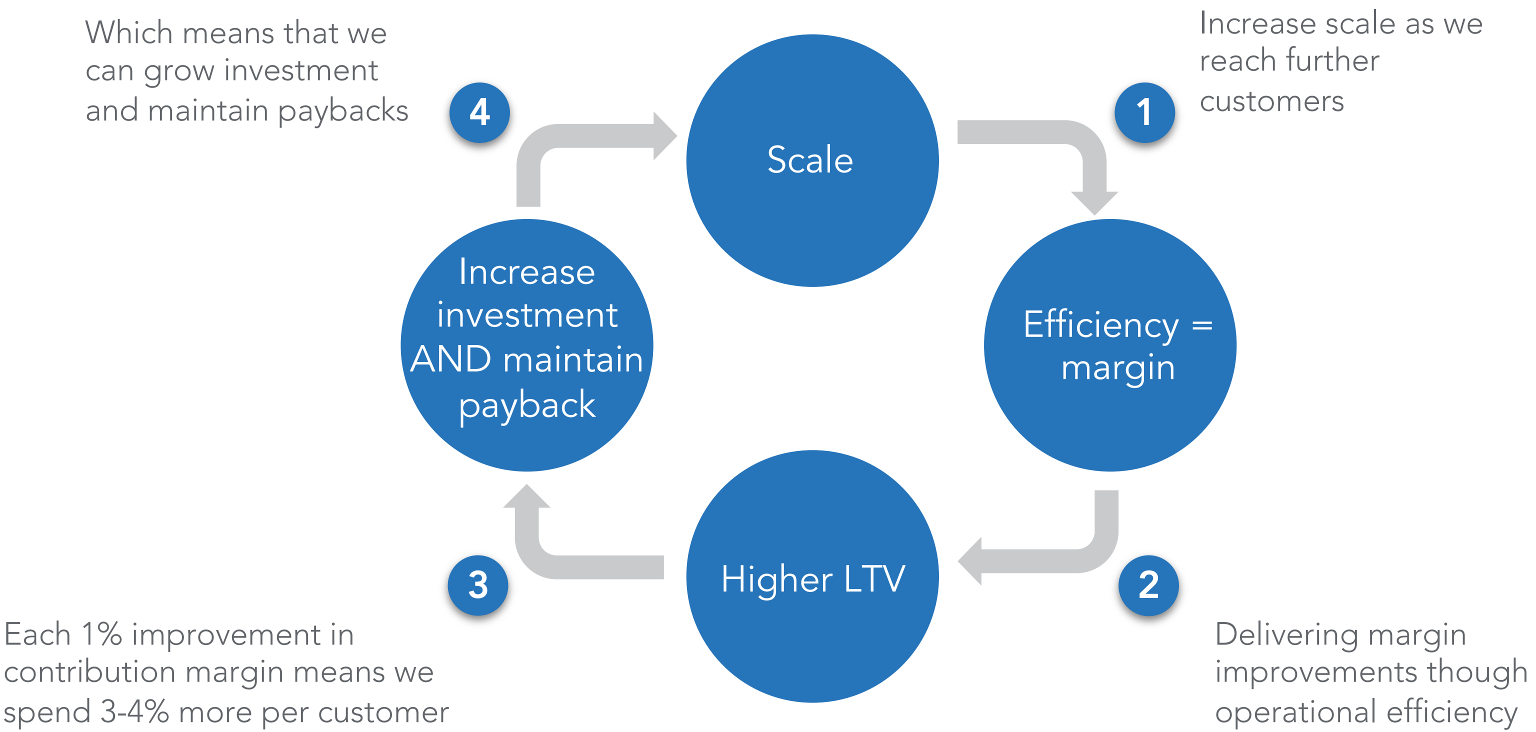
Delivering substantial market share gains

Volume share of DtC market



- Naked is the largest DtC wine company in USA by volume
- Naked growth outpaces market and is sustained post lockdown

Scale driving growth flywheel



Well funded to deliver growth opportunities

Strong cash position at £76m, +£21m in the half where we:

- Accelerated rate of investment in customer acquisition
- Invested in capability (data, technology, people)

We intend to continue to invest:

- In customer acquisition
- To expand our range
- To build our reputation as *‘home to the world’s best independent winemakers’*

