15 December 2023

Naked Wines plc
("Naked Wines" or "Group")

Half Year Results for the 26 weeks ended 2 October 2023

Doing what we said we would

Financial highlights:

- Total revenue £132.3m, (20)% at reported currency rates ((18)% constant currency)
- Adjusted EBIT £2.2m**,** loss before tax £(9.7)m
- Net cash excluding lease liabilities of £2.8m, total available liquidity of £48m
- G&A costs excluding adjusted items reduced by 27% (26% reduction at constant currency) to align with reduced sales performance, further cost reductions to come
- Inventory optimisation expected to deliver £40m-50m cash inflow over next 18 months

Operational highlights:

- Business moving towards sustainable cash generation
- Continuing to drive toward sustainable profitability; reducing costs
- Future inventory intake significantly reduced, purchases to end FY25 £60m -70m below forecast COGS
- Repeat customers performing well with higher revenue per customer in all markets
- Lower rates of cancellation in all markets, UK customer base stabilised
- Rolling out testing at scale of revised new customer recruitment model after successful initial results

Post period end:

- Customer order patterns over peak trading months are currently in line with our forecasts
- Net cash as of the end of November improved versus the end of H1 at £7.1m, £53m total available liquidity

Group financial summary[1]	H1'24 reported	H1'23 reported	H1'24 vs H1'23	Constant currency[2]
Total revenue[3]	**£132.3m**	£165.8m	(20)%	(18)%
Total adjusted sales[3]	**£131.6m**	£165.8m	(21)%	(18)%
New	**£9.1m**	£13.4m	(32)%	(30)%
Repeat	**£121.8m**	£148.4m	(18)%	(16)%
Other	**£0.7m**	£4.0m	(83)%	(82)%
Investment in New Customers	**£(9.2)m**	£(11.7)m	(21)%	(19)%
Repeat Customer contribution	**£30.5m**	£42.2m	(28)%	(25)%
Other contribution	**£(0.5)m**	£(0.4)m	25%	67%
General and administrative costs[4]	**£(18.6)m**	£(25.5)m	(27)%	(26)%
Adjusted EBIT[5]	**£2.2m**	£4.6m	(52)%	(44)%
Adjusted items[5]	**£(10.9)m**	£(4.8)m	127%	163%
Operating loss	**£(8.7)m**	£(0.2)m	n/m[6]	n/m[6]
Net finance costs	**£(1.0)m**	£(0.1)m	n/m[6]	n/m[6]
Loss before tax	**£(9.7)m**	£(0.2)m	n/m[6]	n/m[6]
Net cash excluding lease liabilities	**£2.8m**	£22.9m		
Net assets	**£88.8m**	£127.3m	(30)%	(30)%
Inventory (inc that under staged payments)	**£188.7m**	£209.5m	(10)%	(2)%

Notes:
1) In addition to statutory reporting, Naked Wines reports alternative performance measures (APMs) which are not defined or specified under the requirements of UK-adopted international accounting standards. The Group uses these APMs to improve the comparability of information between reporting periods by adjusting for certain items which impact upon IFRS measures to aid the user in understanding the activity taking place across the Group's businesses. Definitions of the APMs used are given at the end of this announcement.
2) Constant currency basis using current period FX rates for the translation of the comparative period.
3) Refer to the reconciliation of reported performance to management adjusted basis in the APM section at the end of this announcement for a reconciliation of total revenue to total adjusted sales
4) Refer to the reconciliation of general and administrative (G&A) costs in the APM section at the end of this announcement for a reconciliation of G&A costs shown here to those reported in the income statement.
5) Refer to the reconciliation of reported performance to management adjusted basis in the APM section at the end of this announcement for a reconciliation of adjusted EBIT to operating loss (reported EBIT).
6) Year-on-year variance is not meaningful due to the denominator being broadly around zero.

Operational KPIs	H1'24	H1'23
5* customer service	**92%**	92%
Product availability	**89%**	81%
Buy it again	**91%**	91%
Net Promoter Score	**66**	57

Alternative performance measures	H1'24	H1'23	H1'24 vs H1'23
Repeat Customer sales retention	**72%**	76%	(400)bps
Repeat Customer contribution margin	**25.0%**	28.4%	(340)bps

Active Angels in last 12 months	**792k**	934k	(15)%
5-Year Forecast Payback[1]	**1.5x**	1.7x	(0.2)x
Realised Year 1 Payback[2]	**38%**	46%	(8)%

[1] Forecast payback includes estimated value from non-Angel subscribers recruited in the period.
[2] Realised Year 1 Payback is the average of Year 1 Paybacks observed for cohorts reaching their first anniversary in the last 12 months

Rowan Gormley, Executive Chairman, commented:

"We are moving towards a period of sustained cash generation. We have taken out £3 million of cost with £10 million more to come and expect to generate £40-50 million of cash from inventory over the next 18 months. In addition we have made good progress with testing an enhanced customer proposition to restore us to growth. I want to thank our people, our winemakers and our customers for their support and reiterate our determination to make sure that they are rewarded for it."

Guidance and outlook:

As announced in our trading update on 7 November and reflecting the outlook for the US business unit, our view on headline FY24 metrics is as follows:

	Guidance[1]	FY23[2]
Sales trend (52 week comparable, constant currency)	(12)% to (16)%	(8)%
Investment in New Customers	£23 - 26m	£20.7m
Repeat Customer contribution	£65 - 70m	84.8m
G&A costs including share based payments, excluding adjusted items	£37 - 40m	£42.6m
Adjusted EBIT (52 week comparable)	£2 - 6m	£16.3m
Net cash excluding lease liabilities (at year end)	£0 - 15m	£10.3m

We also anticipate incurring one-off cash costs of the order £5m in H2 to drive inventory and cost reduction initiatives

1. This guidance is provided based on FX rates of 1 GBP = 1.24 USD and 1.74 AUD.
2. FY23 reported on a 52 week comparable basis.

Analyst and investor conference call
Naked Wines plc will host an analyst and investor conference call at 9am GMT / 4am ET / 1am PT on 15 December 2023. The briefing will be webcast using the following link: https://brrmedia.news/WINE_HY

If you would like to ask a question, please dial, UK-Wide: +44 (0) 33 0551 0200 / UK Toll Free: 0808 109 0700 / USA Toll Free: 866 580 3963 - quote ***Naked Wines Half Year*** when prompted by the operator.

A recording will also be made available after the briefing on our results in the announcements section of our investor website.

For further information, please contact:
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About Naked Wines plc

Naked Wines connects everyday wine drinkers with the world's best independent winemakers.

Why? Because we think it's a better deal for everyone. Talented winemakers get the support, funding and freedom they need to make the best wine they've ever made. The wine drinkers who support them get much better wine at much better prices than traditional retail.

It's a unique business model. Naked Wines customers (who we call Angels) commit to a fixed prepayment each month which goes towards their next purchase. In turn. Naked funds the production costs for winemakers, generating savings that are passed back to its customers. It creates a virtuous circle that benefits both wine drinker and winemaker.

Our mission is to change the way the whole wine industry works for the better. In the last financial year we served more than 792,000 Angels in the US, UK and Australia, making us a leading player in the fast-growing direct-to-consumer wine market.

Our customers have direct access to 293 of the world's best independent winemakers making over 2,000 quality wines in 22 different countries. We collaborate with some of the world's best independent winemakers like Matt Parish (Beringer, Stags' Leap) and eight-time Winemaker of the Year Daryl Groom (Penfolds Grange).

Executive Chairman's review

As you may have read, I have moved to Executive Chairman from 7 November following Nick Devlin stepping down as CEO. I'd like to thank Nick for his leadership of Naked through the challenges of the COVID-19 pandemic and getting a lot of the hard turnaround work done in the period that followed.

As I step into the executive role, the key questions on my mind are whether we can be confident that Naked Wines
1. Will be cash generative?
2. Maintains a robust core of repeat customers post COVID?
3. Can be restored to PROFITABLE growth?

1. Will Naked be cash generative?

We are moving towards a period of sustained cash generation, and we have a net cash position and almost £90 million of net assets at the half year which we believe we can bring to bear to further improve liquidity and reduce covenant constraints as we seek a replacement for our existing credit facility. We have:

- Substantially completed negotiations with our suppliers to cut commitments such that inventory spend is forecast to be £60 to 70 million less than expected cost of goods sold in the next 18 months;
- Eliminated R&D spend and reduced operating G&A costs by £3.1 million with over £10 million more to come from initiatives from across the cost base;
- Stabilised the subscriber base in our UK market, and seen reduced customer attrition in both the US and Australia; and
- Moved to testing at scale of an improved subscription recruitment model.

However, we will continue to report a material uncertainty in our going concern assessment as trading remains volatile and we still need to conclude some supplier discussions, but I'm confident we have the headroom to weather any plausible future scenario from here.

2. Do we maintain a robust core of repeat customers post COVID?

This is a fair question given the 16% decline in Repeat Customer sales in the period.

However, I must repeat what we said at the full year results. New customer acquisition is tough but our customers remain loyal and repeat customer KPIs are robust. The key facts are:

1. Repeat sales (at constant currency) are down 16% and Active Angels at the end of the period are down 15%. Looking at Active Angels within the six-month period we're reporting, rather than the last 12 months used for our normal KPI, we see that monthly sales per subscribed customer are actually UP in all three markets, including the US, and by about 3% across the Group.

2. Customer attrition, which impacts sales retention, is at an all-time low of 33%

We still have a new business challenge but, whether we succeed or not in rising to that challenge, I expect Naked Wines will remain profitable at the adjusted EBIT level and become cash generative in the next 12 months. The key dependency is on how well we can perform deploying Investment in New Customers.

3. Can Naked be restored to PROFITABLE growth?

We are doing exactly what we said we would do.

Priority 1 - Ensure that we come through this stronger, by…

- Completing the negotiations with winemakers to allow us to get inventory back in line by the end of FY25, generating £40 to 50 million of cash
- Reducing costs across our fulfilment operations and G&A base to ensure that we remain profitable even if we do not succeed in rebuilding new customer acquisition to pre-pandemic levels
- Exploring options for a future credit facility which places fewer constraints on us

Priority 2 - Restore Naked to profitable growth, by rebuilding new customer acquisition to pre-pandemic levels

The good news is that a lot of good work has already been done. Between placing fewer orders and our winemakers agreeing to cut their commitments we expect to outlay £50 million less cash on inventory in FY24 than we did in FY23, and a further £38 million less in FY25 versus FY24. In addition, costs have come down substantially, with more to come.

When it comes to rebuilding growth, there are three elements to consider:

1. Naked has been testing a number of improvements to our new customer proposition since October last year, seeking improved payback and helping us access a wider demographic. Right now, it looks like at least one of the ideas is a winner, and we are testing at scale in all three markets over the peak season. We will have more to tell you on this next year once we have reviewed test data over an extended period;

2. The work on costs has a compound benefit. In addition to the direct benefit from the cost reduction, lower fulfilment costs mean higher contribution and therefore higher LTVs. In turn this increases the payback of all marketing and makes it easier to find new customers due to increased viability of previously marginal investments; and

3. Some of this is cyclical. For example, we recruit most of our new customers by partnering with other companies who have matching customer profiles. These companies are typically 25 to 30% down post COVID, which in turn means that the flow of their customers to us is down as well. This trend may recover over time but we're not relying on it doing so.

