

HY24 Results Presentation

15 December 2023

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Introduction

Rowan Gormley
Executive Chairman

On the agenda today



Strategic Review

Rowan Gormley



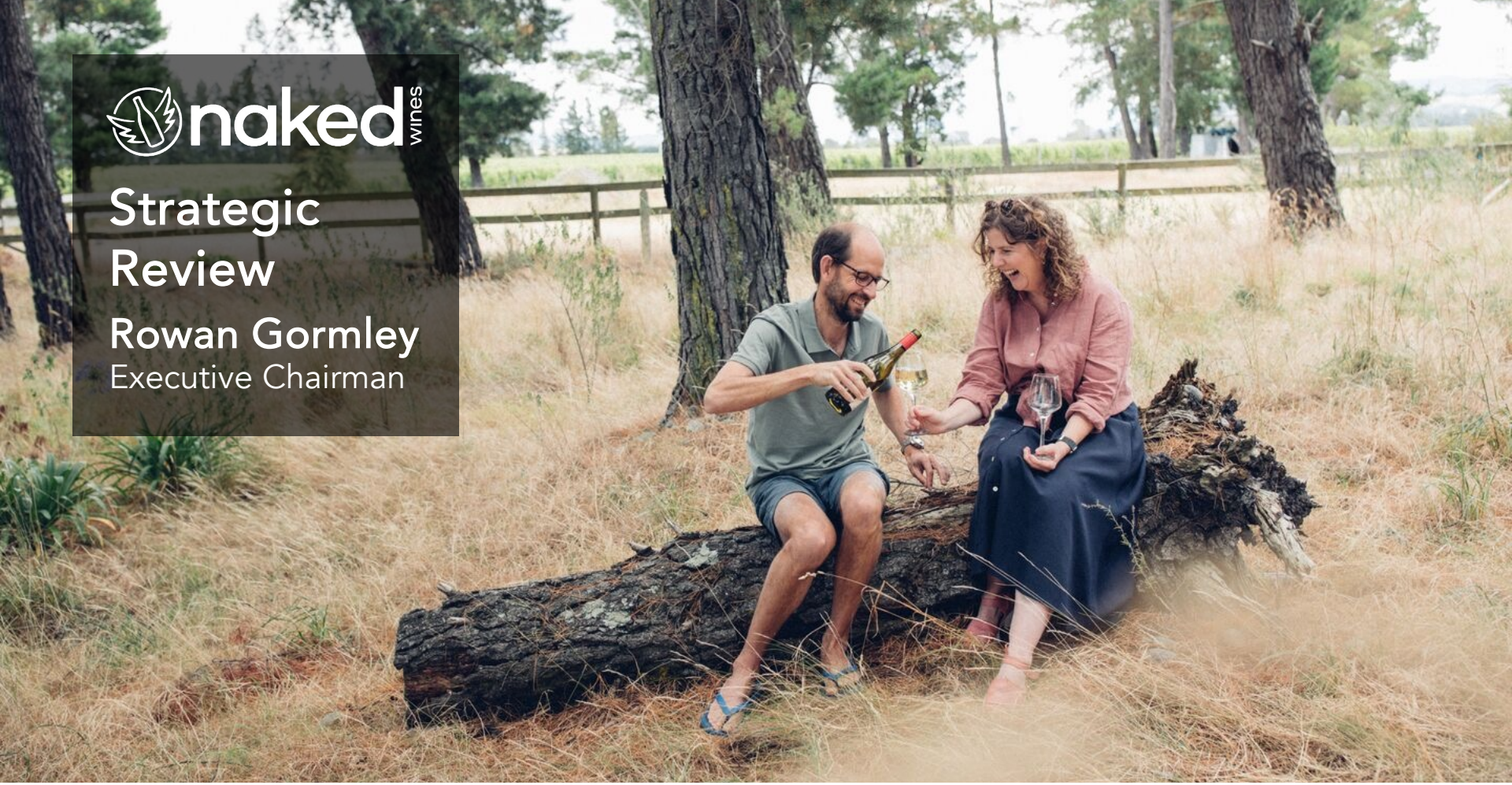
Financial Review

James Crawford



Looking forward

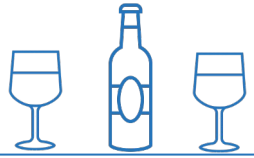
Rowan Gormley



Strategic Review

Rowan Gormley

Executive Chairman



We **are** doing what we said we were going to do…

We said we would get Naked back on track by…

Strengthening the balance sheet

- Rightsizing inventory and commitments to winemakers
- Release £40-50m of cash from inventory
- Renegotiate lending facilities

Making the profit sustainable

- £3m out of costs, £10m+ to come
- Ensure profitability at lower sales level
- Stabilise the customer base

Profitable growth

- Rebuild paybacks to enable growth at pre-pandemic levels

Where are we?

The good news...

- Moving towards cash generation
- £40-50m of cash release to come from inventory
- Costs coming down, £10m+ more to come
- Existing customer base strong: Sales per customer up YoY, attrition rates down