Maintain a disciplined approach, prioritising growth

- Robust balance sheet seen as a strategic asset
- Strong conviction for potential growth in all our markets
- Consequently we are not planning to make returns to shareholders at this time

James Crawford

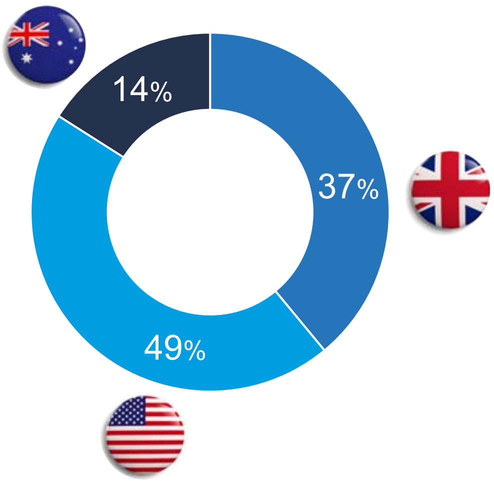
Group CFO

Winemaker: **Nina Stocker, Australia**

Growth accelerated in all markets

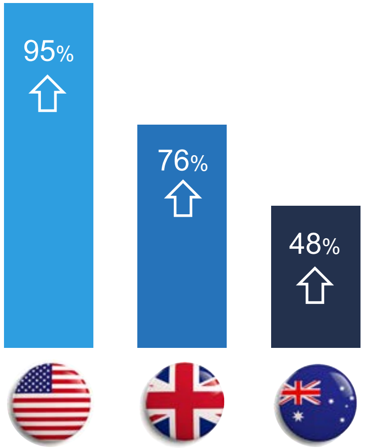
USA becoming clear lead market...

H1 FY21 sales split by market

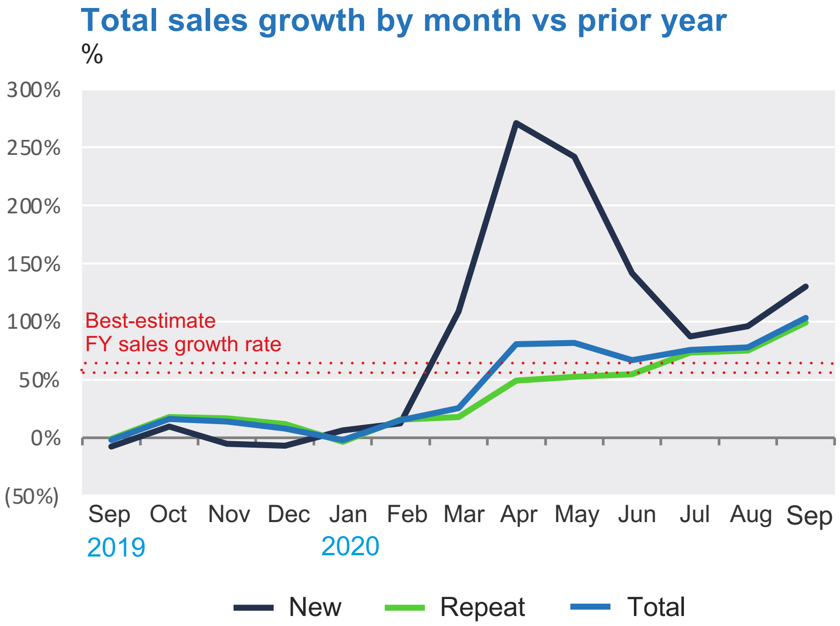


...and growing the fastest

H1 FY21 sales growth



Momentum accelerated as new customers convert to repeat



Lockdown impact:

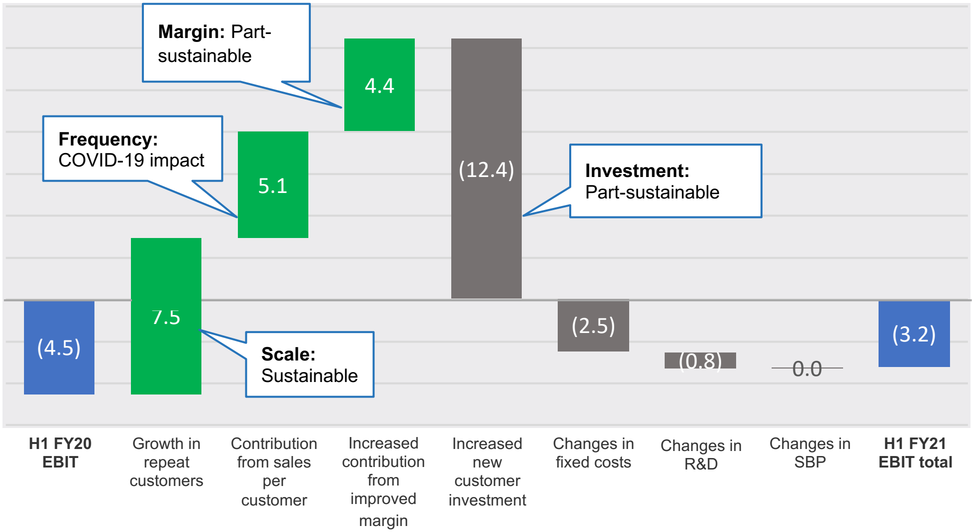
- Surge in new customer sales
- Plus increased repeat customer frequency
- New customers then convert to repeat driving ongoing momentum

Anticipate lower momentum in H2:

- Normalisation of marketing environment
- At peak, high % of customers placing orders
- Lower revenue per new customer order due to revised offer
- Final months of FY20 include some COVID-19 trading

Repeat contribution re-invested in growth

Drivers of the change in EBIT from H1 FY20 to H1 FY21



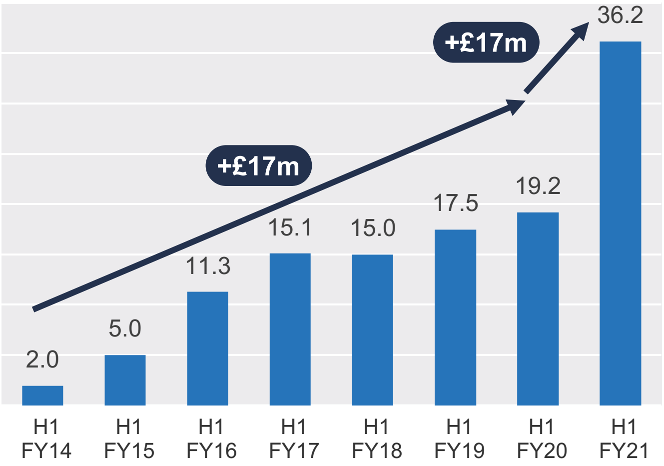
- c.70% of increased repeat contribution is sustainable:
  - Growth in customer numbers
  - Margin improvements due to market mix and economies of scale
- Increased sales per customer less so as driven, in part, by COVID-19 momentum

1. FY20 EBIT restated to include Share Based Payment charges (SBP) for consistency

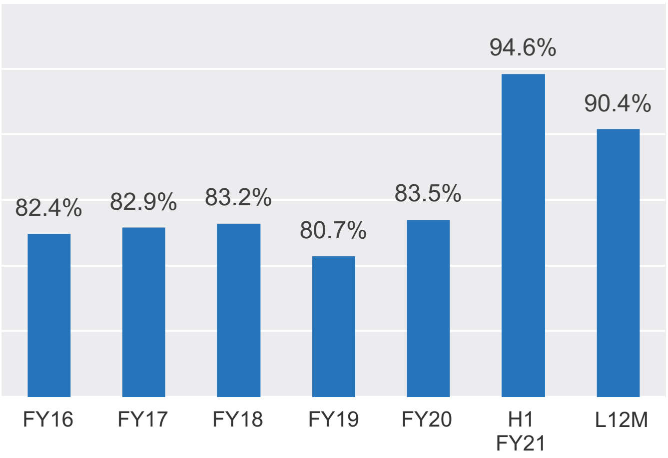
Years of repeat contribution added due to high retention…