In our last report, we mentioned that we were working within some internally imposed guardrails, with the goal of making Naked a simpler, more stable and easier to manage business. These are:

- A mid-term planning assumption of 5% sales growth from FY25 onwards reflecting a base level that we need to create sustained value;
- A hard link between scale and G&A levels consistent with a business achieving at least 5% EBIT margins implying long-term G&A being set around 11% of sales;
- Group Inventory levels to be back at the appropriate level by the end of FY25 - targeting £115 to 130 million - and an ongoing link to member base size embedded in future inventory commitments policy;
- Maintaining consistent annual new customer investment, at around £25 million per year
    - Near-term allocation to maximise cash performance
    - Future years to drive growth from improving quality and retention versus increasing investment levels; and
- When cash levels are restored to a level that removes any uncertainty around going concern we will test any investments against the value available from buying back company shares provided the share price is lower than NPV.

I want to emphasise that this philosophy will continue.

And finally, I want to thank all of our customers, people, winemakers, suppliers and shareholders for your continued support through this challenging period. It has been painful, and there is more to come before we can repay that support, but we are turning the corner and it will be worth it.

We are all determined to make sure that you are rewarded for your patience and your support.

Rowan Gormley

Executive Chairman

Financial Review

Introduction

Our performance in the first half of the year clearly shows the level of challenge in the business but, when analysed further, reduces this to the single critical challenge of new customer recruitment and, in several areas, demonstrates that our remediation plans are showing progress.

First, the headline numbers which don't yet reflect the impact of our remediation plans.

Revenues in the period declined in all markets, and by -18% in aggregate at constant currency (-20% at actual currency). At constant currency, this reduction is driven by a 16% reduction in Repeat Customer sales, in turn driven by a 15% decline in the member base. Profitability at the adjusted EBIT level declined by £2.4 million to £2.2 million, driven as follows:

H1'23 adjusted EBIT	**£4.6m**
Reduction in Repeat Customer contribution	£(11.7)m
Reduction in Investment in New Customers	£2.5m
Change in other contribution	£(0.1)m
Reduction in G&A	£3.1m
Elimination of R&D investment	£3.8m
H1'24 adjusted EBIT	**£2.2m**

We incurred a net additional £10.9 million of costs (H1'23: £4.8 million) recognised as adjusted items, the largest of these being an £11.5 million impairment of assets, £10.8 million of which is in the US business as a result of the lower than forecast trading in that territory meaning cash flow forecasts do not support the full asset base we hold for that business unit. Summing the adjusted EBIT, adjusted items and an interest charge of £1.0 million results in a loss before tax for the period of £9.7 million (H1'23: loss of £0.2 million).

Our net cash position (excluding lease liabilities) decreased to £2.8 million (H1'23: £22.9 million) as net working capital continued to increase, but inventory levels have now stabilised and are forecast to reduce from here. Operating cash outflow of £3.6 million was significantly reduced versus the £22.8 million outflow in the comparable period in FY23.

So what are the other positives?

As Rowan has stated, our immediate goal is to stabilise the business, starting with customer numbers and then translate that to a stable revenue base. If we align the right level of costs and inventory intake behind that we will have a profitable business that generates cash sustainably. While we have not yet reached that position, we can see signs of this emerging in the first half performance.

Per Angel, our revenues in each market increased and our rate of customer attrition declined. Taken together, these data points show that to stabilise the revenue line it is a matter of recruiting more new customers.

Our pivot to profitability significantly reduced our level of investment in new customer acquisition and we are not currently generating enough new customers to replenish those lost to cancellations. However, we are slowly rebuilding the level of productive spend, with our investment levels flat in the second quarter following a 50% decline in the first quarter where the comparator period was prior to the pivot to profit. In the UK, where we first started the process of reducing spend, we have seen a stable membership base over recent months. This point remains in the future for the US and Australian businesses but the UK example demonstrates that we are on the right trajectory, it will just take time. Recent developments to how we recruit customers will drive improvements in the payback on these investments and, over time, the trend in the size of the customer base.

Our Repeat Customer contribution margins have reduced in the first half versus the prior year, driven by a combination of underlying reduction in all markets and a mix shift towards the lower margin UK market where

sales trends are strongest. While not yet visible in the reported numbers, revised warehousing arrangements in both the UK and US and, in time, lower inventory holding levels are expected to drive a reversal in this trend in FY25.

Our operating G&A costs* were 15% lower in the half versus the prior year, showing the impact of the measures we have taken to reduce spending. These measures will continue to support profitability in the Group going forwards.

Our net cash balance (excluding lease liabilities) closed at £2.8 million (with the full £45 million capacity of our credit facility remaining available to us beyond this). This reduced by £7.1 million during the half, a slowdown in cash consumption versus the same period in the prior year when we consumed £18.6 million of cash. While we would like to be generating cash we are now seeing the reduction in the trend of cash consumption and as we continue to reduce inventory we see cash generation in sight.

Inventory is the biggest driver of our cash position. At the end of H1'24 we held £188.7 million, below the £209.5 million of H1'23, again showing that, with the changes to intake we have agreed with winemakers, we are managing our inventory purchasing to the lower level of sales we are generating despite the majority of this inventory having been committed in prior years. Looking forwards we see intake £60 to 70 million below forecast COGS over the next 18 months underpinning the future cash generation that we are targeting.

* Refer to the reconciliation of general and administrative costs in the APM section at the end of this announcement.

New and repeat customers and our subscription KPIs

Group financial summary *	**H1'24**	H1'23	H1'24 vs H1'23	Constant currency[1]
New customers				
New Customer sales	**£9.1m**	£13.4m	(32)%	(30)%
Investment in New Customers	**£(9.2)m**	£(11.7)m	(21)%	(19)%
5-Year Forecast Payback	**1.5x**	1.7x	(0.2)x	(0.2)x
Realised Year 1 Payback	**38%**	46%	(8)%	(8)%
Repeat customers				
Repeat Customer sales	**£121.8m**	£148.4m	(18)%	(16)%
Repeat Customer contribution	**£30.5m**	£42.2m	(28)%	(25)%
Repeat Customer contribution margin	***25.0%***	*28.4%*	*(340)bps*	*(330)bps*
Sales retention	**72%**	76%	(400)bps	(400)bps
Active Angels	**792k**	934k	(15)%	(15)%
Other				
Other revenue	**£0.7m**	£4.0m	(83)%	(82)%
Other contribution	**£(0.5)m**	£(0.4)m	25%	67%

* see glossary at the end of this announcement for definitions of APMs disclosed in this table.

New customers

Investment in New Customers was £9.2 million compared to £11.7 million in H1'23. The reduction is entirely attributable to the first quarter, the period prior to the shift in strategy executed in the prior year. In the second quarter, we invested at the same level as FY23 and in line with our "guardrail" intention of £25 million per year.

5-Year Forecast Payback of 1.5x (H1'23: 1.7x) has reduced year-on-year due to:

- Accepting certain activities with low 5-year LTV payback but higher near-term cash payback through liquidation of excess inventory and improved utilisation of operational capacity;

- Testing new digital creative at scale, where we are achieving breakeven economics, positive short-term cash returns and broader brand awareness; and
- Testing, in addition to the promising improvements to our customer proposition that Rowan referenced, a broader recruitment approach with no requirement to subscribe to receive a discounted first order. This approach has shown to generate a higher rate of first time purchases (and therefore near-term cash) but lower long-term value due to the lower level of subsequent repeat purchases.

We saw an improvement in our ability to invest productively via social media towards the end of the half, with 39% of our total investment in new customers being placed in this channel during the reported period.

Our Year 1 Payback number remains low as it reflects the actual payback on investments made in the period H2'22 and H1'23, the majority of which is before our pivot to profit and higher returns. This lagging indicator is expected to improve as we report on the higher payback spend after H1'23.

Repeat customers

Repeat Customer sales were £121.8 million, an 18% decrease on the prior year (16% decrease at constant currency). With Angel numbers reducing, this decrease masks an improvement of 3% in monthly sales per subscribed Angel. Our sales retention metric shows a reduction to 72% for the period compared to 76% in the same period of FY23. This reduction is the net of a four percentage point improvement in member retention rates year-on-year but a reduction of 14 percentage points in the rate of increase of revenue per retained Angel.

Alongside the reduction in sales, significant increases in fulfilment costs due to price inflation and under-utilisation of committed capacity have substantially eroded contribution margins, despite price increases being introduced.

Repeat Customer contribution margins have decreased in the period from 28.4% to 25.0%. Of this movement, 210 bps is due to lower underlying gross margins, in particular in the US business as we discounted to move excess inventory and 60 bps due to a mix shift towards the UK business. The remainder is a function of our fulfilment costs increasing as a % of revenue, which will improve in FY25 as we move into revised warehouse contracts and begin to reduce inventory level. We have not seen the activation uplift we targeted from US discounting and believe this was due to suboptimal execution. We will continue to experiment with different approaches to drive cash from inventory during the final quarter.

Other revenue and contribution

Other revenue and contribution reported within adjusted EBIT represents sales of bulk wine and disposals of cased goods on secondary markets to reduce inventories. Disposals in this category are of products that were not provisioned at the end of FY23. Any sales and contribution arising from provisioned items are reported net within adjusted items. We have been unable to dispose of the same levels of bulk inventory as in the comparator period with conditions in the key US market materially worsening during the half. We are continuing to develop a range of opportunities to dispose of excess inventory through commercial partnerships.

Segmental trends

Segmental report *	H1'24	H1'23	H1'24 vs H1'23	Constant currency[1]
US segment				
Total sales	**£63.2m**	£85.2m	(26)%	(23)%
New Customer sales	**£5.3m**	£9.0m	(41)%	(39)%
Repeat Customer sales	**£57.2m**	£72.2m	(21)%	(18)%
Other revenue	**£0.7m**	£4.0m	(83)%	(82)%
Investment in New Customers	**£(6.0)m**	£(7.9)m	(24)%	(23)%
Repeat Customer contribution	**£17.4m**	£24.8m	(30)%	(28)%
Repeat Customer cont. %	***30.4%***	*34.3%*	*(390)bps*	*(390)bps*

Other contribution	**£(0.5)m**	£(0.4)m	25%	67%
General and administrative costs[1]	**£(5.7)m**	£(6.5)m	(12)%	(10)%
Adjusted EBIT	**£5.3m**	£10.0m	(47)%	(44)%
UK segment				
Total sales	**£52.4m**	£58.8m	(11)%	(11)%
New Customer sales	**£2.3m**	£2.7m	(15)%	(15)%
Repeat Customer sales	**£50.1m**	£56.1m	(11)%	(11)%
Investment in New Customers	**£(2.0)m**	£(1.6)m	25%	25%
Repeat Customer contribution	**£9.4m**	£11.7m	(20)%	(20)%
Repeat Customer cont. %	***18.8%***	*20.9%*	*(210)bps*	*(210)bps*
General and administrative costs	**£(3.1)m**	£(3.7)m	(16)%	(16)%
Adjusted EBIT	**£4.3m**	£6.3m	(32)%	(32)%
Australia segment				
Total sales	**£16.0m**	£21.8m	(27)%	(19)%
New Customer sales	**£1.5m**	£1.7m	(12)%	(6)%
Repeat Customer sales	**£14.6m**	£20.1m	(27)%	(20)%
Investment in New Customers	**£(1.3)m**	£(2.1)m	(38)%	(35)%
Repeat Customer contribution	**£3.6m**	£5.6m	(36)%	(29)%
Repeat Customer cont. %	***24.7%***	*27.9%*	*(320)bps*	*(320)bps*
General and administrative costs	**£(1.6)m**	£(1.7)m	(6)%	0%
Adjusted EBIT	**£0.8m**	£1.8m	(56)%	(50)%
Central G&A	**£(8.2)m**	£(13.5)m	(39)%	(39)%

* See glossary at the end of this announcement for definitions of APMs disclosed in this table.
1 Refer to the reconciliation of G&A costs at the end of this document for reconciliation of this figure to G&A costs reported on the face of the income statement.