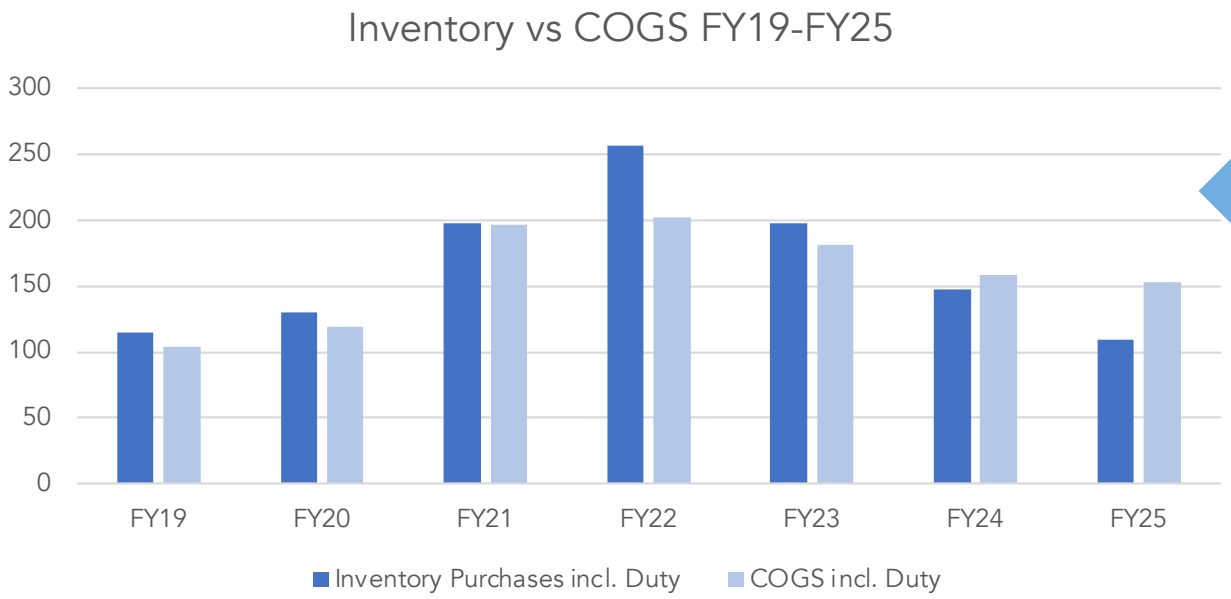
&

... the bad

- New customer acquisition remains tough

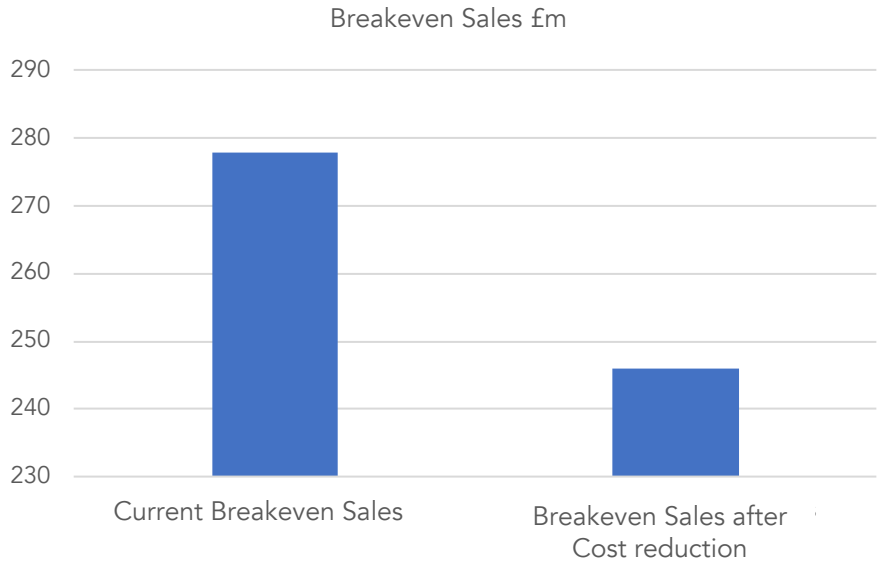
£40-50m of cash to be released from inventory by end FY25

Group inventory balance (£m)



£40-50m cash released from inventory over 2 years

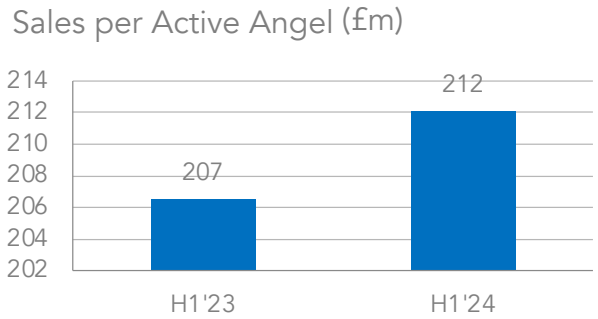
And are taking actions on cost to reduce our reliance on sustained sales levels

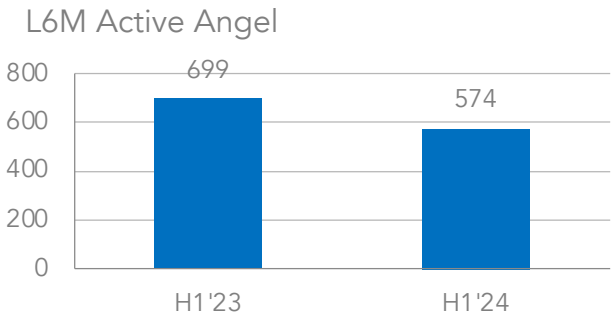


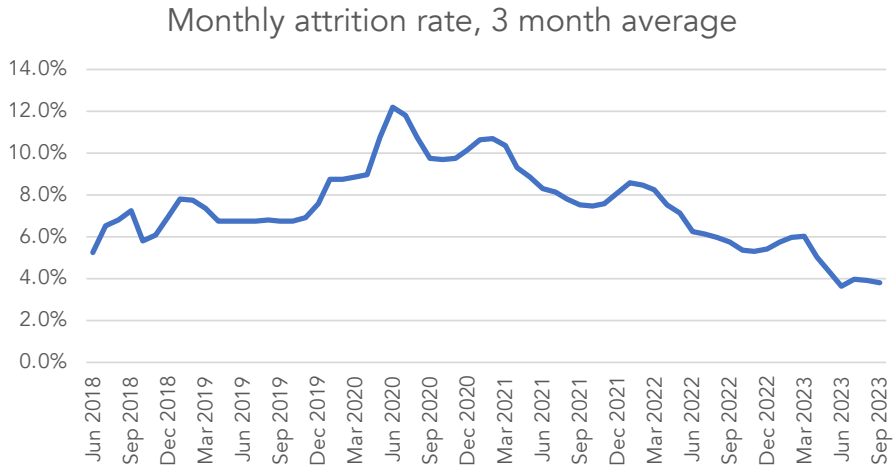
Business as configured today requires nearly £280m of sales to remain profitable at adjusted EBIT level

With cost actions in progress this will reduce to under £250m

Repeat customers are performing well







Although trading has been disappointing, ALL of the sales decline is due to lower customer numbers, which in turn is due to lower new customer recruitment. The existing customer base is healthy.

Reminder: Whether we fix trends in investment paybacks, we expect to be profitable and cash generative

New customer acquisition assumption	Implied Payback	FY26 Sales	FY26 EBIT	FY24-26 Cumulative Operating Cashflow
Structurally harder than pre-COVID	1.5 - 1.75x	~£280-300m	~£10m	~£70m
Return to long-term target	~2x	~£310-330m	~£15m	~£90m
Improves in line with realised rates FY17-20	~2.5x	~£330-350m	~£20m+	~£100m+

Note: The presented scenarios are indicative outcomes showing sensitivity to the specific variable of new customer investment payback, combined with the "guardrails" the business has indicated around investment levels and SG&A costs. They are not intended to constitute a profit forecast or outline all potential scenarios that the business may see in the future.

