

NEWS RELEASE

Final Results

6/11/2021

RNS Number : 5655B

Naked Wines PLC

11 June 2021

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Naked Wines plc

("Naked Wines" or "Group")

Full Year Results for the 52 weeks ending 29 March 2021

A bigger and better business with +53% customers and +78% US sales growth

Strong performance in FY21, with growth across all geographies

- Total sales +68% to £340.2 million driven by the accelerated channel shift to online wine purchasing due to COVID-19, investment in customer acquisition and favourable customer retention and frequency trends
- Strong growth in all three geographies, particularly the US segment, where sales grew 78% to £161.7 million. US now represents 48% of total sales and is now our largest market
- Investment in New Customers⁽¹⁾ of £50.0 million compared to £23.5 million last year, delivering a 5-year Forecast Payback of 3.0x
- Repeat Customer Contribution profit⁽¹⁾ of £84.9 million (+83%) and an enhanced margin at 30% (+320bps), reflecting the +53% increase in active Angels, scale efficiencies and the geographic mix shift to our higher margin US business
- Adjusted EBIT⁽¹⁾⁽²⁾ loss of £(1.5) million and loss before tax of £(10.7) million reflecting the +113% increase in Investment in New Customers in the year

Supported winemakers while continuing to build our platform

- Unprecedented channel shift to online, transforming the online wine market, and marking an inflection point in Naked's history
- Grew our base of active Angels by 53% to a total of 886,000, with improved retention rates
- Enhanced our appeal to top winemaking talent:
 - Partnered with 235 winemakers (FY20: 211) across 19 countries
 - Supported independent producers through this year's challenges
 - Provided financial support for 36 winemakers through our \$5 million COVID Relief Fund*
 - Launched a A\$5 million "Stop the Squeeze" campaign to support growers and producers in Australia who have been challenged by the Australia / China tariff disputes
- Delivered quality (91% 'Buy-it-again' rating) and customer service levels (91% 5* star) through a period of significant growth

*Our COVID Relief Fund was an additional \$5 million which we put into our wine buying plan in 2020 to buy from winemakers we hadn't worked with before and whose sales and livelihoods had been disrupted by the COVID-19 pandemic.

Strategic outlook

- We are increasing our focus on the US segment, which represents our largest market opportunity with a \$20 billion total US addressable market and is expected to drive continued sales growth
- Naked is well positioned to execute against its strategic initiatives designed to:
 - Enhance the customer proposition to improve Lifetime value
 - Leverage scale to enhance value creation
 - Broaden and enhance go-to-market strategy
- Sufficient cash available to execute against our plans, including Investment in New Customers, inventory purchases, and strategic priorities (FY21 year-end cash of £85.1 million)

Current trading and FY22 guidance

We have seen a continued strong performance in our Repeat Customer base in the first two months of FY22, with total sales +8% year on year on a constant currency basis. Repeat Customer sales grew over 30%, which has been partially offset by the normalisation of New Customer sales given the strong comparative in the prior year and lower level of investment spend. Performance for the first two months of the year versus the same period in FY20 has significantly increased, with total sales +96%, Repeat Customers sales +107% and New Customer sales +30%, on a constant currency basis.

For FY22 we expect:

- Total sales of £355 million - £375 million, noting the strong comparatives to FY21
- Investment in New Customers of £40 million - £50 million, with continued discipline and data-driven approach to creating intrinsic value
- Repeat Customer Contribution profit of £85 million - £90 million, with Repeat Customer Contribution margin expected to decline slightly as we expect around half of the increase from FY21 to be enduring, while Repeat Customer sales retention is expected to be in the mid-70%'s, below our long-term average of 83%

- General and administrative costs of £46 million - £49 million as we invest in strategic initiatives

Nick Devlin, Group Chief Executive, commented:

"Since inception, our mission at Naked has been simple - to disrupt the wine industry for the benefit of customers, our winemakers and our people. In FY21, we made significant progress towards this objective. It is clear to us that the pandemic has served to underscore the value of our business model in connecting winemakers and consumers directly and proven the opportunity before us.

I would like to thank all of my colleagues for the incredible job they have done this past year. Despite the many challenges, they have not only helped build a better Naked, but they have also supported a growing number of independent winemakers along the way. Through their combined efforts, we believe Naked now stands at an inflection point with outstanding growth potential ahead.