Commentary on segments uses constant currency trends, given these are reflective of the local performance.

US

The US segment saw substantial declines in New and Repeat Customer sales as we continued to reduce the level of Investment in New Customers due to weaker payback levels than targeted. Within the repeat customer base, the lower level of members and a slowing rate of increase in revenue per member led to Repeat Customer sales falling 18%. Repeat Customer contribution fell by 28% as margins were reduced due to excess storage costs for cased wine and some deep discounting at the end of the half year that failed to deliver significant incremental spend per member.

Other revenue and contribution in the US segment represents sales of bulk wine that was not provided in FY23. A similar level of sales were made of provided wine, with these sales reported as adjusted items.

G&A excluding adjusted items in the US, as presented in the table above, reduced by 10% reflecting lower headcount year-on-year following restructuring during FY23, reduction in variable compensation accruals and the elimination of £0.5 million of R&D marketing spend versus the prior year. These G&A costs include £0.6 million of legal costs associated with the settlement of employee legal claims, which were resolved shortly after the end of the half year. The Company anticipates reimbursement of a proportion of these costs during the second half.

UK

The UK segment showed the most encouraging trends in the Group albeit still with continued reductions in sales to new and repeat customers. Investment in New Customers increased in the half as we began to build an improved pipeline of marketing opportunities. Sales to new customers do not show the same uplift due to:

- Lower first order values on customers acquired through investments made in digital channels, where we have started to see viable spend opportunities after an extended period where this was not the case; and
- Acceptance of some lower payback activities year-on-year given payback headroom available (the UK having previously delivered the highest paybacks in the Group).

The repeat sales reduction was driven by reduced customer numbers, with improvements during the half as the size of the membership base stabilised. Margins were reduced year-on-year due to higher warehousing costs as we underutilised the committed capacity. This will resolve in FY25 as the UK business moves onto a new warehousing contract and partner.

G&A costs excluding adjusted items, as presented in the table above, in the UK reduced by 16% year-on-year reflecting action taken to reduce headcount in FY23 and reduced outlook for variable compensation.

Australia

Australia saw a 35% reduction in Investment in New Customers versus the prior year. New Customer sales, however, only fell by 6% due to a new customer proposition being tested with no membership requirement to secure advantageous pricing, resulting in higher conversion of traffic to first orders but lower levels of new recruits.

The decline in Repeat Customer sales reflected the reduction in the size of the member base, with margins reducing due to high levels of inflation in the fulfilment system, in particular final mile delivery.

G&A costs excluding adjusted items, as presented in the table above, remained flat in the period with some cost efficiencies offsetting expenses relating to a study evaluating potential fulfilment network savings which was ultimately terminated, and increased technology operating costs.

Cash flow

Management of the Group's cash position remains a priority across the business as we continue to manage the implications of excess inventory. We are striving to balance this with continued efforts to drive profitability, at times sacrificing cash generative orders to ensure discipline around investment decisions.

The Group consumed £7.1 million of cash during the period, an £11.5 million reduction versus the same period in FY23, consisting of:

	H1'24 £m	**H1'23 £m**
Operating loss	**(8.7)**	**(0.2)**
Add back: depreciation and amortisation	1.6	2.0
Add back: impairment charges	11.5	-
Add back: other non-cash charges	(0.7)	2.7
Change in inventory	(19.8)	(50.9)
Change in payables	3.8	18.5
Change in Angel funds and other deferred income	8.5	3.6
Other working capital movements	0.2	1.5
Operating cash flow	**(3.6)**	**(22.8)**
Tax and net interest paid	(1.9)	(0.4)
Capital expenditure	(0.6)	(0.6)
Proceeds from property held for sale	-	5.6

Lease liabilities paid	(1.0)	(0.4)
Movement in net cash excluding lease liabilities	**(7.1)**	**(18.6)**

The significant reduction in operating cash consumption demonstrates the progress we have made on our inventory intake challenge as well as the impact of improving retention on our Angel funds balance. While inventory levels are comparable year-on-year on a constant currency basis, we have a clear line of sight of pending reductions with total future commitments having been reduced by £30 million since the beginning of the year to £131 million. Over the next 18 months almost half of our non-duty COGS will be delivered by inventory we have already paid for.

Our Angel fund balance, which typically grows on a per Angel basis during the first half of the year as customers save towards the holiday season, totalled £72 million, an 11% reduction versus the same point of FY23 (4% at constant currency). This is a significantly lower reduction than the reduction in the number of Angels, reflecting the shift towards longer tenure customers who typically hold a higher balance and continued low rates of customer attrition. We do expect to see an acceleration in the reduction of this balance as we recruit more new customers onto membership types that do not require Angel funding of accounts. However, testing has shown that the cash generated from sales to these customers means the overall net cash impact of the different membership type is negligible after three to six months.

Cash and going concern assessment

Our forecasts show Group net cash levels stabilising in the near-term despite the reduced revenue outlook communicated in November 2023, which has slowed our destocking plans. In the medium-term we remain on track for a significant reduction in inventory, and commensurate increase in net cash levels, over the coming 18 months from the date of reporting these results. While this takes place, the Group maintains an asset backed lending (ABL) facility with Silicon Valley Bank, a division of First Citizens Bank, for downside liquidity availability and day-to-day cash management. As of the end of H1'24 this facility provided access to £45 million of liquidity over and above our net cash excluding lease liabilities balance of £2.8 million.

As a result of this ongoing reliance on the Group's ABL credit facility and the requirement to achieve the credit facility covenant outcomes in a period of continued volatile trading, the scope for different outcomes to those expected from our planned actions and the need for continued support from a range of suppliers in the delivery of these planned actions, we continue to report a material uncertainty around our going concern assessment. In the meantime we have met all performance covenant requirements to date.

We are considering the options for replacing our existing credit facility. Having sought expert advice on the current debt market and considering the strength of the balance sheet we believe there may be an opportunity to secure a similar-sized facility that has less limitation on utilisation and more flexible covenants resulting in fewer restrictions on the actions we can take to reduce inventory and drive our broader change agenda.

Recent trading and outlook

Since we gave an update on trading patterns on 7 November, performance has been satisfactory. November and December are critical trading months given the high levels of sales in advance of the holidays. Customer order volumes in November and December to date have been consistent with our forecast. Net cash (excluding lease liabilities) at the end of November was £7.1m, up from £2.8m at the half year reporting point.

James Crawford

Chief Financial Officer

Conclusion

We have been engaged by Naked Wines plc ("the Company") to review the condensed consolidated interim financial statements in the half-yearly report for the 26 weeks ended 2 October 2023 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated balance sheet, the condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the half-yearly report for the 26 weeks ended 2 October 2023 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the AIM Rules.

Material uncertainty related to going concern

We draw attention to note 4 to the condensed consolidated interim financial statements which indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

The directors' baseline case forecast, and their severe but plausible downside scenario forecast indicate that the covenants will be met throughout the going concern period. However, the headroom on the severe but plausible downside scenario forecast is limited and actual financial performance has been adverse to budget in recent financial periods. Factoring in the potential reoccurrence of this variance into the severe but plausible downside scenario would result in a covenant breach. In addition, the Group's ability to continue to generate sufficient cash flows and complete the planned actions with external stakeholders in the forecasted period continues to give rise to uncertainty over the Group's ability to meet its covenants in the going concern period.

These events and conditions, along with the other matters explained in note 4, constitute a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Our conclusion is not modified in respect of this matter.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE (UK) 2410") issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

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.

Conclusions relating to going concern

The directors have prepared the condensed consolidated interim financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group will continue in operation.

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed consolidated interim financial statements included in the half-yearly report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed consolidated interim financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated interim financial statements in the half-yearly report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 reached.

Matthew Radwell
for and on behalf of KPMG LLP
Chartered Accountants
20 Station Road
Cambridge
CB1 2JD

Date: 14 December 2023

Condensed consolidated income statement

For the 26 weeks ended 2 October 2023

Continuing operations	Note	**26 weeks ended 2 October 2023 £'000**	26 weeks ended 26 September 2022 £'000
Revenue	5	**132,339**	165,775
Cost of sales		**(78,939)**	(93,342)
Fulfilment costs[1]		**(25,764)**	(32,319)
Gross profit pre inventory provision and winemaker cancellation costs[1]		**27,636**	40,114
Movement in inventory provision and winemaker cancellation costs	6	**1,327**	(7,908)
Gross profit[1]		**28,963**	32,206
Advertising costs		**(7,440)**	(10,036)
General and administrative costs		**(18,732)**	(27,148)
Impairment of non-current assets	6/7	**(11,539)**	-
Profit on disposal of asset classified as held for sale	6	**-**	4,814
Operating loss[2]		**(8,748)**	(164)
Finance costs		**(2,329)**	(565)
Finance income		**1,333**	514
Loss before tax		**(9,744)**	(215)
Tax	8	**(1,930)**	(258)
Loss for the period		**(11,674)**	(473)
Loss per share	9		
Basic		**(15.8p)**	(0.6p)
Diluted		**(15.8p)**	(0.6p)

1. The Directors have reviewed their application of IAS1 Presentation of Financial Statements and have elected to disclose fulfilment costs within gross profit, which were previously recognised below gross profit. Comparatives have also been re-presented and there is no impact on the loss for the period.

2. Operating loss analysed as:

		26 weeks ended 2 October 2023 £'000	26 weeks ended 26 September 2022 £'000
Adjusted EBIT	5	**2,159**	4,609
Adjusted items:	6		
Non-cash charges relating to acquisitions		**-**	(631)
Right-sizing of US inventory		**774**	(7,908)
Impairment of non-current assets		**(11,539)**	-
Profit on disposal of asset classified as held for sale		**-**	4,814
Other net adjusted items		**(142)**	(1,048)
Operating loss		**(8,748)**	(164)

The notes to the condensed consolidated interim financial statements following the primary statements are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of comprehensive income

For the 26 weeks ended 2 October 2023

	26 weeks ended 2 October 2023 £'000	26 weeks ended 26 September 2022 £'000
Loss for the period	**(11,674)**	(473)
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**1,115**	17,714
Tax on items that may be subsequently reclassified to the income statement	**-**	(546)
Other comprehensive income for the period	**1,115**	17,168
The total comprehensive (loss)/profit for the period	**(10,559)**	16,695

The total comprehensive income for the period and the prior period is wholly attributable to the equity holders of the parent company, Naked Wines plc.