New initiatives being tested at scale

Goal – to restore Naked to profitable growth by…

1. Improving payback - by reducing variable costs
2. Converting more customers - by expanding TAM
3. Improving customer quality - by offering customers a relationship tailored to their spend, shopping and wine preferences

So far

1. Our variable cost cuts are increasing paybacks by 0.1x, with more to come
2. We believe we can bank a c.12% TAM increase (< 35s x 50% LTV) - being tested at scale right now
3. We hope we have a further 11% increase in LTV through customised relationships - to be rolled out in FY 25



Financial Review

James Crawford
Group CFO

Financial overview

A strong balance sheet

- Net cash at half year
- Almost £90m of net assets
- Significant destock on the horizon, cash generation in sight
- Stable Angel funding
- Opportunity for improved credit facility

A solid core of the business

- Rate of Angel decline turning corner
- Improving revenue per customer
- Margin improvements in the future

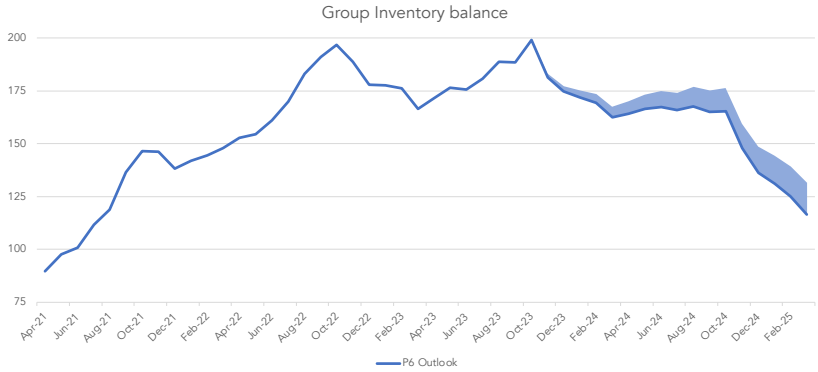
The challenge of recruitment

- Rate of new member recruitment stabilising
- Promising testing of new subscription mechanic

We have a solid business that will deliver future profitability and cashflow

Cash consumption moderated, entering cash generation period

	FY24 H1 £m	FY23 H1 £m
Operating loss	**(8.7)**	**(0.2)**
add back: Depreciation and Amortisation	1.6	2.0
Add back: Impairment	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)**



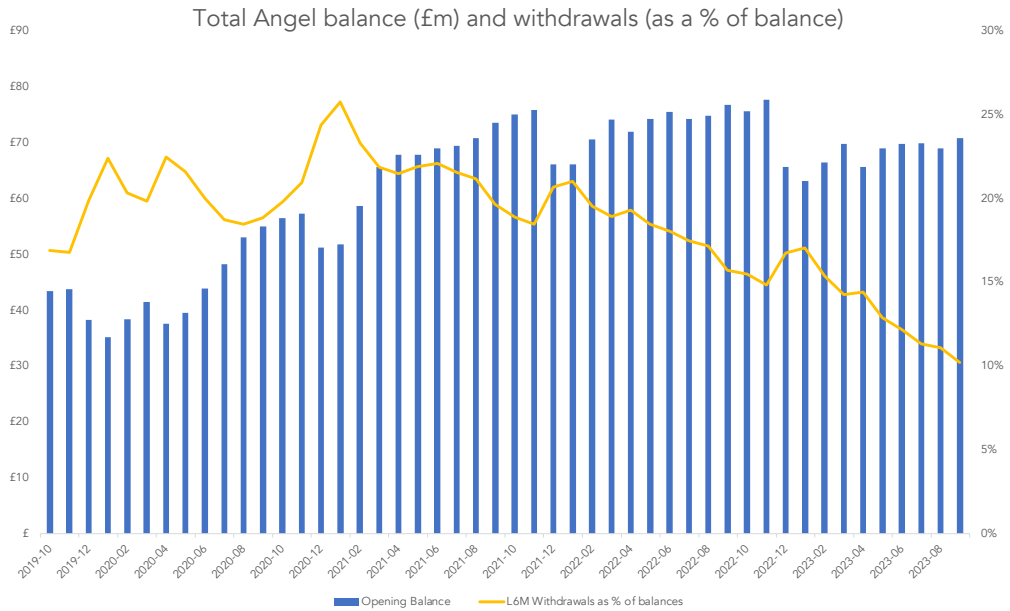
Cash drivers showing trend of changes

- Much lower stock build
- Corresponding drop in payables
- Angel funds reflect improving retention and customer quality

Cash generation in sight as trends forecast to continue

- Inventory commitments reduced below COGS
- Main driver will be H2 FY25 (peak sales)

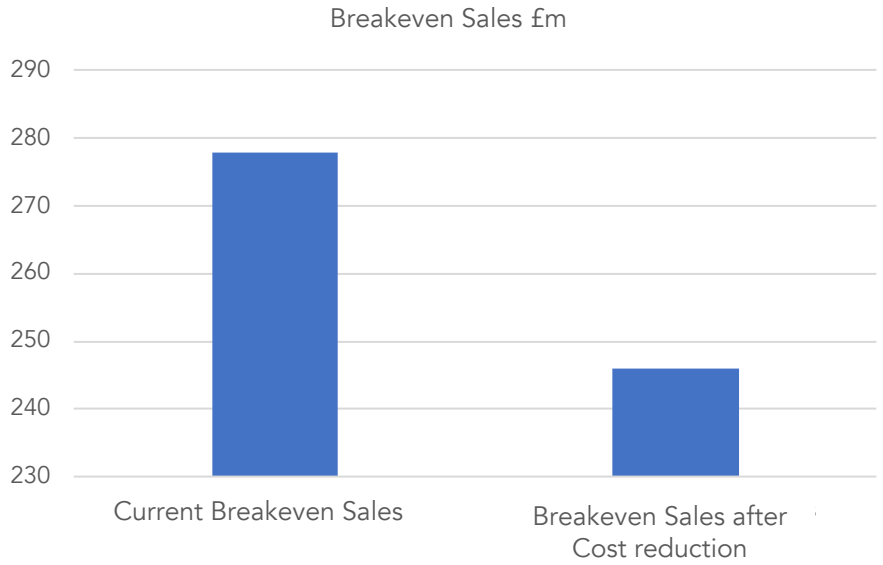
Angel fund redemptions remain stable, ABL replacement commencing



Commencing process to replace ABL

- Debt advisor appointed
- Preliminary view that replacement on improved terms may be available

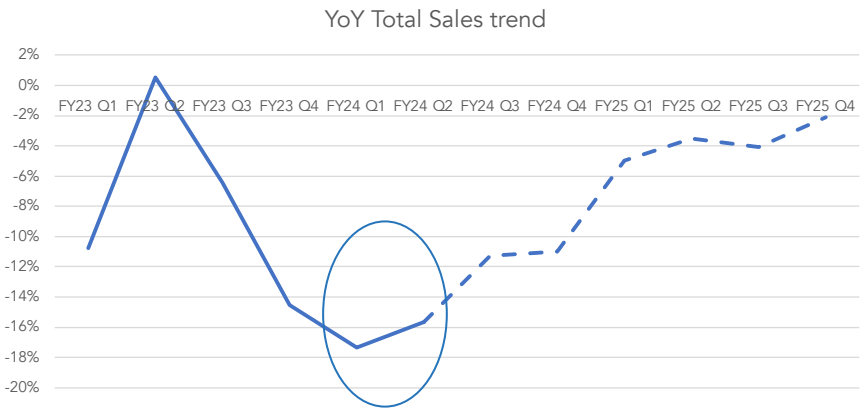
And are taking actions on cost to reduce our reliance on sustained sales levels