H1 repeat contribution

£m



Group sales retention

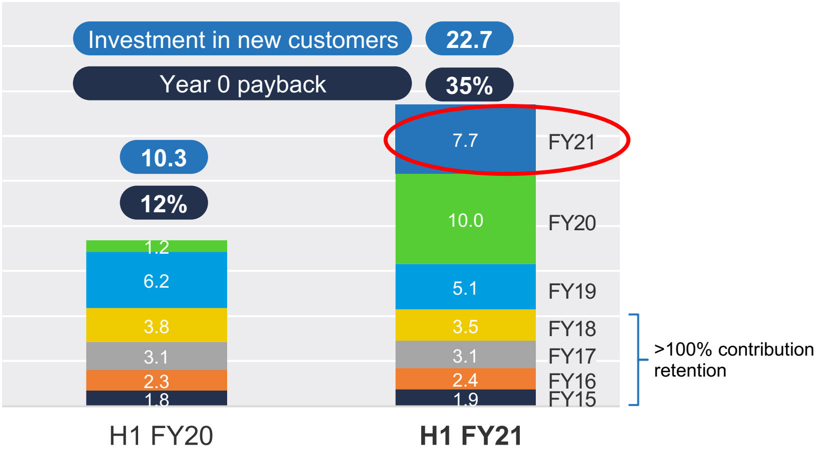


- Angel retention showing improvement for all cohorts, offset by mix to younger tenures
- Frequency uplift driving higher sales per retained Angel

… and substantially higher early payback…

Repeat customer H1 contribution by acquisition cohort

£m

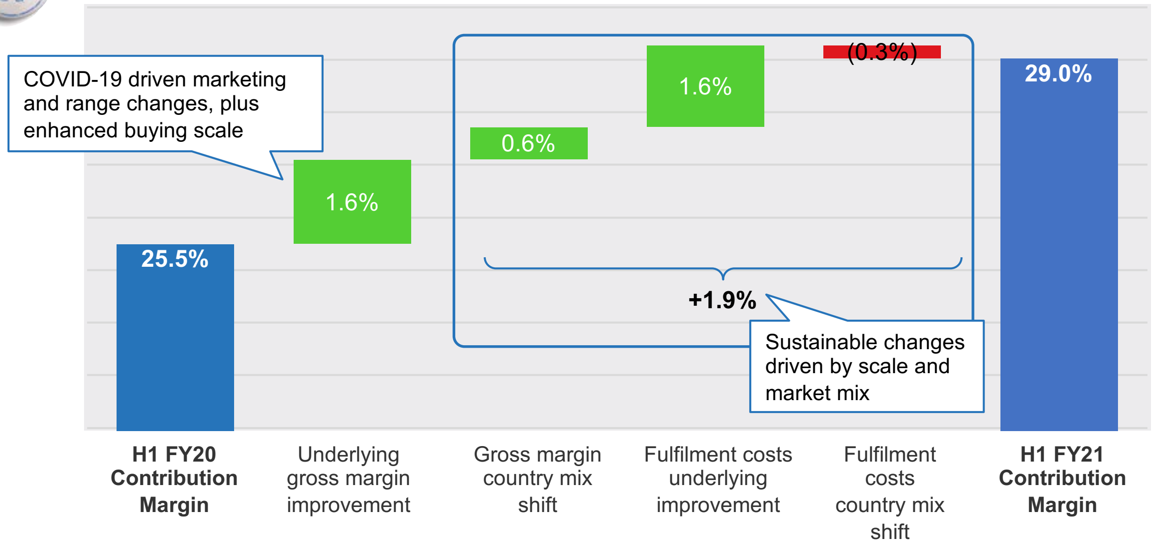


- Phasing of investment and new Angels earlier in the year than usual delivering high levels of contribution from new cohorts within the half year
- Implications:
  - High "Year 0" payback → Enhanced IRR
  - Potentially lower retention in FY22 for FY21 cohort