The notes to the condensed consolidated interim financial statements following the primary statements are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity

For the 26 weeks ended 2 October 2023

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Currency translation reserve £'000	Retained earnings £'000	Total equity £'000
At 28 March 2022	5,508	21,162	363	3,183	79,667	109,883
Loss for the period	-	-	-	-	(473)	(473)
Other comprehensive income/(loss) for the period	-	-	-	17,714	(546)	17,168
The total comprehensive income/(loss) for the period	-	-	-	17,714	(1,019)	16,695
Shares issued	42	-	-	-	(42)	-
Credit to equity for equity-settled share based payments	-	-	-	-	740	740
At 26 September 2022	5,550	21,162	363	20,897	79,346	127,318
At 3 April 2023	5,550	21,162	363	7,930	63,673	98,678
Loss for the period	**-**	**-**	**-**	**-**	**(11,674)**	**(11,674)**
Other comprehensive income for the period	**-**	**-**	**-**	**1,115**	**-**	**1,115**
The total comprehensive income/(loss) for the period	**-**	**-**	**-**	**1,115**	**(11,674)**	**(10,559)**
Credit to equity for equity-settled share based payments	**-**	**-**	**-**	**-**	**664**	**664**
Deferred tax on share based payments	**-**	**-**	**-**	**-**	**(32)**	**(32)**
At 2 October 2023	**5,550**	**21,162**	**363**	**9,045**	**52,631**	**88,751**

The notes to the condensed consolidated interim financial statements following the primary statements are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated balance sheet

As at 2 October 2023

	Note	**2 October 2023 £'000**	3 April 2023 £'000
Non-current assets			
Goodwill and intangible assets	7	**5,859**	14,938
Property, plant and equipment		**2,936**	2,757
Right-of-use assets		**2,436**	5,374
Deferred tax assets		**5,410**	7,328
Other receivables		**11,252**	10,711
		27,893	41,108
Current assets			
Inventory staged payments to winemakers[1]		**26,918**	27,217
Inventories[1]		**161,750**	138,449
Trade and other receivables		**5,393**	5,610
Financial instruments at fair value		**-**	30
Cash and cash equivalents	10	**33,768**	39,474
		227,829	210,780
Current liabilities			
Trade and other payables		**(46,752)**	(42,427)
Current tax liabilities		**(1,943)**	(1,836)
Angel funds and other deferred income		**(80,245)**	(71,314)
Lease liabilities	10	**(1,561)**	(2,030)
Provisions		**(1,584)**	(1,709)
Other loans	10	**(1,000)**	-
Bond financing		**(35)**	(35)
Financial instruments at fair value		**(156)**	(290)
		(133,276)	(119,641)
Net current assets		**94,553**	91,139
Total assets less current liabilities		**122,446**	132,247
Non-current liabilities			
Provisions		**-**	(14)
Lease liabilities	10	**(3,772)**	(3,821)
Borrowings	10	**(29,923)**	(29,131)
Deferred tax liabilities		**-**	(603)
		(33,695)	(33,569)
Net assets		**88,751**	98,678
Equity			
Share capital		**5,550**	5,550
Share premium		**21,162**	21,162
Capital redemption reserve		**363**	363
Currency translation reserve		**9,045**	7,930
Retained earnings		**52,631**	63,673
Total equity		**88,751**	98,678

1. The Directors have reviewed the disclosure of staged payments to winemakers in respect of inventory and have elected to disclose the amounts separately on the face of the balance sheet. Comparatives have also been re-presented. The amounts were previously aggregated within inventory. There is no impact on net assets or equity.

Condensed consolidated balance sheet

As at 2 October 2023

The notes to the condensed consolidated interim financial statements following the primary statements are an integral part of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, as adopted for use in the UK.

By order of the Board

James Crawford
Chief Financial Officer
14 December 2023

Condensed consolidated statement of cash flows

For the 26 weeks ended 2 October 2023

	Note	**26 weeks ended 2 October 2023 £'000**	26 weeks ended 26 September 2022 £'000
Operating activities			
Net cash flows used in operations	10	**(3,580)**	(22,751)
Overseas income tax paid		**(511)**	(59)
Net cash (used in) operating activities		**(4,091)**	(22,810)
Investing activities			
Interest received, including interest received on the vendor loan note		**247**	36
Purchase of property, plant and equipment		**(647)**	(595)
Net proceeds on disposal of property, plant and equipment		**39**	10
Proceeds from sale of asset held for resale		**-**	5,624
Net cash (used in)/from investing activities		**(361)**	5,075
Financing activities			
Interest paid		**(1,479)**	(348)
Lease interest paid		**(179)**	(70)
Repayments of principal under lease liabilities		**(999)**	(441)
Debt issuance costs paid		**-**	(768)
Loan advance from supplier		**1,000**	-
Drawdown of credit facility		**-**	19,468
Net cash (used in)/from financing activities		**(1,657)**	17,841
Net (decrease)/increase in cash		**(6,109)**	106
Cash and cash equivalents at the beginning of the period		**39,474**	39,846
Effect of foreign exchange rate changes		**403**	1,670
Cash and cash equivalents at the end of the period	10	**33,768**	41,622

The notes to the condensed consolidated interim financial statements following the primary statements are an integral part of these condensed consolidated interim financial statements.

1. General information

Naked Wines plc, (the Company) is a public limited company and is limited by shares. It is incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The Company is the ultimate controlling party of the Naked Group and its ordinary shares are traded on the Alternative Investment Market (AIM).

The Company's registered address and principal place of business is The Union Building, 51-59 Rose Lane, Norwich, NR1 1BY. The Group's principal activity is the direct-to-consumer retailing of wine. 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 UK-adopted international accounting standards.

These condensed consolidated interim financial statements have been prepared applying the accounting policies set out in the Annual Report and Accounts for the 53 weeks ended 3 April 2023.

The auditor's report on those accounts was not qualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006. However, it did include a reference to a material uncertainty related to going concern being a matter to which the auditor drew attention by way of emphasis without qualifying the auditor's report.

The condensed consolidated interim financial statements included in this report have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, as adopted for use in the UK. The condensed consolidated interim financial statements are not statutory accounts. The financial reporting period represents the 26 weeks ended 2 October 2023 and the prior period, 26 weeks ended 26 September 2022 and are presented in GBP which is the Group's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

The new accounting standards that came into effect in the current accounting period beginning 4 April 2023, noted below, do not introduce any new disclosures that are explicitly required in the condensed consolidated interim financial statements.

- Amendments to IFRS 17
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12) - Application of the exception and disclosure of that fact
- International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12) - other disclosure requirements

3. Significant estimates

Goodwill and non-current asset carrying value

During the period, future trading expectations, in particular with respect to the Group's US trading segment, have been revised downwards to realign previously anticipated growth in key performance metrics with more recently observed stable period-on-period performance KPIs in the market, most relevantly revenue per Angel and the rate of Angel attrition. Revision to future trading forecasts has resulted in a downward impact on the value in use calculation used to evaluate the carrying value of goodwill and other non-current assets in the Group's goodwill impairment assessment.

3. Significant estimates (continued)

Goodwill and non-current asset carrying value (continued)

The Group annually tests whether goodwill has suffered any impairment or more frequently where indicators of impairment exist in between these annual tests. At the half year such indications existed, and the Group undertook an impairment assessment as part of its half-year reporting procedures. Determining whether goodwill and other non-current assets are impaired requires an estimation of the recoverable amount of the asset derived from the cash generating unit (CGU) to which the goodwill and the non-current assets have been allocated, measured as the higher of value in use or fair value less cost of disposal. The value in use calculation requires an estimate of the present value of future cash flows expected to arise from the CGU, by applying an appropriate discount rate to the timing and amount of future cash flows.

Management is required to make judgements regarding the timing and amount of future cash flows applicable to the CGU based on current budgets and forecasts, and then into perpetuity, taking into account growth rates and expected changes to sales and operating costs.

Management estimates the appropriate discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU.

The Group's impairment test at the balance sheet date results in a partial impairment of goodwill and other non-current assets, see note 7 Impairment of non-current assets for further details of results of this assessment. The Directors note the period-on-period decline in value in use, in particular in the US segment, and highlight the key assumptions driving the impairment assessment as set out above as a key source of estimate uncertainty with regard to the continuing carrying value of goodwill. The Directors also highlight that as a result of the decline in headroom above carrying value in the year resulting in the impairment charge reported, should the key assumptions used to calculate the value in use of goodwill move adversely in a future period, there is a risk that carrying value of goodwill may become further impaired, see note 7 Impairment of non-current assets for calculated sensitivity analysis.

Inventory valuation and impairment provision

An implication of the Group's pivot to profit strategy announced in the previous financial year and also as a result of ongoing trading pressure, in particular in the Group's US segment, is the reassessment by the Directors of required inventory holding levels and future buying commitments. As a result of this review, a number of winemakers, brands and products were delisted, and plans made to exit certain quantities of inventory at less than historic cost. On the basis of this evaluation, the Group holds a provision of £9.7 million in its US segment at the balance sheet date against delisted winemakers and for the disposal of bulk wine where anticipated proceeds are less than carrying value. In addition, the Group also holds a further inventory provision of £0.9 million across its UK and Australian segments against specifically identified wines where net realisable value is estimated to be less than cost. On the basis of the forecast prepared for the evaluation of going concern of the Group, the Directors anticipate that the remaining cost of inventory held at the balance sheet date will be profitably realised.

A number of critical judgements have been made in the calculation of the US segment inventory provision analysis including:

- estimates of the likely use before expiry of wine approaching the end of its prime marketing life;
- planned evolution of range and winemaker portfolio;
- cannibalisation and absorption of wine volumes across the Naked range; and
- realisable value of bulk wine in the open market.

The Directors highlight that in the event that their estimates prove to be inaccurate, the magnitude of the inventory write off could change. A sensitivity assumption that is readily quantifiable is the average expiry life of wine. Management have prepared their estimated wine marketing expiry date from the experience of the life cycle of wine over time in the Naked US market and examination of customer feedback of wines as they age from first release. However, if every wine's expected expiry date was reduced by six months, the amount of wine expiring, and hence requiring write off, within the Group's forward review period would increase by £3 million. Reducing this assumption by a further six months to 12 months in total would increase the write-off by a further £3 million.

4. Going concern

Position adopted at year end 3 April 2023

The Group's financial statements for the year ended 3 April 2023 were signed on 18 September 2023. Those financial statements were prepared on the basis that the Group was a going concern although there was a material uncertainty in respect of going concern. In arriving at this conclusion, the Directors had reviewed the Group's updated cash flow forecasts along with severe but plausible downsides and a reverse stress test. Having considered these forecasts, sensitivities and mitigating actions, and having regard to the risks, uncertainties and challenges in recent trading and the macroeconomic environment, the Directors concluded that a material uncertainty existed with regards to going concern. This material uncertainty related to the Group's ability to generate sufficient future cash flows while trading in a volatile environment, successful completion of planned actions and maintaining access to the forecast level of Asset Backed Lending (ABL) facility in order to meet its minimum cash covenant in the going concern period.

Update to position

Subsequent to the issue of the FY23 financial statements and the update to guidance provided at that time on 19 September 2023, trading in the UK and Australian markets in the second quarter was broadly in line with the forecasts supporting the prior issued guidance, and at a Group level cash balances remain close to the forecasts, reflecting the Group's ability to continue to move inventory intake to reflect demand outlook. However, trading in the US during the second quarter and subsequently in October was weaker than anticipated. In particular, expectations of year-on-year revenue per Angel growth from repeat customers were not met, along with associated repeat contribution margins being below forecast. Despite this, the Group remained within the parameters of its previous severe but plausible downside scenario.