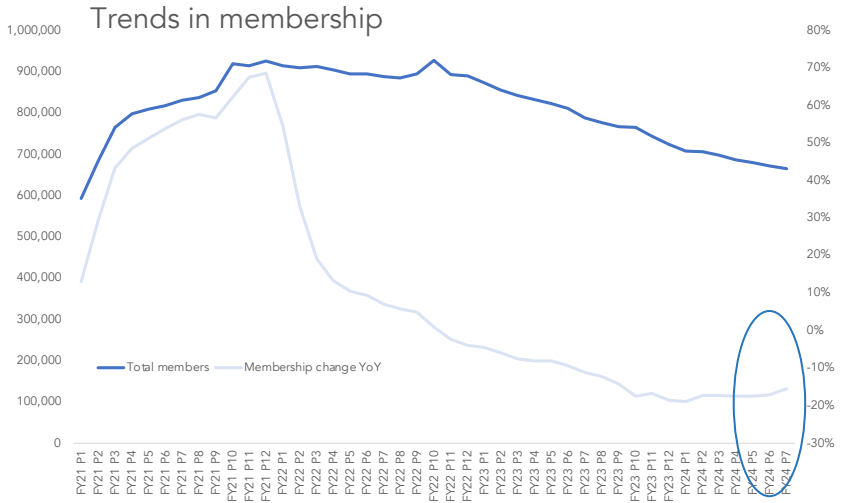


Business as configured today requires nearly £280m of sales to remain profitable at adjusted EBIT level

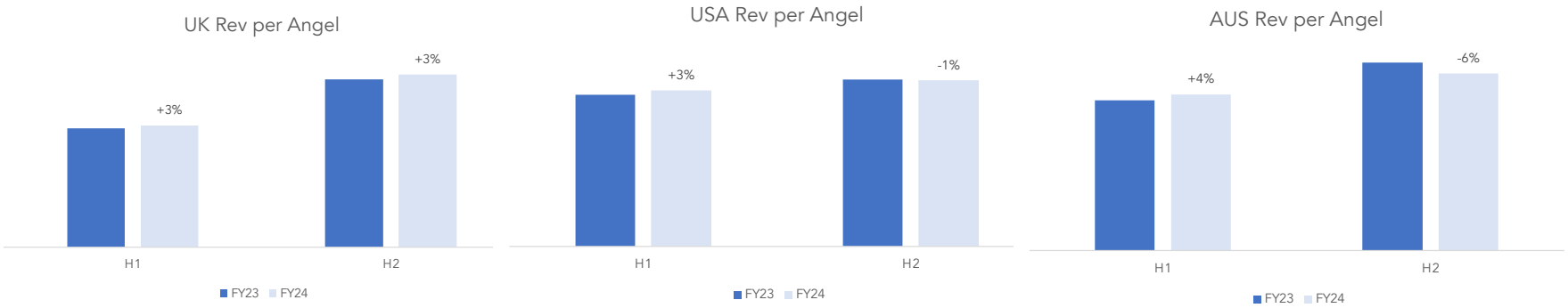
With cost actions in progress this will reduce to under £250m

Revenue decline rate is turning corner in line with trends in members



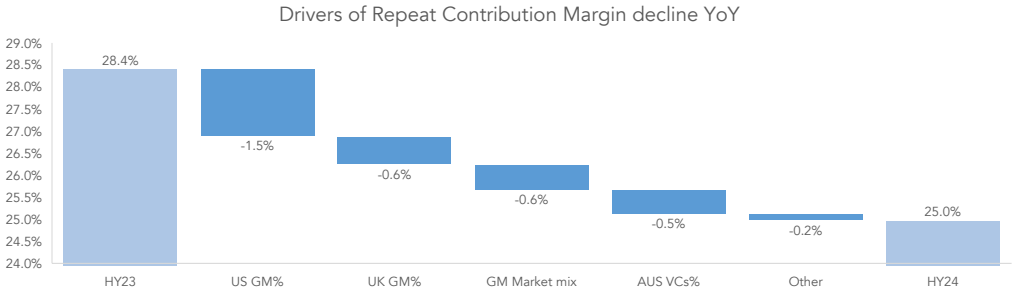


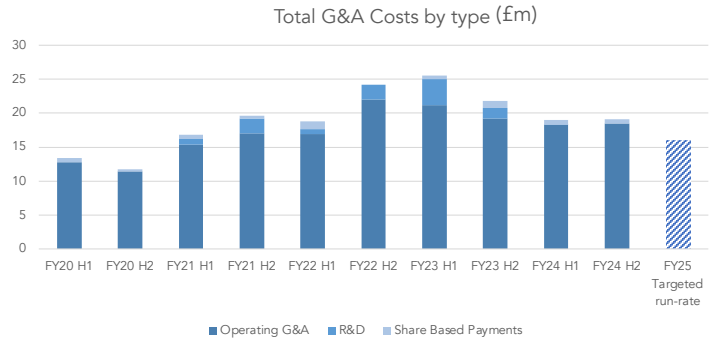
Revenue per angel improvement in all markets is not assumed in H2



- Consistent revenue per Angel increases across geographies in H1
- H2 forecast supporting guidance consistent or lower than H1 increases

Margins will rebuild due to our cost initiatives

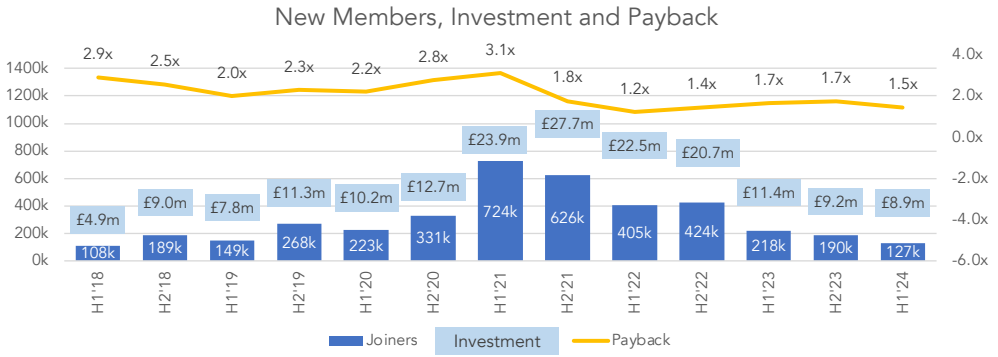




FY25 improvement opportunities:

- +1% from USA Warehousing and Gross Margin management
- +1% from UK Warehousing
- 2% SG&A as % revenue

Lower customer recruitment remains the key challenge

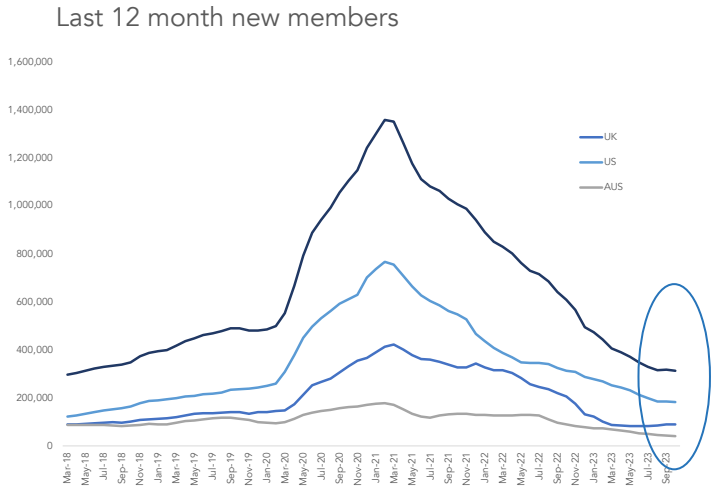


Positive drivers:

- Improvements in digital creative
- Lowered payback thresholds to drive cash
- Refocused team on core partner marketing process

Negative drivers:

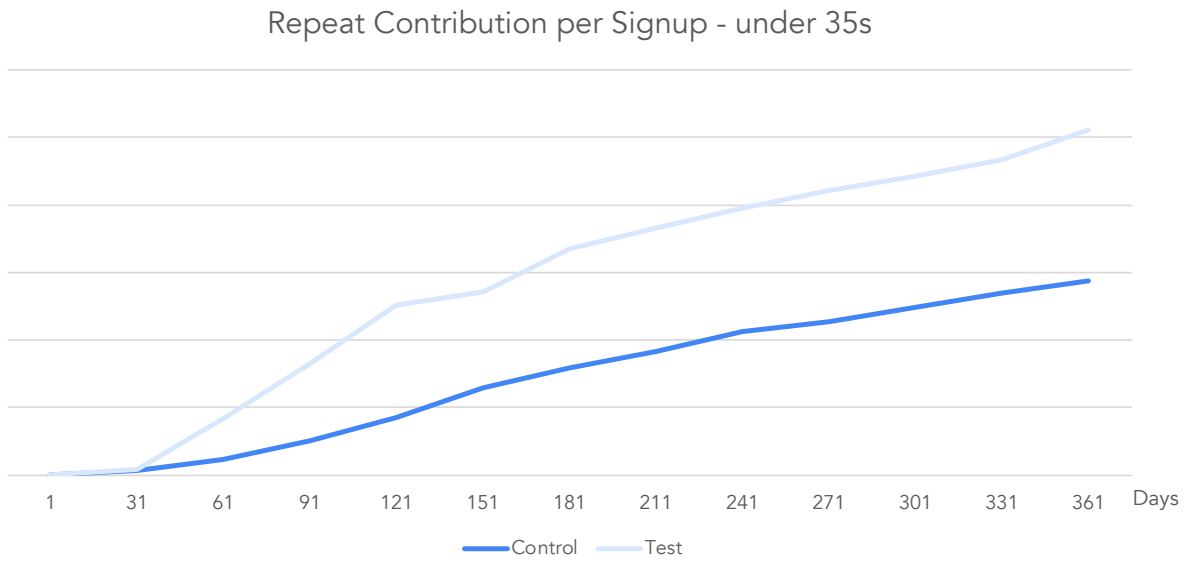
- Tested non-subscription in Aus (now stopped)
- Tough trends in marketing conversion



As we start to lap the pivot to profit we see:

- UK trends showing increase
- Stabilisation at group level

Testing is showing us considerable uplifts in value of traffic in certain segments of the market



While we have promising data for nearly 12 months, important to understand the long-term retention characteristics of these customers

Guidance and Current Trading

	Guidance FY24	FY23
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

Trading in Q3 broadly on plan to forecast underpinning guidance

Anticipate H2 cash one-off costs of order £5m to drive inventory and cost reductions

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The challenge of recruitment

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- Promising testing of new subscription mechanic

We have a solid business that will deliver future profitability and cashflow

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Profitable growth

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naked wines
Q&A



Appendices

Income statement

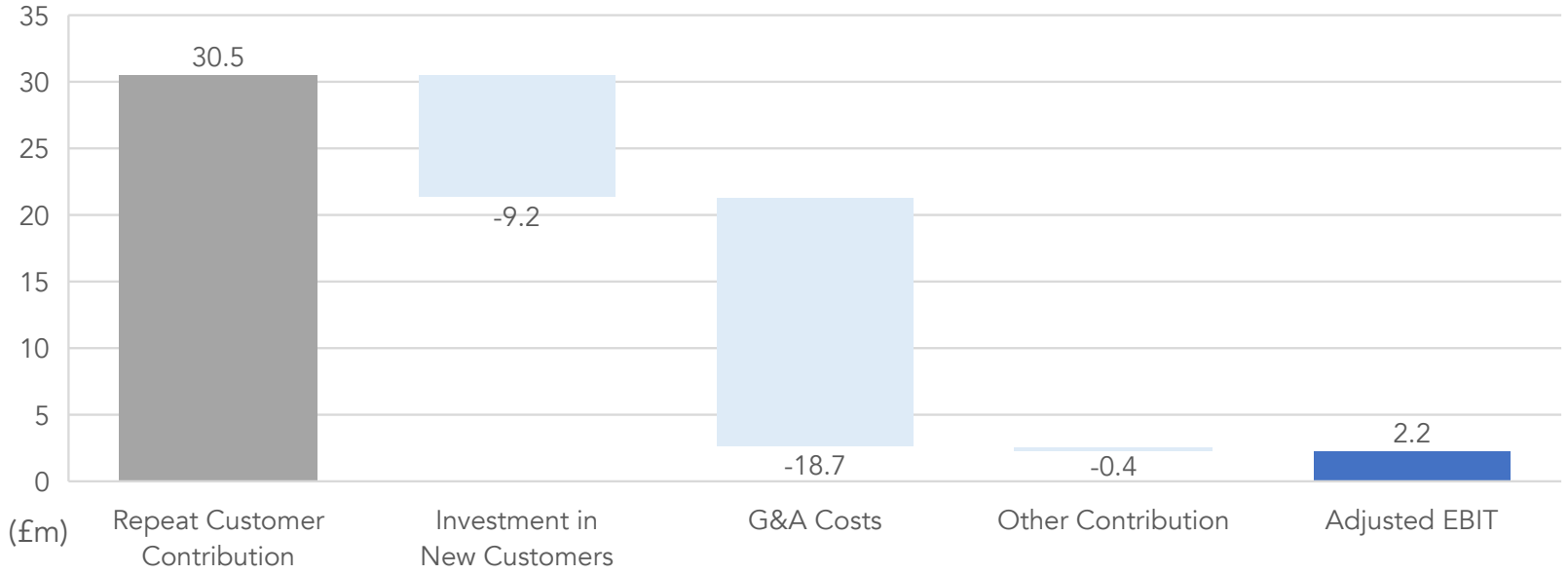
Group (£m)	HY24	HY23	YoY%	Constant currency
New Customer sales	9.1	13.4	(32)%	(30)%
Repeat Customer sales	121.8	148.4	(18)%	(16)%
Other Revenue	0.7	4.0	(83)%	(64)%
Total Sales	**131.6**	**165.8**	**(21)%**	**(18)%**
Investment in New Customers	(9.2)	(11.7)	(21)%	(19)%
Repeat Customer Contribution	30.5	42.2	(28)%	(25)%
Repeat Customer Contribution margin	*25.0%*	*28.4%*	*(340)bps*	*(320)bps*
Other contribution	(0.5)	(0.4)	25%	67%
General and administrative costs[1]	(18.6)	(25.5)	(17)%	(16)%
Adjusted EBIT	**2.2**	**4.6**	**(52)%**	**(45)%**