As we head into FY22, we are focussed on investing in the opportunity and executing against our strategic initiatives, which are i) to invest in New Customers at attractive payback, ii) to enhance the customer proposition to improve LTV, iii) to leverage our scale to enhance value creation, and iv) to broaden and enhance our go-to-market strategy, driving growth."

Total Group		Reported		
		FY21	FY20	%YoY
Total Sales	£m	340.2	202.9	+68%
Cost of sales	£m	(204.7)	(125.3)	63%
Gross profit	£m	135.5	77.6	75%
<i>Gross profit margin</i>	%	40%	38%	+160bps
Fulfilment costs	£m	(58.3)	(35.0)	67%
<i>% of total sales</i>	%	17%	17%	(10)bps
Contribution profit(1)	£m	77.2	42.6	81%
<i>% contribution profit margin</i>	%	23%	21%	+170bps
Advertising costs	£m	(42.3)	(19.8)	114%
<i>% of total sales</i>	%	12%	10%	+270bps
General and administrative costs(4)	£m	(36.4)	(25.2)	44%
<i>% of total sales</i>	%	11%	12%	(175)bps
Adj EBIT(1)(2)	£m	(1.5)	(2.4)	(37)%

Adj LBT ₍₁₎₍₃₎	£m	(0.5)	(2.9) ₍₄₎	(82)%
(Loss) / profit for the period	£m	(10.0)	8.2	n/a
Basic EPS	p	(13.8p)	(9.3p)	(48)%
Cash / (Net Debt)	£m	85.1	54.7	+56%

 Naked Wines plc will host an analyst and investor conference call at 2pm BST / 9am ET / 6am PT on 11 June 2021. The briefing will be webcast using the following link <https://webcasting.brrmedia.co.uk/broadcast/607d5a1b0386285386cc9413>. Alternatively, it can be found on our website. A recording will also be made available after the briefing on our results in the announcements section of our investor website.

Notes:

1. This is an alternative performance measure. See the 'Alternative performance measures (APMs)' from page 39.
2. Adjusted EBIT is operating profit adjusted for amortisation of acquired intangibles, acquisition costs, impairment of goodwill, restructuring costs and fair value movement through the income statement on financial instruments and revaluation of funding cash balances held.
3. Adjusted LBT is defined as Adjusted EBIT less net finance income / (charges).
4. G&A costs reported here are as per the income statement excluding £3.6m of acquisition related amortisation costs, £2m of fair value adjustments relating to open FX contracts and £0.7m of PLC company foreign exchange revaluations (see note 7 for further information on these items). In FY21, G&A costs now include £1.0m of share-based payment charges, previously reported as adjusted items (FY 2020: £1.0m) and £3.0m from the Marketing R&D fund.

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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 commit to a fixed prepayment each month which goes towards their next purchase. Naked in turn 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 year, we have served more than 850,000 Angel members in the US, UK and Australia, making us a leading player in the fast-growing direct-to-consumer wine market.

Our customers (who we call Angels) have direct access to 235 of the world's best independent winemakers making over 1,500 quality wines in 19 different countries. We collaborate with some of the world's best independent winemakers like Matt Parish (Beringer, Stags' Leap) and 8-time Winemaker of the Year Daryl Groom (Penfolds Grange).

CHAIRMAN'S STATEMENT

An active year of succession, and the Board goes forward well refreshed.

Naked rose to the challenge

I became Chairman in August 2020, after serving eight years on the Board, at a very busy time for Naked. I am delighted to report that we successfully rose to the challenges we encountered over an unprecedented 12 months. We coped well with the sudden step up in demand from COVID-19 in the first quarter, and we built on this momentum throughout the rest of the year. As a result, the business dramatically exceeded our expectations.

While the financial results and key performance indicators (KPIs) that we delivered in FY21 speak for themselves, for me the real achievement was the sheer determination shown by our teams in the US, UK and Australia, and by our winemakers across the globe. I would like to thank every single one of them for keeping the wine flowing to our existing and new Angels, and for continuing to push our programme of long-term growth initiatives, all while upholding our quality and customer service levels. Quite frankly, it was a stunning achievement, all delivered from the bedrooms and back rooms of our remote working teams.