As disclosed as an event after the balance sheet date in the FY23 financial statements, on 22 August 2023 the Group also concluded a further amendment to its credit facility, moving the facility defined adjusted EBITDA covenant threshold from a trailing three-month basis to an ongoing trailing 12-month basis from the beginning of FY25. The first revised measurement period will be for the covenant reporting period ending June 2024. The amendment also increases the size and specificity of the non-recurring expense add-back in the calculation of the facility defined adjusted EBITDA measure.

Base case forecast

In response to the decline in trading performance of the US business since the last forecast, and in order to assess the appropriateness of the going concern assumption, the Directors reviewed, and revised downwards, their previously prepared baseline forecast to reflect and anticipate the emerging trading across the Group, in particular in the US. The Directors considered (i) the cash requirements of the business to pursue its intended strategy, (ii) the funding available to the Group from its existing cash reserves and the ABL facility and (iii) potential variations in cash requirements taking into account severe but plausible downside scenarios.

In particular, the Directors' revised baseline forecast reflected:

- The latest number of repeat customers in all markets at the balance sheet date;
- A conservatively higher customer acquisition cost in the outlook period based on recent trends;
- A downward revised revenue per Angel outlook versus the previous forecast but in line with recent history; and
- The impact of the testing at scale of the revised new customer recruitment model on revenue, gross margin, associated variable cost forecasts and customer deferred revenue balances.

This updated forecast formed the basis of the revised market guidance, issued on 7 November 2023.

Under this base case scenario, the Group has sufficient liquidity and profitability to meet its ABL credit facility covenant commitments for a period of more than 12 months from the date of signing these interim financial statements.

Severe but plausible downside forecast

The Directors note that in recent times the Group has revised its revenue and profit outlook downwards multiple times but as set out above, believe that their current baseline forecast now represents a conservative view of future trading prospects.

4. Going concern (continued)

Nevertheless, the Directors have also considered several severe but plausible changes in assumptions and have combined them into a single severe but plausible downside scenario:

- The observed value uplift seen in testing of the revised new customer recruitment model does not endure over time and in FY25 these customers are no more valuable than Angel customers;
- Despite a mix towards more long-tenured Angels in the Angel base, FY25 repeat revenue per Angel remains flat year-on-year;
- 50% of the US and UK fulfilment cost savings contracted and forecast into the base case in FY24 and FY25 are not realised;
- The automatic reduction to nil of variable compensation in FY25 in the downside scenario.

Together, these downside assumptions result in a 5% reduction in repeat sales and a 10% reduction in repeat contribution in FY25, allowing for a conservative FY24 sales and margin assumption. In this scenario, all banking covenants continue to be met. Facility defined adjusted EBITDA covenant compliance is at its narrowest across the second and third quarter of FY25 with the point of narrowest covenant compliance occurring in December 2024 with a credit facility defined EBITDA covenant figure of £5.2 million, after factoring in the elimination of variable compensation costs due to underperformance. This shows cover of 1.3x to the covenant before restoring to 1.6x by year end. Headroom above the credit facility minimum cash covenant is greater than £12 million across the forecast period to the end of FY25.

However, the Directors acknowledge that during the course of the first half of FY24, performance was adverse to forecast on some but not all trading metrics. Factoring in the potential recurrence of this variance into the severe but plausible scenario outlined above would result in a covenant breach. The Directors note in particular the limited facility defined adjusted EBITDA covenant headroom in the second and third quarter of FY25, and that a decline in the severe but plausible downside scenario contribution in the first half of FY25 of approximately 7%results in a breach of the facility defined adjusted EBITDA covenant in September 2024. The Group continues to remain compliant with its minimum cash covenant requirement across this period in this scenario.

Reverse stress test

An additional reverse stress test was also performed, being a downside scenario deliberately engineered to identify the point at which a covenant breaks, based on a total sales decline rather than a contribution decline in the scenario above. This reverse stress test assumes an additional reduction in repeat customer purchase frequency versus the severe but plausible downside scenario, resulting in a total sales decline in FY25 of 2% below the severe but plausible downside scenario, highlighting further the narrow headroom between a severe but plausible downside scenario and a reverse stress test covenant breach. In this reverse stress test scenario, the Group is not able to meet its facility defined adjusted EBITDA covenant in December 2024.

Recognising these risks, the Directors have commenced mitigating cost saving actions, most significantly including an initiative targeting general and administrative (G&A) cost savings well in excess of those included in the forecasts. The Directors have indicated an intent to run the business with G&A costs below 11% of revenue, which would indicate an additional year-on-year cost reduction of around £5 million and which would support increased EBITDA. The Directors also note that the level of new customer investment in FY25 in all scenarios remains broadly flat and which is, at constant currency, £2 million above the FY24 anticipated level of new customer investment and a total of £5 million higher than the FY23 achieved level of new customer investment. As such, they would expect to be able to reduce lower-returning investments in the case of a worst-case scenario, whilst minimising the on-going impact on future investment return.

Other material assumptions reflected in the above scenarios

In addition to the trading downside risk set out above, the Directors draw attention to projects currently in progress to maintain future working capital requirements and the ongoing requirement for cooperation from external stakeholders. This includes, most significantly, the work the Group is currently undertaking with its winemakers to realign future inventory intake commitments and inbound destinations to accelerate the Group's destocking process. At the time of writing, these initiatives are ongoing, so management has incorporated these uncertainties into the medium-term forecast.

4. Going concern (continued)

Access to the Group's Asset Backed Lending Facility

The Directors also draw attention to their ongoing need to continue to access the anticipated level of the Group's ABL facility to the end of the third quarter of FY25, in order to support the Group's forecast available credit. This is determined by the level and carrying value of the Group's US inventory, in turn determined by (amongst other factors) the US secondary market prices for bulk and bottled wine, as well as maintenance of the existing level of supplier waivers (to include wine held at their facilities within the facility borrowing base calculation).

The Directors highlight that by the end of the third quarter of FY25, their base case and severe but plausible downside forecasts show the Group holding the facility required minimum cash and usual operating cash requirements with no drawdown on the facility and, as such, the uncertainty around the anticipated level of the Group's ABL facility falls away at this point. The Directors also note that, at this point, the ABL facility then provides the Group with an additional source of working capital in excess of daily and facility covenant needs.

Notwithstanding the potential for medium-term improvements in the Group's cash position, delivery of required plans and the several factors influencing the level of availability of the Group's ABL facility give rise to additional uncertainties which might impact on the Group's forecast cash flows over the forecast period.

Summary

After considering the forecasts, sensitivities and mitigating actions available, and having regard to the risks, uncertainties and challenges in recent trading, and the macroeconomic environment, the Directors note the continued existence of a material uncertainty over the assumption of going concern, which may cast doubt over the Group's ability to continue as a going concern, and therefore its ability to realise its assets and discharge its liabilities in the normal course of business.

The material uncertainty continues to reflect the factors disclosed in the FY23 going concern assessment. These factors are the Group's ability to generate sufficient future cash flows while trading in a volatile environment, successful completion of planned initiatives to optimise working capital requirements and the continued reliance on external stakeholders in order to achieve these objectives, and maintaining access to the forecast level of credit in the ABL facility. These factors together are necessary for the Group to meet its credit facility covenant requirements in the going concern period, of more than 12 months from the date of the signing of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements have been prepared on a going concern basis, whilst noting the material uncertainty above.

5. Segmental reporting

IFRS 8 Operating segments requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The Board has determined that the Executive Directors of the Company are the CODM of the business. This is on the basis that they have primary responsibility for the allocation of resources between segments and the assessment of performance of the segments. In line with the information presented to the Executive Directors of the Company, the Group presents its segmental analysis based on the three geographic locations in which the Group operates.

Performance of these operating segments is assessed on revenue and adjusted EBIT (being operating profit excluding any adjusted items), as well as analysing the business between new customer and repeat customer lines of business.

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 the segments. Adjusted items are allocated in accordance with how they are reported to the CODM.

The table below sets out the basis on which the performance of the business is presented to the CODM. The CODM considers that, as a single route to market and solely consumer-facing business in three geographically and economically diverse locations, the business comprises three operating segments. The Group reports revenue from external customers as a single product group, this being principally wine and some spirits.

Costs relating to global Group functions are not allocated to the operating segments for the purposes of assessing segmental performance and consequently global costs are presented separately. This is consistent with the presentation of those functions to the CODM.

Revenues are attributed to the countries from which they are earned. The Group is not reliant on a major customer or group of customers.

All revenue is recognised at a single point in time when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Specific to the Group, the performance obligations of the Group are deemed to be fulfilled when the product is delivered to our customer or Angel, typically within one to three days following dispatch, which is when the customer obtains control of their purchase and there is reasonable certainty regarding the recovery of the consideration.

Included within Angel funds and other deferred income is deferred income of £6.3 million (3 April 2023: £3.5 million). These balances represent value of funds received in advance, but the order is yet to be fulfilled or delivered. This will be recognised as revenue when the order is fulfilled or delivered, which is expected to occur over the next six months.

The Group is subject to seasonal fluctuations resulting in varying profits over the full year period. The Group experiences increased sales in the third quarter which covers the holiday period, accounting for around 40% of total revenue compared to around 20% in each of the other quarters.

5. Segmental reporting (continued)

26 weeks ended 2 October 2023	Naked Wines US £'000	Naked Wines UK £'000	Naked Wines Australia £'000	Unallocated £'000	Total £'000
Revenue	**63,924**	**52,372**	**16,043**	**-**	**132,339**
Revenue associated with the US FY23 inventory impairment	(707)	-	-	-	**(707)**
Total adjusted sales [1]	**63,217**	**52,372**	**16,043**	**-**	**131,632**
Analysed as:					
New Customer sales	5,336	2,313	1,462	-	**9,111**
Repeat Customer sales	57,172	50,059	14,581	-	**121,812**
Other revenue	709	-	-	-	**709**
Total adjusted sales [1]	**63,217**	**52,372**	**16,043**	**-**	**131,632**
Investment in New Customers	(5,953)	(2,036)	(1,258)	-	**(9,247)**
Repeat Customer contribution	17,448	9,384	3,632	-	**30,464**
Other contribution	(468)	-	-	-	**(468)**
Total contribution after advertising costs[2]	11,027	7,348	2,374	-	**20,749**
General and administrative costs[3]	(5,749)	(3,070)	(1,607)	(8,164)	**(18,590)**
Adjusted EBIT	**5,278**	**4,278**	**767**	**(8,164)**	**2,159**
Adjusted items:					
Right-sizing of US inventory	774	-	-	-	**774**
Impairment of non-current assets	(10,842)	-	(696)	-	**(11,539)**
Other adjusted items	-	-	-	(142)	**(142)**
Operating (loss)/profit	**(4,790)**	**4,278**	**71**	**(8,306)**	**(8,748)**
Finance costs	(2,292)	(14)	(21)	(2)	**(2,329)**
Finance income	792	-	-	541	**1,333**
(Loss)/profit before tax	**(6,290)**	**4,264**	**50**	**(7,767)**	**(9,744)**
Tax	(2,068)	306	(169)	-	**(1,930)**
(Loss)/profit for the period	**(8,398)**	**4,570**	**(119)**	**(7,767)**	**(11,674)**
Depreciation	1,235	127	112	57	**1,531**
Amortisation	-	-	-	100	**100**
Impairments	10,842	-	696	**-**	**11,539**
Total assets	147,571	60,246	24,901	23,004	**255,722**
Total liabilities	93,753	54,568	15,131	3,519	**166,971**

26 weeks ended 2 October 2023	US £'000	UK £'000	Australia £'000	Total £'000
Geographical analysis				
Revenue	63,924	52,372	16,043	**132,339**
Non-current assets excluding deferred tax assets	5,248	17,234	-	**22,482**

1. Total adjusted sales are calculated as revenue excluding revenue associated with the right-sizing of US inventory as analysed in note 6 Adjusted items.
2. Contribution after advertising costs is calculated as gross profit (£28,963k) less advertising costs (£7,440k), excluding transactions associated with the right-sizing of US inventory included in contribution (£774k) (details in note 6 Adjusted items).
3. Refer to the table in the APM section at the end of this announcement for a reconciliation of G&A costs to those reported in the income statement.