Payback progression

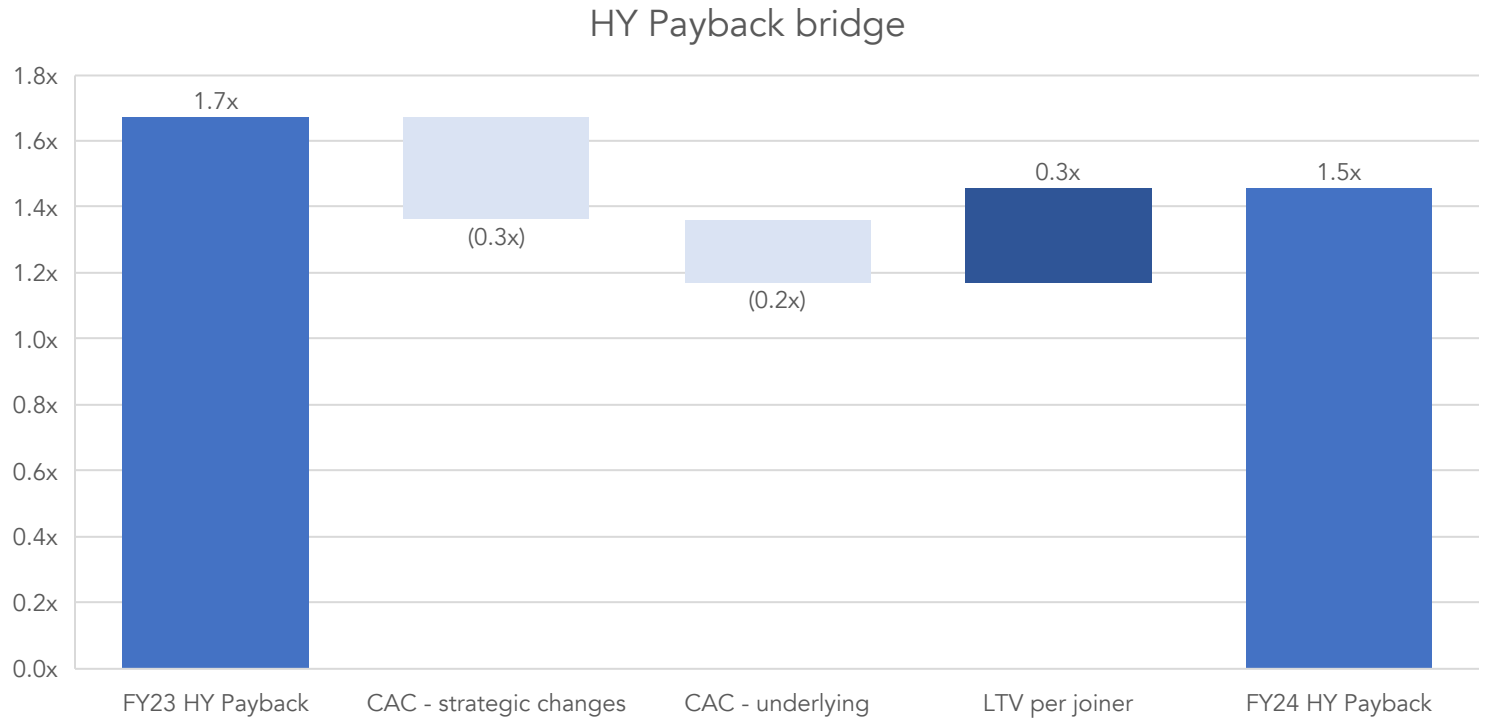
Cohort	Age at reporting date	Latest 5 year (Forecast)	Original Forecast	Vs Original Forecast	Payback to date
FY16	91 - 102 months	3.1x (Actual)	3.1x	0.0x	4.3x
FY17	79 - 90 months	2.5x (Actual)	2.0x	0.5x	3.2x
FY18	67 - 78 months	2.7x (Actual)	2.1x	0.6x	2.9x
FY19	55 - 66 months	2.2x	1.8x	0.3x	2.3x
FY20	43 - 54 months	2.5x	2.6x	(0.1x)	2.2x
FY21	31 - 42 months	2.4x	3.0x	(0.6x)	1.9x
FY22	19 - 30 months	1.3x	1.5x	(0.2x)	0.8x
FY23	7 - 18 months	1.7x	1.7x	(0.0x)	0.6x
FY24	0 - 6 months	1.5x	n/a	n/a	0.1x