1. Analysis excludes revenue recognition adjustments
2. Restated for constant currency

… and significant repeat contribution margin improvement

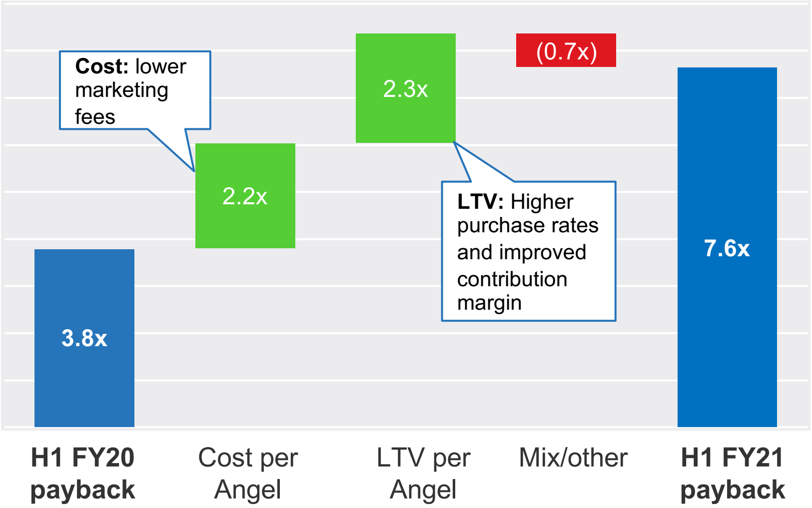
Drivers of the change in contribution margin from H1 FY20 to H1 FY21



- Country mix and fulfilment efficiency should sustain
- Underlying gross margin improvement due to marketing and range changes due to COVID-19

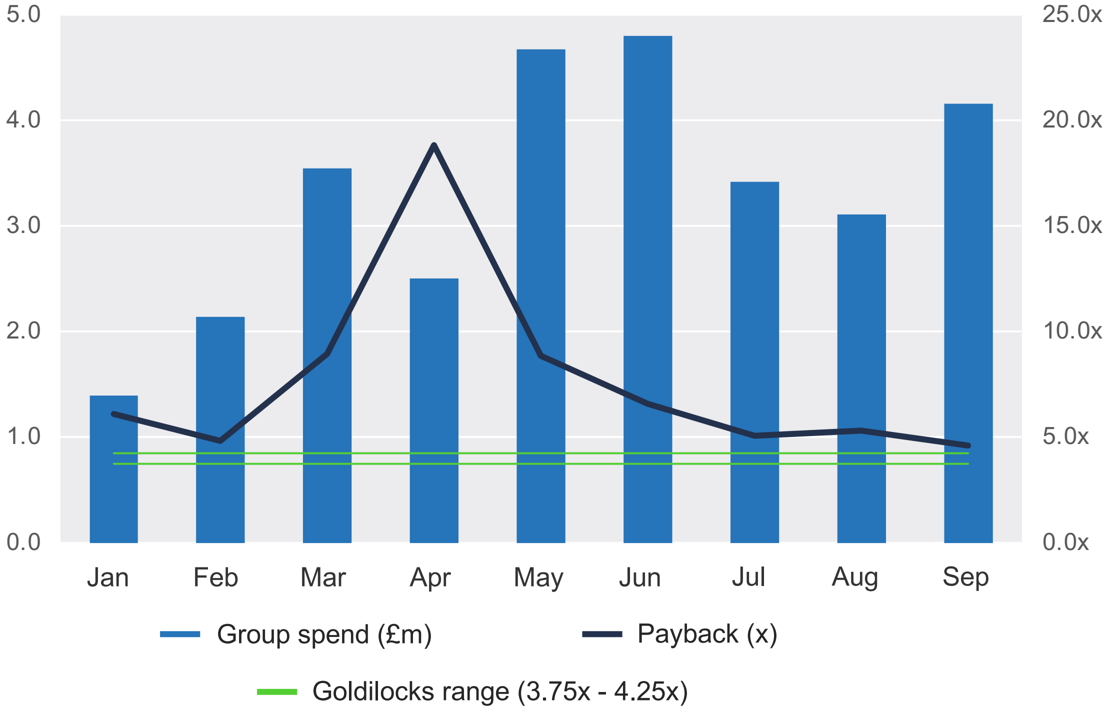
New customer investment payback driven by CAC and LTV

Payback H1 FY21 vs H1 FY20



Payback enhanced by lockdown period

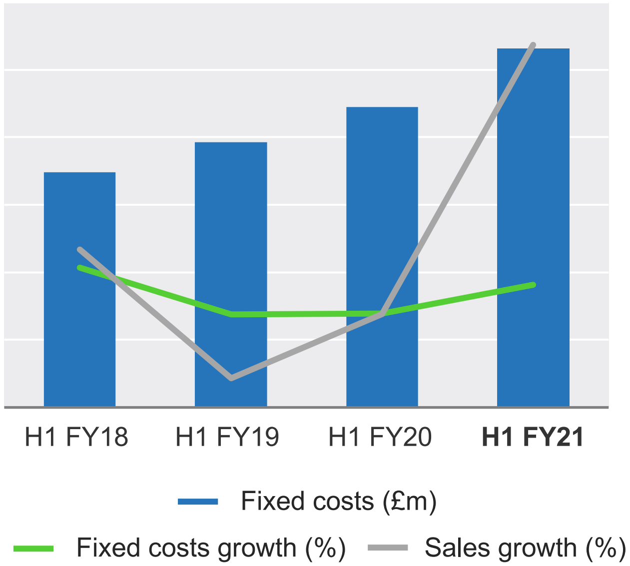
Group spend and payback by month (2020)