5. Segmental reporting (continued)

26 weeks ended 26 September 2022	Naked Wines US £'000	Naked Wines UK £'000	Naked Wines Australia £'000	Unallocated £'000	Total £'000
Revenue	**85,209**	**58,808**	**21,758**	**-**	**165,775**
Revenue associated with the US FY23 inventory impairment	-	-	-	-	**-**
Total adjusted sales[1]	**85,209**	**58,808**	**21,758**	**-**	**165,775**
Analysed as:					
New Customer sales	8,989	2,666	1,698	-	**13,353**
Repeat Customer sales	72,238	56,142	20,060	-	**148,440**
Other revenue	3,982	-	-	-	**3,982**
Total adjusted sales [1]	**85,209**	**58,808**	**21,758**	**-**	**165,775**
Investment in New Customers	(7,938)	(1,632)	(2,148)	-	**(11,718)**
Repeat Customer contribution	24,840	11,719	5,601	-	**42,160**
Other contribution	(364)	-	-	-	**(364)**
Total contribution after advertising costs[2]	**16,538**	**10,087**	**3,453**	**-**	**30,078**
General and administrative costs[3]	(6,513)	(3,738)	(1,675)	(13,543)	**(25,469)**
Adjusted EBIT	**10,025**	**6,349**	**1,778**	**(13,543)**	**4,609**
Adjusted items:					
Non-cash items relating to acquisitions	-	-	-	(631)	**(631)**
Right-sizing of US inventory	(7,908)	-	-	-	**(7,908)**
Profit on disposal of asset classified as held for sale	-	-	-	4,814	**4,814**
Other net adjusted items	-	-	-	(1,048)	**(1,048)**
Operating profit/(loss)	**2,117**	**6,349**	**1,778**	**(10,408)**	**(164)**
Finance costs	(549)	(14)	(2)	-	**(565)**
Finance income	-	-	-	514	**514**
Profit/(loss) before tax	**1,568**	**6,335**	**1,776**	**(9,894)**	**(215)**
Tax	(169)	(884)	(297)	1,092	(258)
Profit/(loss) for the period	**1,399**	**5,451**	**1,479**	**(8,802)**	**(473)**
Depreciation	777	127	118	-	**1,022**
Amortisation	1	-	-	1,022	**1,023**
Impairments	**-**	-	-	**-**	**-**
Total assets	171,341	63,509	30,043	57,708	**322,601**
Total liabilities	100,376	60,550	23,676	10,681	**195,283**

26 weeks ended 26 September 2022	US £'000	UK £'000	Australia £'000	Total £'000
Geographical analysis				
Revenue	85,209	58,808	21,758	**165,775**
Non-current assets excluding deferred tax assets	4,014	50,126	283	**54,423**

1. Total adjusted sales are calculated as revenue excluding revenue associated with the right-sizing of US inventory as analysed in note 6 Adjusted items.
2. Contribution after advertising costs is calculated as gross profit (£32,206k) less advertising costs (£10,036k), excluding transactions associated with the right-sizing of US inventory included in contribution (£7,908k) (details in note 6 Adjusted items).
3. Refer to the table in the APM section at the end of this announcement for a reconciliation of G&A costs to those reported in the income statement.

6. Adjusted items

The Directors believe that the adjusted EBIT measure provides additional useful information for shareholders on trends and performance. Adjusted EBIT 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 operating profit are:

	26 weeks ended 2 October 2023 £'000	26 weeks ended 26 September 2022 £'000
Non-cash charges relating to acquisitions - amortisation of acquired intangibles	**-**	(631)
Movement in the US inventory provision created as part of FY23 adjusted items	**1,327**	(7,545)
US cancellation of winemaker contracts	**-**	(363)
	1,327	(7,908)
Disposal of US inventory provided for as part of FY23 adjusted items - contribution loss reported within gross profit before inventory provision	**(553)**	-
Right-sizing of US inventory included in contribution	**774**	(7,908)
Impairment of non-current assets	**(11,539)**	-
Profit on disposal of asset classified as held for sale	**-**	4,814
Restructuring costs	**36**	(1,174)
Software as a Service costs incurred in the implementation of new ERP platform	**(248)**	(1,435)
Fair value movement through the income statement on foreign exchange contracts and associated unrealised foreign currency inventory	**70**	1,551
Foreign exchange movements on plc company currency bank balances	**-**	10
Other net adjusted items	**(142)**	(1,048)
Total adjusted items	**(10,907)**	(4,773)

Amortisation of acquired intangibles

These items reflect costs of customer acquisition from prior to the purchase of the Naked Wines business. To reflect the cost of current new customer acquisition in its adjusted EBIT, the Group includes the expenses of all ongoing customer acquisitions in its adjusted profit measures but removes the amortisation cost of those customers acquired before acquisition by Naked Wines plc. These acquired assets were fully amortised as at the end of FY23 and do not appear in the income statement for the period 26 weeks ended 2 October 2023.

Right-sizing of US inventory

As a result of management's US inventory right-sizing exercise strategy commencing in the prior financial year, the Group recorded a net credit of £0.8 million in the 26 weeks ended 2 October 2023 (£7.9 million charge in the 26 weeks ended 26 September 2022), reflecting the release and utilisation of the inventory provision created in the prior financial year and a contribution loss where inventory that was provided against that has been sold on the secondary market as part this right-sizing exercise for less than historic cost of goods.

In FY23 management considered these provisions and charges to be one-off in nature as amounts relate to purchases made on the basis of continued expected growth following the COVID-19 pandemic and based on the Group's previous strategy of customer acquisition. As a result of the strategic shift from customer acquisition to short-term profitability and cash generation, this charge forms part of the one-off exercise undertaken in the year to better align purchasing and inventory management going forwards, whilst still ensuring the Group holds sufficient inventory to meet customer demand.

6. Adjusted items (continued)

Right-sizing of US inventory (continued)

Management concluded it is appropriate to include the inventory provisions and charges created in the prior period within adjusted items to provide a more consistent basis with the comparative adjusted EBIT alternative performance measure.

In the 26 weeks ended 2 October 2023, any further inventory provisions made are reported as part of trading performance.

Impairment of non-current assets
Please refer to note 7 Impairment of non-current assets for details.

Profit on disposal of asset classified as held for sale
In May 2022, the sale of the asset classified as held for sale was completed. The profit arising on the sale is the difference between the proceeds of £5.85 million less commissions and costs of £0.2 million and the carrying value of the asset of £0.8 million and as such is reported in the prior year comparative figures only.

Restructuring costs
In the previous financial year, the Group undertook a restructuring program seeking to generate improved efficiency and reduce costs. Following this review, one-off termination payments and associated costs were incurred in the US and the UK.

Software as a Service cost
During the previous financial year and the 26 weeks ended 2 October 2023, the Group incurred upfront configuration and implementation costs relating to the development of a new ERP system. Under the change of accounting policy, these costs are reported as incurred in the income statement. As material non-recurring expenditure, the costs relating to the configuration of the ERP platform have been disclosed as an adjusted item.

Fair value movement on foreign exchange contracts and associated unrealised foreign currency inventory
The Group commits in advance to buying foreign currency to purchase wine to mitigate exchange rate fluctuations. UK-adopted international accounting standards require us to mark the value of these contracts to market at each balance sheet date. As this may materially fluctuate, we adjust this, and associated foreign currency inventory revaluation, as to better reflect our trading profitability.

Foreign exchange movements on plc company bank accounts
In the 26 weeks ended 26 September 2022, the parent company held foreign currency cash balances, which it used to fund its US and Australian businesses. The revaluation of the foreign currency balances held were reported as adjusted items so as not to distort the picture of the underlying business cost base. No material foreign currency balances were held at the balance sheet date and as such no similar adjustment is reported as an adjusted item in the current year.

7. Impairment of non-current assets

a) Management have determined that indicators of impairment existed at the balance sheet date and as such an impairment review has been performed. As a result of this review, the carrying value of assets held in Naked Wines US and Naked Wines Australia have been reduced to their recoverable amount through recognition of an impairment charge of £11.5 million against goodwill, other intangibles, property, plant and equipment and right-of-use assets. This charge is recognised within adjusted items in the income statement and is analysed by segment and asset type as set out below:

	Goodwill £'000	Other intangible assets £'000	Property, plant and equipment £'000	Right-of-use assets £'000	**Total £'000**	**CGU value in use * £'000**
Naked Wines US	8,128	1,034	-	1,681	**10,843**	**64,753**
Naked Wines UK	-	-	-	-	**-**	**52,709**
Naked Wines Australia	-	-	11	685	**696**	**(447)**
	8,128	**1,034**	**11**	**2,366**	**11,539**	**117,015**

* The value in use of each CGU is calculated after a full allocation of corporate costs necessarily incurred to generate the cash inflows of the operating business units and in accordance with IAS36 Impairment of assets.

7. Impairment of non-current assets (continued)

Key assumptions
Cash flow assumptions

The primary determinants of cash flow are expected sales and the cost of sales of those goods, the level of expenditure on the acquisition of new customers and other associated costs which relate to the cash flows of the operating business units.

During the 26 weeks ended 2 October 2023 future trading expectations, in particular with respect to the Company's US trading segment, have been revised downwards to realign previously anticipated growth in key performance metrics with more recently observed stable KPI performance metrics in the market, most notably revenue per Angel and the rate of Angel attrition.

The impact of the changes in future trading expectations versus previous forecast estimates, along with adverse movement in the discount rate driven by the external interest rate environment, has given rise to a reduction in value in use in the US, resulting in the reported additional impairment charge. The value in use in Australia has improved since the year end, however, is still insufficient to support the carrying value of non-current assets and an additional impairment charge has been recorded at the half year due to an increase in the carrying value, principally due to the extension of an IFRS16 lease, leading to an increased ROU asset carrying value.

The cash flows used in the value in use calculation are pre-tax cash flows based on the latest management forecasts in respect of the following five years, the first 12 months of which being the latest Board approved forecasts and which aligns with the forecast used in the preparation of the going concern analysis, as set out in accounting policy note 4 Going concern, amended only to align with the requirements of IAS 36 Impairment of Assets. An estimate of capital expenditure required to maintain these cash flows is also made.