Constant currency

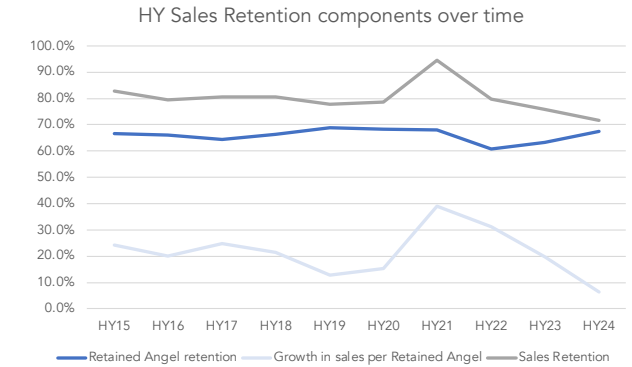
Contribution to adjusted EBIT bridge

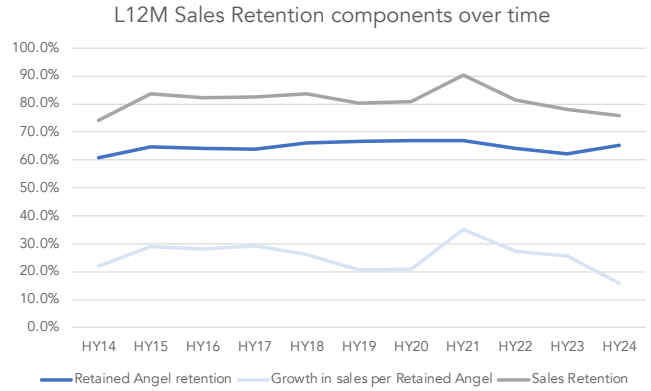


Payback reduced due to strategic testing



Sales retention drivers analysis

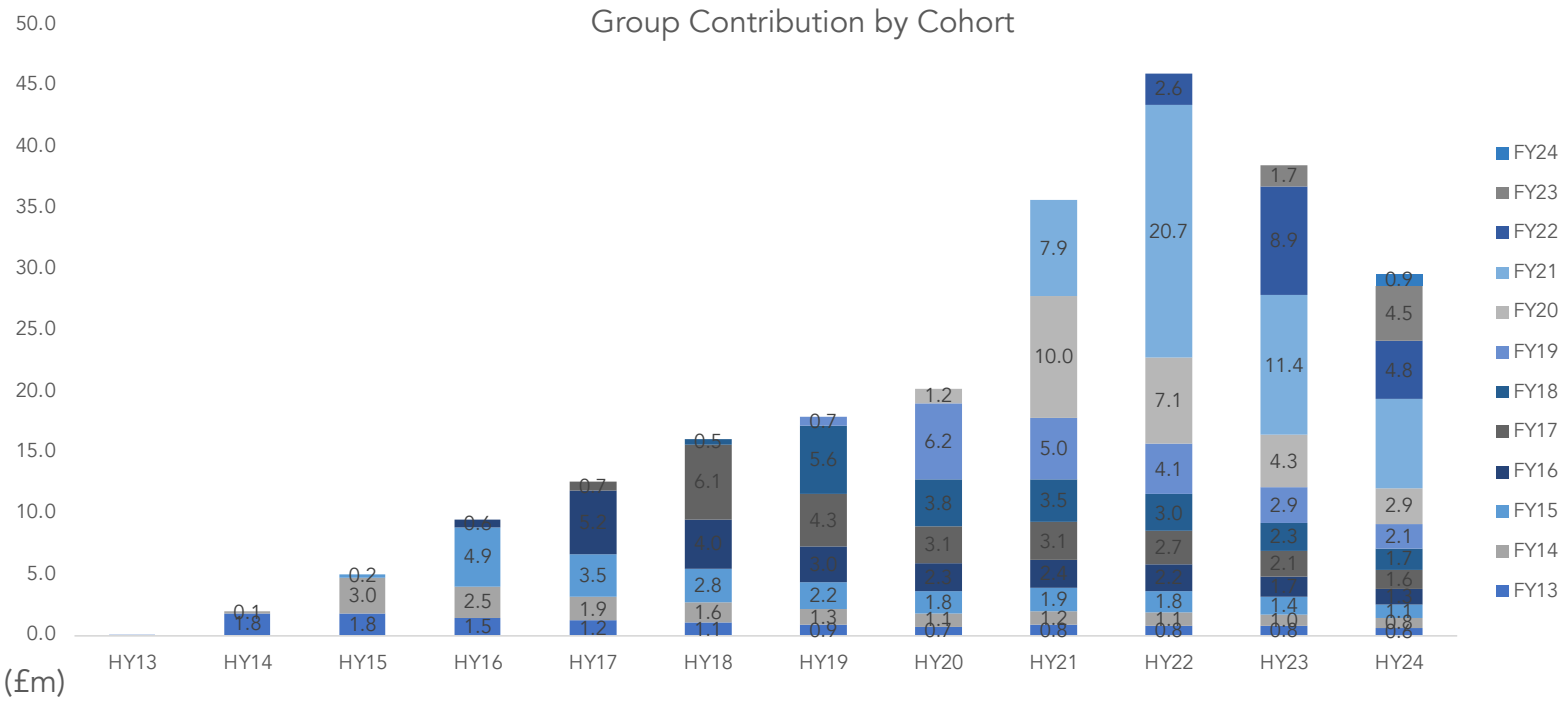




HY	HY23	HY24
Retained Angel retention	63%	67%
Growth in sales per Retained Angel	20%	6%
Sales Retention	76%	72%
Change YoY	**HY23**	**HY24**
Retained Angel retention	3%	4%
Growth in sales per Retained angel	-12%	-13%

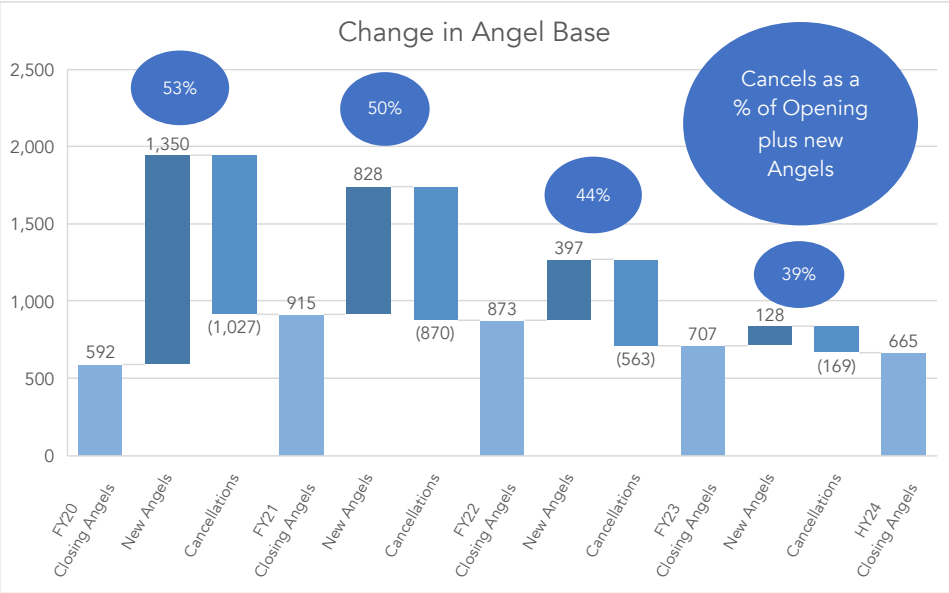
L12M	HY23	HY24
Retained Angel retention	62%	65%
Growth in sales per Retained Angel	26%	16%
Sales Retention	78%	76%
Change YoY	**HY23**	**HY24**
Retained Angel retention	-2%	3%
Growth in sales per Retained angel	-2%	-10%