- Limited UK capacity in April to prioritise repeat customers
- Partner channel operates with time lag to set up new deals
- Cohort value forecasts have been increasing

Fixed cost growth remained below medium-term guidance trajectory

Fixed costs

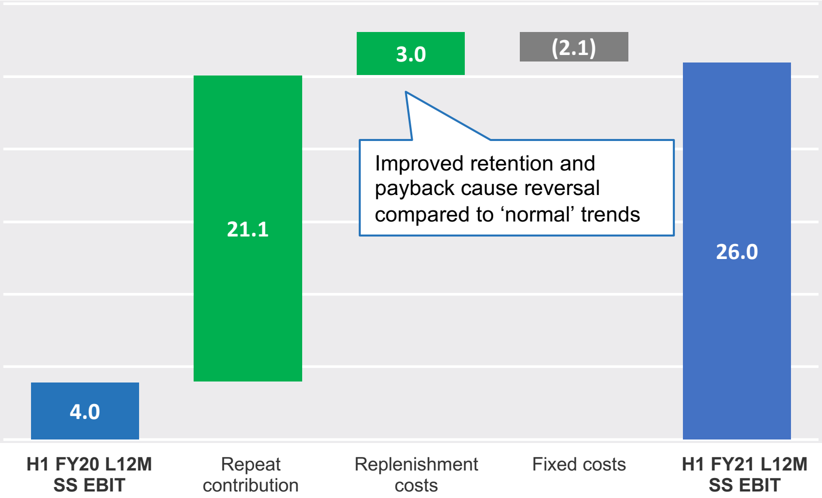


- 20% growth in fixed costs versus sales growth of 80%
  - Below the medium-term guidance at 50% of sales
- Key investments include:
  - Additional roles to support the larger group
  - New US Managing Director and Director of Growth
  - Enhanced variable compensation
- £0.8m R&D spend
- IFRS 2 charges included going forward (£2m p.a.), previously adjusting items

Heightened KPIs show L12M Standstill EBIT of £26.0m

L12M Standstill EBIT

£m



£m	L12M
Repeat contribution	63.0
Sales retention	90.4%
Repeat contribution lost to sales attrition	6.1
Year 1 payback (from PY cohort)	66.8%
Spend to replenish lost repeat contribution	9.1
SS EBIT is calculated as	
Repeat contribution	63.0
Less: replenishment spend	(9.1)
Less: fixed costs	(27.9)
	26.0

- Standstill EBIT calculated as EBIT, excluding investment that drives growth, including investment to replenish the customer base
- Substantially increased to £26.0m due to the increase in KPIs driven by larger scale of the Group and impact of COVID-19

Note: Investment KPIs are calculated from management information before revenue recognition adjustments.

Strong cash generation driven by working capital reduction

For the 26 weeks ended (£m)	HY20	**HY21**	**YoY**
Adjusted EBIT	(4.5)	(3.2)	1.3
Add back depreciation	0.8	1.0	0.2
Adjusted EBITDA	**(3.7)**	**(2.2)**	**1.5**
Add back IFRS 2 share based payments	0.5	0.5	-
Less capex	(0.6)	(0.6)	-
(Increase)/decrease in inventory levels	(23.0)	(14.9)	8.1
Increase/(decrease) in customer funds	6.6	17.6	11.0
Increase/(decrease) in accounts payable	7.6	21.5	13.9
Other working capital movements	1.2	(1.3)	(0.1)
Free Cash Flow	**(11.4)**	**20.6**	**32.0**

- £21m of cash generated in the half
- Outflows to build inventory
  - Right-sized position
  - Need to replenish future vintages to support range
- Customer funds increased with +37% increase in Angels