Discount rate and long-term growth rate assumptions
The pre-tax discount rate and terminal growth rates used are as set out below:

	2 October 2023		3 April 2023	
	Discount rate	**Terminal growth rate**	Discount rate	Terminal growth rate
Naked Wines US	**18.2%**	**1.0%**	17.3%	1.0%
Naked Wines UK	**18.8%**	**2.0%**	17.9%	1.0%
Naked Wines Australia	**20.1%**	**1.0%**	19.1%	1.0%

The long-term growth rate assumptions used are not considered to be higher than the long-term industry average. These rates have been reviewed in the 26 weeks ended 2 October 2023 and have been revised for the UK segment to more accurately reflect current business performance expectations, market assumed long-term inflation and industry growth assumptions. Management recognise that a long-term growth rate of 1% is below that which a stable business would expect however, the Directors believe that this is an appropriate level for the US and Australian businesses at the present time. The Directors will reassess the long-term growth rate applied in each market in future periods as the actions currently being undertaken translate into a more stable trading performance.

The discount rate applied to the cash flows of each market is calculated using a pre-tax rate based on the weighted average cost of capital (WACC) which would be anticipated for a market participant investing in each of the Group's markets. Management believe it is appropriate to use a country specific pre-tax WACC for the testing of the Naked Wines goodwill and intangible assets based on the difference in the observed risk-free rate between the US and other industrialised economies and their different headline corporate income tax rates. The Group has considered the impact of the current economic climate in determining the appropriate discount rate to use in impairment testing.

7. Impairment of non-current assets (continued)

Sensitivity to further impairment charges

The key assumptions used in the recoverable amount estimates are the discount rates applied and the forecast cash flows.

The Group has performed a sensitivity analysis for the UK segment and the table below sets out the level at which, independently, fluctuations in the key assumptions result in the carrying value of these assets being equal to the segment recoverable amount, defined as its value in use:

	2 October 2023		3 April 2023	
	Breakeven discount rate	**Breakeven cash flow sensitivity**	Breakeven discount rate	Breakeven cash flow sensitivity
Naked Wines UK	**295.8%**	**(88.6)%**	223.1%	(71.9)%

The Directors believe that the carrying value of the US segment's remaining right-of-use assets and property, plant and equipment represent their expected recoverable amount as they have an intrinsic value as part of the core trading business. As such, any plausible adverse movement in key assumptions would not be expected to result in further impairments.

No sensitivities have been performed for the Australia segment as the goodwill allocated to this CGU, as well as the carrying value of property, plant and equipment and right-of-use assets, has been fully impaired.

See also note 3 Significant estimates, drawing attention to the assessment of the valuation of goodwill and other non-current assets as a key source of estimation uncertainty.

Note also that consistent with the operating segments of the business, being the three geographical markets in which the Group operates, the Directors recognise these operating segments as the cash generating units of the business.

b) Reconciliation of the carrying amount of goodwill, other intangibles, property, plant and equipment and right-of-use assets

	Goodwill £'000	Other intangible assets £'000	Property, plant and equipment £'000	Right-of-use assets £'000	Total £'000
Cost					
At 3 April 2023	31,541	28,487	5,652	9,237	74,917
Additions	**-**	**-**	**647**	**527**	**1,174**
Disposals	**-**	**-**	**(230)**	**(435)**	**(665)**
Foreign currency	**497**	**-**	**120**	**127**	**744**
At 2 October 2023	**32,038**	**28,487**	**6,189**	**9,456**	**76,170**
Accumulated amortisation, depreciation and impairments					
At 3 April 2023	(17,737)	(27,353)	(2,895)	(3,863)	(51,848)
Charge for the year	**-**	**(100)**	**(472)**	**(1,059)**	**(1,631)**
Impairments	**(8,128)**	**(1,034)**	**(11)**	**(2,366)**	**(11,539)**
Disposals	**-**	**-**	**177**	**323**	**500**
Foreign currency	**(314)**	**-**	**(52)**	**(55)**	**(421)**
At 2 October 2023	**(26,179)**	**(28,487)**	**(3,253)**	**(7,020)**	**(64,939)**
Net book value					
At 2 October 2023	**5,859**	**-**	**2,936**	**2,436**	**11,231**
At 3 April 2023	13,804	1,134	2,757	5,374	23,069

8. Tax

Tax for the 26 weeks ended 2 October 2023 is charged at an effective tax rate of (19.8)% (26 weeks ended 26 September 2022: (120.0)%) representing the best estimate of the Group's expected annual effective tax rate, applied to the profit before tax of the period. The statutory effective tax rate of (19.8)% is substantially driven by the distortionary impact of the non-tax recoverable impairment charge and the net impact of changes to deferred tax asset recognition.

	26 weeks ended 2 October 2023 £'000	26 weeks ended 26 September 2022 £'000
Current tax	**(544)**	(2,026)
Deferred tax		
Change in UK deferred tax asset recognition	429	-
Change in US deferred tax asset recognition	(1,768)	-
Other deferred tax movements	(47)	1,768
	(1,386)	1,768
Total tax charge for the period	**(1,930)**	**(258)**

Unrecognised deferred tax assets are re-assessed at each reporting date and are considered for the probability that future taxable profits would be available against which such losses can be used. Projections of taxable profits are based on the Group's Board approved forecasts which are the same as the projections used for going concern. These forecasts are then projected forwards, on a risk adjusted basis, for a further two financial years to a total of five financial years using the forecasts, before discounting, prepared as part of the Group's goodwill and non-current asset impairment assessments. In concluding on the recognition of the deferred tax asset, the Board have taken into consideration the material uncertainty over going concern (see note 4 Going concern). The assessment period for recognition of deferred tax assets is determined by the period over which the asset is expected to unwind or, for recognition of brought forward losses, has been limited to the forecast period set out above as management believes profit forecasts beyond this time frame carry with them a high degree of forecast uncertainty.

The forecasts show that it is more likely than not that future profits will be available against which £9.7 million of the brought forward losses in the UK can be offset. Therefore, in the 26 weeks ended 2 October 2023, a total deferred tax asset of £2.4 million has been recognised, an increase of £0.4 million since the year end. Deferred tax on losses of £13.7 million (53 weeks ended 3 April 2023: £16.7 million) have not been recognised in these financial statements, of which £11.6 million relates to pre-April 2017 losses in the UK on the basis that there is insufficient evidence of suitable future taxable profits against which to recover any deferred tax asset created.

In addition, the Group has not recognised deferred tax assets of £3.6 million (53 weeks ended 3 April 2023: £1.8 million) on inventory provisions in the US and has not recognised £0.6 million (53 weeks ended 3 April 2023: £0.6 million) of deferred tax assets in Australia due to uncertainty over future profits being available against which these deferred tax assets can be recovered.

9. Loss per share

Basic loss 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 180,161 shares (26 September 2022: 233,227 shares) held by the Naked Wines plc Share Incentive Plan Trust.

The diluted loss per share is the same as the basic loss per share in the current and comparative periods as the inclusion of any potential ordinary shares in the diluted loss per share calculation would be anti-dilutive.

	26 weeks ended 2 October 2023	26 weeks ended 26 September 2022
Loss per share		
Basic loss per share	**(15.8p)**	(0.6p)
Diluted loss per share	**(15.8p)**	(0.6p)

	26 weeks ended 2 October 2023 £'000	26 weeks ended 26 September 2022 £'000
Loss for the period	**(11,674)**	(473)

	26 weeks ended 2 October 2023	26 weeks ended 26 September 2022
Weighted average number of shares in issue	**73,770,908**	73,469,797
Dilutive potential ordinary shares:		
Employee share options	**-**	-
Weighted average number of shares for the purpose of diluted earnings per share	**73,770,908**	73,469,797
Total number of shares in issue	**74,004,135**	74,004,135

If the Company's share option schemes had vested at 100% the Company would have 74,624,159 (26 September 2022: 78,114,778) issued shares.

10. Notes to the cash flow statement

	Note	**26 weeks ended 2 October 2023 £'000**	26 weeks ended 26 September 2022 £'000
Cash flows from operating activities			
Loss for the period		**(11,674)**	(473)
Adjustments for:			
Depreciation and amortisation		**1,631**	2,045
Impairment of non-current assets	7	**11,539**	-
Loss on disposal of fixed assets		**1**	53
Intangible assets previously capitalised under former accounting policy		**-**	249
Profit on sale of asset held for resale		**-**	(4,814)
Net finance costs		**996**	51
Fair value movement on foreign exchange contracts		**(70)**	(1,551)
Inventory provision movement		**(1,327)**	7,545
Share based payment charges		**664**	740
Tax expense		**1,930**	258
Cash flows before movements in working capital		**3,690**	4,103
Increase in inventories		**(19,842)**	(50,578)
Increase in customer funds in deferred income		**8,515**	3,643
Decrease trade and other receivables		**235**	1,534
Increase trade and other payables		**3,822**	18,547
Net cash flows used in operating activities		**(3,580)**	(22,751)

	3 April 2023 £'000	Cash flows £'000	Non-cash movements £'000	**2 October 2023 £'000**
Cash and cash equivalents	**39,474**	**(6,109)**	**403**	**33,768**
Borrowings:				
Credit facility net of issuance costs	(29,131)	-	(792)	**(29,923)**
Other loans	-	(1,000)	-	**(1,000)**
Customer funded bond	(35)	-	-	**(35)**
Lease liabilities	(5,851)	999	(481)	**(5,333)**
	(35,017)	**(1)**	**(1,273)**	**(36,291)**
Total net cash/(borrowings)	**4,457**	**(6,110)**	**(870)**	**(2,523)**

	28 March 2022 £'000	Cash flows £'000	Non-cash movements £'000	**26 September 2022 £'000**
Cash and cash equivalents	**39,846**	**106**	**1,670**	**41,622**
Borrowings:				
Credit facility net of issuance costs	-	(18,700)	(25)	**(18,725)**
Customer funded bond	(35)	-	-	**(35)**
Lease liabilities	(3,567)	441	(767)	**(3,893)**
	(3,602)	**(18,259)**	**(792)**	**(22,653)**
Total net cash/(borrowings)	**36,244**	**(18,153)**	**878**	**18,969**

11. Borrowings

On 31 March 2022, the Group entered into a 36-month senior secured credit facility with Silicon Valley Bank as administrative agent and issuing lender for up to $60 million of credit based on the inventory held by Nakedwines.com Inc. The facility is secured against the assets of the Group.

The Group has three substantive financial condition covenants in relation to this credit facility.

a) A facility defined minimum balance sheet current ratio test;
b) A facility defined minimum qualified cash balance of $20 million to be held by loan parties at all times;
c) A facility defined adjusted EBITDA profit test.

On 22 August 2023, the Directors concluded an amendment to the principal covenant obligations of the Group's asset backed lending facility. This amendment moves the facility defined adjusted EBITDA covenant commitment threshold from a trailing three to a trailing 12-month basis from the beginning of FY25 and increases the size and specificity of the non-recurring expense add-back in the calculation of the facility defined adjusted EBITDA covenant commitment. The amendment also documented as a post-close completion obligation the inclusion of the Group's Australian businesses as loan parties to the agreement, see note 12 Events after the balance sheet date. These revised covenant obligations come into effect for periods beginning after 2 October 2023.

The introduction of the revised covenant commitments has no financial effect on the operation of the credit facility. However, the Directors believe that the revised profit covenant test provides the Company with greater latitude in the unwind of the Group's excess inventory and management of its operating cost base.

The Group has met all of its covenant conditions in all periods up to and including the reporting date.

12. Events after the balance sheet date

As set out in note 11 Borrowings, on 22 August 2023 the Group concluded an amendment to its asset backed lending facility with Silicon Valley Bank which also documented as a post-close completion obligation the inclusion of the Group's Australian businesses as loan parties to the agreement. This post-close obligation was completed on 26 October 2023 and the Group's Australian businesses are now part of the credit facility loan group.