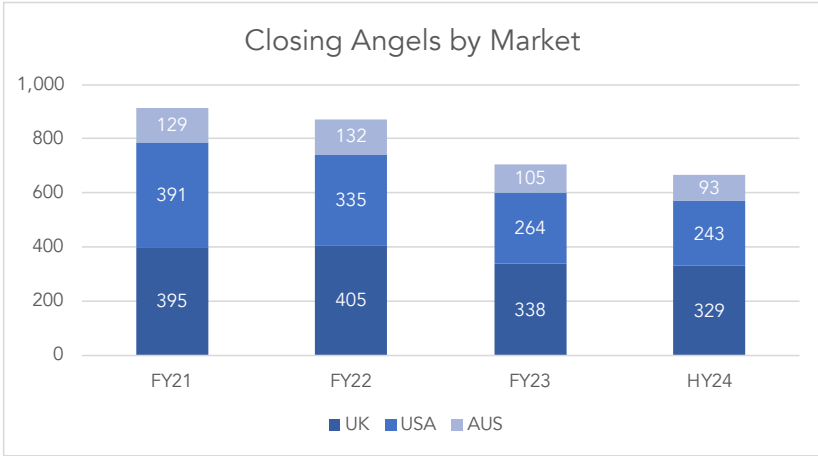
Contribution by cohort



Note: Analysis excludes revenue recognition adjustments & Adjusted for constant currency.

Angel membership drivers





Country Segmental Data - US

US Segment (£m)	HY24	HY23	YoY%	Constant Currency
New Customer sales	5.3	9.0	(41)%	(39)%
Repeat Customer sales	57.2	72.2	(21)%	(18)%
Other Revenue	0.7	4.0	(83)%	(82)%
Total Sales	**63.2**	**85.2**	**(26)%**	**(23)%**
Investment in New Customers	(6.0)	(7.9)	(24)%	(23)%
Repeat Customer Contribution	17.4	24.8	(30)%	(28)%
Repeat Customer Contribution margin	*30.4%*	*34.3%*	*(390)bps*	*(390)bps*
Other contribution	(0.5)	(0.4)	25%	67%
General and administrative costs	(5.7)	(6.5)	(12)%	(10)%
Adjusted EBIT	**5.3**	**10.0**	**(47)%**	**(44)%**

Country Segmental Data - UK

UK Segment (£m)	HY24	HY23	YoY%
New Customer sales	2.3	2.7	(15)%
Repeat Customer sales	50.1	56.1	(11)%
Total Sales	**52.4**	**58.8**	**(11)%**
Investment in New Customers	(2.0)	(1.6)	25%
Repeat Customer Contribution	9.4	11.7	(20)%
Repeat Customer Contribution margin	*18.8%*	*20.9%*	*(210)bps*
General and administrative costs	(3.1)	(3.7)	(16)%
Adjusted EBIT	**4.3**	**6.3**	**(32)%**

Country Segmental Data - Australia

Australia Segment (£m)	HY24	HY23	YoY%	Constant Currency
New Customer sales	1.5	1.7	(12)%	(6)%
Repeat Customer sales	14.6	20.1	(27)%	(20)%
Total Sales	16.0	21.8	(27)%	(19)%
Investment in new customers	(1.3)	(2.1)	(38)%	(35)%
Repeat Customer Contribution	3.6	5.6	(36)%	(29)%
Repeat Customer Contribution margin	*24.7%*	27.9%	*(320)bps*	*(320)bps*
General and administrative costs	(1.6)	(1.7)	(6)%	0%
Adjusted EBIT	0.8	1.8	(56)%	(50)%

Country Segmental Data - Central

Central (£m)	HY24	HY23	YoY%
General and administrative costs	(8.2)	(13.5)	(39)%
Adjusted EBIT	**(8.2)**	**(13.5)**	**(39)%**

Glossary of terms

Alternative performance measures	
Adjusted EBIT	Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, impairment of goodwill, restructuring costs, fair value movement through the income statement on financial instruments and revaluation of funding cash balances held and any transaction or event that management considers quantitative as well as qualitative factors such as the frequency or predictability of the item. A reconciliation to operating profit can be found on the face of the Group income statement.
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.
EBIT	Operating profit as disclosed in the Group income statement.
Free cash flow	Cash generated by operating activities less capital expenditure and before adjusted items and tax.
Net cash excluding lease liabilities	The amount of cash we are holding less borrowings at year end excluding lease liabilities.

Glossary of terms (continued)

Investment measures	
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.
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 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. Please note that we have updated the description of this term to elaborate on its components, however the underlying calculation has not changed.
Other Contribution	The profit or loss attributable to sales meeting the definition of other revenue.
Repeat Customer contribution	The profit attributable to sales meeting the definition of Repeat Customer sales after fulfilment and service costs.
Repeat Customer contribution margin	Repeat Customer contribution as a percentage of Repeat Customer sales.
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.

Glossary of terms (continued)

Customer experience KPIs	
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.
Product availability	The average percentage of products we have defined as core to the portfolio that is available to our customers throughout the year.
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.

Glossary of terms (continued)

Definitions	
AGM	Annual General Meeting
Angel	A customer who deposits funds into their account each month to spend on the wines on our website.
CAGR	Compound annual growth rate. The year-on-year growth rate required for a number of years for a value to grow from its beginning balance to its ending balance.
Company, Naked or Naked Wines	Naked Wines plc
Contribution	A profit measure between gross profit and EBIT, calculated as gross profit less the costs of fulfilling and servicing (e.g. credit card fees, delivery costs, customer-facing staff costs). We often split contribution into that from new and repeat customers as they can have different levels of profitability.
DtC	Direct-to-consumer
Group	Naked Wines plc and its subsidiary undertakings
LTIP	Long Term Incentive Plan
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.
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.
Other revenue	Revenue from stock optimisation activities.
Repeat Customer	A customer (Angel) who has subscribed and made their first monthly subscription payment.
Repeat Customer sales	These are the revenues derived from orders placed by customers meeting our definition of a repeat customer at the time of ordering. A reconciliation of total sales to Repeat Customer sales is shown in note 6 Segmental reporting.
SIP	Share Incentive Plan
Total addressable market (TAM)	TAM represents the available market which Naked sees as a revenue opportunity which it could serve.