1. IFRS 2 share based payments exclude NI, therefore at a £0.1m difference to share based charges (£0.6m).

Upgrading outlook on delivery of strong performance

FY 2021

Financial guidance	FY21
Total sales growth	+55-65%
Repeat contribution	£75-80m
Investment in new customers	£40-45m
Fixed costs[1]	£37-39m

- Sustained momentum at the start of the second half
- Still expect some reversion towards long-term KPI trends
- Mindful of significant levels of political and economic uncertainty

FY 2022

- Intent to sustain investment – minimum FY21 levels, targeting 4.0x payback (20 year)
- Repeat business wide range of outcomes after exceptional FY21
- Continued investment into our fixed cost base and continued R&D spend at levels similar to FY21
- Confident in long-term ability to keep growing

1. Includes £32-34m fixed costs as reported historically, plus £3m marketing R&D spend and £2m IFRS 2 charge historically reported as an adjusted item.

In summary

- Transformative growth in the first half
- Results in an upgrade to the full year guidance
- Operation proven at scale, rapidly responding to growth in demand
- Scale breakthrough delivering enduring benefits
- Naked benefiting from structural shift in online wine market
- Balance sheet a position of strength to drive further growth

Acceleration delivering step change in scale

Winemaker: **Núria Altés and Rafael de Haan, Spain**

Winemaker: **Rebecca Santolin, Australia**

Appendices

Winemaker: **Constanza Schwaderer, Chile**

Income Statement

£m	H1 FY21	H1 FY20	YoY %
New customers	32.2	12.1	166%
Repeat customers	124.9	75.4	66%
Total revenue	**157.1**	**87.5**	**80%**
US	*76.5*	*39.3*	*95%*
UK	*57.8*	*32.8*	*76%*
Australia	*22.8*	*15.4*	*48%*
New customers	(22.7)	(10.3)	121%
Repeat customers	36.2	19.2	89%
Contribution	**13.5**	**8.9**	**52%**
Fixed costs [1]	(16.7)	(13.4)	(25)%
Adjusted EBIT	**(3.2)**	**(4.5)**	**29%**
Finance charges	0.5	(0.5)	n/a
Adjusted loss before tax	**(2.7)**	**(5.0)**	**47%**

1. Includes £0.8m (H1 FY20: £nil) Marketing R&D spend and 0.6m (H1 FY20: £0.6m) IFRS 2 charge historically reported as an adjusted item.

Summary balance sheet and Free Cash Flow drivers

For the year ended (£m)	FY20	H1 FY20	H1 FY21
Non-current assets	59.7	50.6	52.3
- Intangibles	36.0	41.0	34.2
- Others	23.7	9.6	18.1
Non-current liabilities	(5.8)	(6.2)	(4.1)
Working capital			
Inventory	69.9	81.4	84.9
Other current assets	5.4	8.5	7.1
Customer funds	(43.6)	(44.7)	(61.1)
Payables and accruals	(27.2)	(30.5)	(48.9)
Net working capital	**4.5**	**14.8**	**(18.0)**
Year on year growth in working capital	(1.7)	(7.6)	22.9
Adjusted EBIT	(1.4)	(4.5)	(3.2)
Addback: Depreciation	1.8	0.8	1.0
Addback: IFRS 2	-	0.5	0.5
Less: Capex	(1.1)	(0.6)	(0.6)
Changes in working capital	(1.7)	(7.6)	22.9
Free Cash Flow	**(2.4)**	**(11.4)**	**20.6**

Standstill EBIT (L12M)

£m	H1 FY19	H1 FY20	**H1 FY21**
Repeat contribution	36.3	41.9	63.0
Sales retention	81.6%	80.9%	90.4%
Repeat contribution lost to attrition	6.7	8.0	6.1
Year 1 payback (from PY cohort)	83.5%	66.3%	66.8%
Spend to replenish lost repeat contribution	8.0	12.1	9.1
SS EBIT is calculated as			
Repeat contribution	36.3	41.9	63.0
Less: replenishment spend	(8.0)	(12.1)	(9.1)
Less: fixed cost - Naked	(12.0)	(15.4)	(15.0)
Less: fixed cost - PLC	(9.1)	(10.4)	(12.9)
	7.2	**4.0**	**26.0**