Alongside delivering these results our teams have continued to adapt and identify further opportunities to fulfil our mission of disrupting the wine industry for the good of winemakers and consumers. Our \$5 million COVID Relief Fund offered much needed support to 36 winemakers, many of whom saw their sales to restaurants and through tasting rooms disappear overnight. For many this support has made a huge difference and enabled them to make a 2020 vintage and keep teams employed. Equally, through a challenging year

Naked's commitment to give back to our communities and those of our winemakers has remained - with the record appeal for Carmen's Kids a personal highlight of the year.

The Group has evolved beyond all recognition over my years on the Board - from a UK only store-based retailer, into a US-led, fast growth and agile direct-to-consumer (DtC) subscription business. While the path over the past eight years hasn't always been smooth, I've relished the opportunity to play a part in helping Naked evolve into the business it is today. As I prepare to step down as Chairman, I see a company which has married clear focus and high-quality execution to its entrepreneurial culture and is ideally poised to exploit its huge growth opportunity, particularly in the US. The scale of the growth opportunities ahead are tremendous. We are barely scratching the surface of the addressable wine market. In addition, we will have the trend for DtC blowing fast in our sails for years to come. We have an ambitious strategy for growth, coupled with a strong team in place to execute our plans and take advantage of these opportunities.

Focusing the Board on a set of goals

As the pandemic's scope began to materialise, it was important to me and the Board that the executive team and the business were fully supported for the challenging times ahead. We therefore re-cast our Board agenda for the year so that all our efforts, discussions and decisions were relevant to just three goals, which were as follows:

- Maximise the upside from higher demand, so that we had a fantastic year's trading operationally, financially and strategically
- Exit the year in great shape and well set up for future growth, making sure this is a permanent step up, not just a short-term spike
- Make some great hires to the leadership team, so that the business is well primed for our next phase of development and growth

I'm pleased to say that we achieved all three goals during the year. We face the future ideally positioned to deliver sustained growth for years to come.

Supporting our people and communities

During these extraordinary times, the Company's focus has been on keeping everyone safe, while ensuring that our wine reaches our customers safely and reliably. Our people and our winemakers are the key to our success, and we are determined to support them in every way we can.

We enabled our teams to work safely at home, and recognised their exceptional efforts by doubling their maximum bonus award, as set out in the Directors' Remuneration report on page 70 of the 2021 Annual Report and Accounts. We also created a \$5 million COVID Relief Fund to buy wine from impacted independent winemakers.

Board changes in an active year of succession

John Walden stepped down as Chairman in August 2020, leaving the Group with a healthy balance sheet and strong growth momentum. He left with our thanks and best wishes for the future.

I was honoured to replace him as Chairman in my final year on the Board before my scheduled retirement at the 2021 AGM. David Stead took on my previous role as Senior Independent Director, while Katrina Cliffe, who was

already a member of the Remuneration Committee, became the Committee's new Chair. Both David and Katrina have played key roles in the recent transformation and refocus of Naked Wines, and brought extensive relevant experience to these roles.

Following James Crawford's successful and well-earned transition from Chief Financial Officer to Managing Director of Naked UK, I was pleased to welcome Shawn Tabak as our new Chief Financial Officer. Shawn, who joined the Board on 1st January 2021, has previously held senior finance roles at Upwork Inc., Shutterstock and Clean Power Finance. His experience driving growth through a strong customer focus, and his understanding of the online and US market, will be highly valuable and represents a key step in capturing the market opportunity in the US.

So, this has been an active year of succession, and the Board goes forward well refreshed. We continue to review our skills in a fast-changing world, and I have no doubt that we will continue to strengthen our skills, experiences and diversity over the coming years.

Improving our engagement with shareholders

Our governance goals haven't changed this year. We are intent on providing the right culture, checks and balances to ensure that we deliver our full growth potential while looking after the best interests of all our stakeholders. Growing successfully, safely and fairly is at the heart of all our decisions and activities.

The 2021 Annual Report and Accounts sets out in detail the various governance structures, activities and areas of evolution this year, but a standout for me has been the significantly increased engagement with our shareholders. I speak regularly with our largest shareholders and find that they have a very deep understanding of our industry, our business and the DtC model.

We benefit greatly from their insights and encouragement and their contribution over the last year has been a great example of the business benefits that can flow from good governance.