Glossary of definitions, alternative performance measures (APMs) and key performance indicators (KPIs)

Definitions		
5* customer service	The percentage of feedback ratings received by our Customer Happiness teams that expressed 5* satisfaction on a scale of 1 to 5.	Customer experience KPI
5-Year Forecast Payback	The ratio of projected future Repeat Customer contribution we expect to earn from the new customers recruited in the year, divided by the Investment in New Customers. We forecast contribution at a customer level using a machine learning algorithm that weighs several characteristics including demographics, interactions and transactions forecast over a five-year horizon. This is then aggregated to a monthly, then annual, cohort level for reporting purposes. As this is an undiscounted forward-looking estimate it cannot be reconciled back to reported financial results.	Investment measure
5-Year Lifetime Value (LTV)	The future Repeat Customer contribution we expect to earn from customers recruited in a discrete period of time. We calculate this future contribution using a machine learning 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 machine learning algorithms then predict the future (lifetime) value of that customer.	Investment measure
Active Angel	An Angel that is an active subscriber who has placed an order in the past 12 months.	
Adjusted EBIT	Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, impairment of non-current assets, restructuring costs and fair value movement through the income statement on financial instruments and revaluation of funding cash balances held and any items that are either material one-time charges we do not expect to be repeated or are non-trading related. A reconciliation to operating profit can be found on the face of the Group income statement.	APM
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.	APM
AGM	Annual General Meeting	
Angel	A customer who deposits funds into their account each month to spend on the wines on our website.	
Company, Naked or Naked Wines	Naked Wines plc	
Contribution	Gross profit as disclosed in the Group income statement. We often split contribution into that from new and repeat customers as they can have different levels of profitability. A reconciliation of operating profit to contribution is shown in note 5 Segmental reporting.	
EBIT	Operating profit as disclosed in the Group income statement.	APM
EBITDA	EBIT plus depreciation and amortisation.	APM
Group	Naked Wines plc and its subsidiary undertakings	
Investment in New Customers	The amount we have invested in acquiring new customers during the year including contribution profit/loss from New Customer sales and advertising costs.	Investment measure

Glossary of definitions, alternative performance measures (APMs) and key performance indicators (KPIs)

Definitions		
Marketing R&D	Expenditure focused on researching and testing new marketing channels and creative approaches, with the aim of opening up significant new growth investment opportunities.	
Net cash excluding lease liabilities	The amount of cash we are holding less borrowings at year end excluding lease liabilities.	APM
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 as a repeat customer.	
New Customer sales	Revenues derived from transactions with customers who meet our definition of a new customer. A reconciliation of total sales to New Customer sales is shown in note 5 Segmental reporting.	
Other revenue	Revenue from stock optimisation activities.	
Other contribution	The contribution attributable to sales meeting the definition of other revenue.	Investment measure
Product availability	The average percentage of products we have defined as core to the portfolio that is available to our customers throughout the year.	Customer experience KPI
Realised Year 1 Payback	A payback measure based on the average of Year 1 Paybacks observed for cohorts reaching their first anniversary in the last twelve months	Investment measure
Repeat customer	A customer (Angel) who has subscribed and made their first monthly subscription payment.	
Repeat Customer contribution	The contribution attributable to sales meeting the definition of Repeat Customer sales. A reconciliation of adjusted EBIT to Repeat Customer contribution is shown in note 5 Segmental reporting.	Investment measure
Repeat Customer contribution margin	Repeat Customer contribution as a percentage of Repeat Customer sales.	Investment measure
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 of total sales to Repeat Customer sales is shown in note 5 Segmental reporting.	
Repeat Customer sales retention	The proportion of sales made to customers who met our definition of “repeat” last year and who placed orders again this year, calculated on a monthly basis and summed to calculate the full year retention.	Investment measure
Total addressable market (TAM)	TAM represents the available market which Naked sees as a revenue opportunity which it could serve.	
Wine quality - “Buy it again” ratings	The percentage of “Yes” scores given by customers in the year indicating that the customer would buy the product again.	Customer experience KPI
Year 1 Payback	A short-term payback measure showing the actual return in this financial year of our investment in the prior year.	Investment measure

Alternative performance measures (APMs)

Reconciliation of reported performance to management adjusted basis

		26 weeks ended 2 October 2023			26 weeks ended 26 September 2022				
		Reported	**Adjusted items**	**Adjusted**	Reported	Adjusted items	Adjusted	FX	At constant currency
		£m	**£m**	**£m**	£m	£m	£m	£m	£m
Sales	***Group***								
	New Customer sales	**9.1**	**-**	**9.1**	13.4	-	13.4	(0.4)	13.0
	Repeat Customer sales	**121.8**	**-**	**121.8**	148.4	-	148.4	(4.1)	144.3
	Other revenue	**1.4**	**(0.7)**	**0.7**	4.0	-	4.0	(0.1)	3.9
		132.3	**(0.7)**	**131.6**	165.8	-	165.8	(4.6)	161.2
	Naked Wines US								
	New Customer sales	**5.3**	**-**	**5.3**	9.0	-	9.0	(0.3)	8.7
	Repeat Customer sales	**57.2**	**-**	**57.2**	72.2	-	72.2	(2.3)	69.9
	Other revenue	**1.4**	**(0.7)**	**0.7**	4.0	-	4.0	(0.1)	3.9
		63.9	**(0.7)**	**63.2**	85.2	-	85.2	(2.7)	82.5
	Naked Wines UK								
	New Customer sales	**2.3**	**-**	**2.3**	2.7	-	2.7	-	2.7
	Repeat Customer sales	**50.1**	**-**	**50.1**	56.1	-	56.1	-	56.1
		52.4	**-**	**52.4**	58.8	-	58.8	-	58.8
	Naked Wines Australia								
	New Customer sales	**1.5**	**-**	**1.5**	1.7	-	1.7	(0.1)	1.6
	Repeat Customer sales	**14.6**	**-**	**14.6**	20.1	-	20.1	(1.8)	18.3
		16.0	**-**	**16.0**	21.8	-	21.8	(1.9)	19.9
Contribution after advertising costs	***Group***								
	Investment in New Customers	**(9.2)**	**-**	**(9.2)**	(11.7)	-	(11.7)	0.3	(11.4)
	Repeat Customer contribution	**30.5**	**-**	**30.5**	42.2	-	42.2	(1.4)	40.8
	Repeat contribution margin (%)	**25%**	**-**	**25%**	28%	-	28%	-	28%
	Other contribution	**0.3**	**(0.8)**	**(0.5)**	(0.4)	-	(0.4)	0.1	(0.3)
		21.5	**(0.8)**	**20.7**	30.1	-	30.1	(1.0)	29.1
	Naked Wines US								
	Investment in New Customers	**(6.0)**	**-**	**(6.0)**	(7.9)	-	(7.9)	0.1	(7.8)
	Repeat Customer contribution	**17.4**	**-**	**17.4**	24.8	-	24.8	(0.8)	24.0
	Repeat contribution margin (%)	**30%**	**-**	**30%**	34%	-	34%	-	34%
	Other contribution	**0.3**	**(0.8)**	**(0.5)**	(0.4)	-	(0.4)	0.1	(0.3)
		11.8	**(0.8)**	**11.0**	16.5	-	16.5	(0.6)	15.9
	Naked Wines UK								
	Investment in New Customers	**(2.0)**	**-**	**(2.0)**	(1.6)	-	(1.6)	-	(1.6)
	Repeat Customer contribution	**9.4**	**-**	**9.4**	11.7	-	11.7	-	11.7
	Repeat contribution margin (%)	**19%**	**-**	**19%**	21%	-	21%	-	21%
		7.3	**-**	**7.3**	10.1	-	10.1	-	10.1
	Naked Wines Australia								
	Investment in New Customers	**(1.3)**	**-**	**(1.3)**	(2.1)	-	(2.1)	0.1	(2.0)
	Repeat Customer contribution	**3.6**	**-**	**3.6**	5.6	-	5.6	(0.5)	5.1
	Repeat contribution margin (%)	**25%**	**-**	**25%**	28%	-	28%	-	28%
		2.4	**-**	**2.4**	3.5	-	3.5	(0.4)	3.1
General and administrative	Naked Wines US	**(5.6)**	**(0.1)**	**(5.7)**	(6.5)	-	(6.5)	0.2	(6.3)
	Naked Wines UK	**(3.1)**	**-**	**(3.1)**	(3.7)	-	(3.7)	-	(3.7)
	Naked Wines Australia	**(1.6)**	**-**	**(1.6)**	(1.7)	-	(1.7)	0.1	(1.6)
	Unallocated	**(8.4)**	**0.2**	**(8.2)**	(15.2)	1.7	(13.5)	-	(13.5)
	Group	**(18.7)**	**0.1**	**(18.6)**	**(27.1)**	**1.7**	**(25.5)**	**0.3**	**(25.2)**
Other items	Profit on sale of property	**-**	**-**	**-**	4.8	(4.8)	-	-	-
	Impairment	**(11.5)**	**11.5**	**-**	-	-	-	-	-
EBIT	Naked Wines US	**6.1**	**(0.8)**	**5.3**	2.1	7.9	10.0	(0.5)	9.5
	Naked Wines UK	**4.3**	**-**	**4.3**	6.3	-	6.3	-	6.3
	Naked Wines Australia	**0.8**	**-**	**0.8**	1.8	-	1.8	(0.2)	1.6
	Unallocated	**(19.9)**	**11.7**	**(8.2)**	(10.4)	(3.1)	(13.5)	-	(13.5)
	Group	**(8.7)**	**10.9**	**2.2**	**(0.2)**	**4.8**	**4.6**	**(0.7)**	**3.9**

Alternative performance measures (APMs)

Repeat contribution margin

		Naked Wines US	Naked Wines UK	Naked Wines Australia	Group
26 weeks ended 2 October 2023					
Repeat Customer sales	£m	57.2	50.1	14.6	121.8
Repeat Customer contribution	£m	17.4	9.4	3.6	30.5
Repeat contribution margin	%	**30.4%**	**18.8%**	**24.7%**	**25.0%**
26 weeks ended 26 September 2022					
Repeat Customer sales	£m	72.2	56.1	20.1	148.4
Repeat Customer contribution	£m	24.8	11.7	5.6	42.2
Repeat contribution margin	%	**34.3%**	**20.9%**	**27.9%**	**28.4%**

General and administrative costs reconciliation

	26 weeks ended 2 October 2023 £m	26 weeks ended 26 September 2022 £m
G&A costs per income statement	**(18.7)**	(27.1)
Add back adjusted items:		
Amortisation of acquired intangibles	**-**	0.6
Restructuring costs	**-**	1.2
Software as a Service costs	**0.2**	1.4
Fair value movement on open foreign exchange contracts	**(0.1)**	(1.6)
G&A costs per segmental reporting in note 5	**(18.6)**	(25.5)
Add back marketing R&D spend	**-**	3.8
Add back share based payment costs	**0.7**	0.7
Operating G&A costs	**(17.9)**	(21.0)

Net cash excluding lease liabilities

	2 October 2023 £m	26 September 2022 £m
Cash and cash equivalents	**33.8**	41.6
Borrowings and other loans:		
Credit facility net of issuance costs	**(29.9)**	(18.7)
Other loans	**(1.0)**	-
Customer funded bond	**-**	-
Total net cash excluding lease liabilities	**2.8**	22.9