Strong retention and trading uplifting all LTV forecasts

		Payback				
Cohort	Age at reporting date	Latest 5 year (forecast)	vs previous forecast	Latest 20 year (forecast)	vs previous forecast	Payback to date
FY16	55-66 months	3.1x (actual)	0.0x	7.3x	1.0x	3.2x
FY17	43-54 months	2.4x	-0.1x	5.2x	0.0x	2.3x
FY18	31-42 months	3.1x	0.6x	6.5x	1.4x	1.8x
FY19	19-30 months	3.4x	1.1x	6.8x	2.4x	1.2x
FY20	7-18 months	3.5x	0.9x	6.7x	1.8x	0.8x
FY21	0-6 months	3.9x	n/a	7.6x	n/a	0.3x

Historic IFRS 2: share based payments

£m	FY20	FY19	FY18	FY17	FY16
Acquisition related SBP charges	-	(1.4)	(4.1)	(6.9)	(7.3)
Naked ongoing schemes	(1.0)	(0.5)	(0.3)	(0.2)	-
Total attributable to Naked	**(1.0)**	**(1.9)**	**(4.4)**	**(7.2)**	**(7.3)**
Discontinued operations	(1.0)	(0.4)	(0.5)	(0.5)	(0.2)
Total	**(1.9)**	**(2.3)**	**(4.9)**	**(7.7)**	**(7.5)**

Glossary of terms

Alternative performance measures	
Adjusted EBIT	Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, impairment of goodwill, restructuring costs and fair value movement through the income statement on financial instruments and revaluation of funding cash balances held
EBIT	Operating profit as disclosed in the Group income statement per the RNS
EBITDA	EBIT plus depreciation and amortisation
Adjusted EBITDA	Adjusted EBIT plus depreciation and amortisation, but excluding any depreciation or amortisation costs included in our adjusted items e.g. amortisation of acquired intangibles
Adjusted PBT	Adjusted EBIT less net finance income / (charges)
Free cash flow	Cash generated by operating activities less capital expenditure and before adjusted items and taxation

Glossary of terms (continued)

Investment measures	
Investment in new customers (also referred to as new customer contribution)	The contribution earned from sales to new customers
Lifetime payback	The ratio of the Lifetime value (see below) of the customers recruited this year to the investment we made recruiting them. 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
Lifetime value	The future contribution we expect to earn from customers recruited in a discrete period of time. We calculate this future contribution using a Machine Learning (ML) model. Collecting data for a number of key customer characteristics including retention, order frequency and order value along with customer demographics and non-transactional data, the ML algorithms then predict the future (lifetime) value of that customer
Repeat customer contribution	The profit attributable to sales meeting the definition of sales to repeat customers after fulfilment and service costs
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 website data, the population who were subscribers 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
Fixed costs	Administrative costs excluding marketing spend
Year one payback	This short-term payback measure shows the actual return in this financial year of our investment in the prior year, removing the need to use a model to forecast the future

Glossary of terms (continued)

Definitions	
Angel	A customer who deposits funds into their Angel account each month to spend on the wines on our website
CAGR	Compound annual growth rate. The year on year growth rate required for a number of years for a value to grow from its beginning balance to its ending balance
Company, Naked or Naked Wines	Naked Wines plc
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
DtC	Direct to consumer
ESO	Employee Stock Option
Group	Naked Wines plc and its subsidiary undertakings
LTIP	Long Term Incentive Plan
Marketing	Expenditure focused on researching and testing new marketing channels and creative approaches, with the aim of opening up significant new growth investment opportunities
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 subscribing with us at some point or cannot be identified
New customer sales	Revenues derived from transactions with customers who meet our definition of a new customer
Repeat customer	A customer ('Angel') who has subscribed and made their first monthly subscription payment
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
SIP	Share Incentive Plan
Standstill EBIT	The Adjusted EBIT that would be reported if investment in new customers was reduced to the level needed to just replenish the current customer base

Glossary of terms (continued)

Operational KPIs	
Product availability	% of targeted range available on websites as indicated by our inventory reporting
Wine quality – “Buy it again ratings”	% of “Yes” scores in the last 12 months as recorded by websites/ apps
Service ratings – “5* customer service”	The number of service ratings scoring 5* as a % of total ratings in the last 12 months as recorded by websites/apps/telephone feedback