Taking the Chair

We conducted an extensive search process to find my successor, at such an important moment in our growth journey, and I am delighted that Darryl Rawlings joined us in April 2021 as an Independent Non-executive Director. He will succeed me as Chairman after the AGM in August 2021. The Board agreed that our next Chair must have an excellent track record of delivering growth, innovating and scaling DtC digital businesses in a senior leadership role. It was also critical that they were someone who had achieved this in the US. Darryl fits our profile perfectly and is well equipped as Naked Wines embarks on the next phase of its growth story.

Darryl is the founder and CEO of Trupanion Inc., an industry-leading, DtC, monthly subscription business that provides medical insurance for cats and dogs throughout the US and Canada. Since founding the business in 2000, Darryl has led the company's consistent growth, which generated \$500 million in sales in 2020 and now serves more than 860,000 enrolled pets. Darryl brings with him extensive experience in operating and scaling a subscription DtC business in the US, as well as corporate governance and public company experience as CEO of a NASDAQ listed company.

I am confident that his appointment will add valuable insight and mentorship for the Naked executive team as the Group focuses on its huge US growth opportunity.

Large opportunities ahead

We have a strong leadership team in place, and a very healthy culture at our heart, which will enable us to take advantage of the large opportunities lying before us. We will continue to do the right things for all our stakeholders: ensuring that our teams are motivated and rewarded, our shareholders benefit from the value we create, our winemakers prosper, and our Angels enjoy beautifully crafted wines.

Ian Harding
Chairman

CHIEF EXECUTIVE REVIEW

A bigger and better business

- FY21 has been a breakthrough moment for Naked Wines.
- The impacts of COVID-19 have accentuated the wine industry's challenges and are validating our model.
- Our people have done extraordinary work in supporting independent wine producers and building our platform.
- Our medium-term growth prospects are enhanced, with a clear path to >10% EBIT margin as the business scales.
- Step change in Standstill EBIT (14% Standstill margin in FY21) reflects the potential future profitability of our model.

Since day one, our mission at Naked has been simple: to disrupt the wine industry for the benefit of customers, our winemakers and our people. To fully realise that ambition Naked needs to operate at scale and FY21 has been a breakthrough year that has seen us make substantial progress towards that vision. Our highly differentiated model thrived over the past year, we had 886,000 consumers seeking out high-quality, convenient and authentic experiences delivered to their homes, and 235 winemakers directly connected to them. A lot has been written about the impact of the pandemic on e-commerce models and certainly we have seen an uplift in our performance. However, what has been clear to us is that the impact of the pandemic has served to further accentuate existing divisions and challenges in the wine industry, and by extension has confirmed our conviction in our business model and opportunity.

While overall wine consumption has been stable in our markets, the channel shift has left many smaller growers and producers, who are reliant on physical tasting rooms and cellar door experiences and local on-trade distribution, highly exposed. For many, this has been amplified further by the impact of natural challenges, such as the extreme Californian fire season of 2020, and human ones, like the tariff disputes that have impacted Australian and European producers in the past year. Collectively, the result is further consolidation in the industry and at times a seemingly inexorable wave of difficulties for the proud, brave and maverick growers and producers who seek their own path in the industry. I'm incredibly proud of the work we have done

this year to support independent producers and enable winemakers to have a viable alternative to traditional distribution models that are failing them. This year we have:

- Supported 36 winemakers through our \$5 million COVID Relief Fund
- Launched a A\$5 million "Stop the Squeeze" campaign to support growers and producers in Australia who have been the collateral damage of Australia / China tariff disputes

"I don't know if you guys know exactly the amount of impact that you have on the ground and that Naked is making. We were drawing together a budget for this year, with the pandemic starting and trying to work out if we could get by without laying people off, with revenue down 50%. As it is, with the orders coming in from Naked, we're on track for a record year and that means we've been able to employ a bunch more people in the community. We're just so grateful and it means so much to us to be a part of this."

Sam Plunkett, Winemaker

It's talented small producers that are the life blood of the wine industry and I don't know many better than Sam Plunkett. This note from Sam earlier this year encapsulates the win-win model that we strive to create at Naked.

Looking to the future

- Our growth prospects have been materially enhanced in the past year
- We are c.1% penetrated in a \$20 billion US addressable market, where our quality/price position is a clear differentiator
- Our advantaged sourcing and direct-to-consumer (DtC) model results in sustainably higher margins than our competition

While I am delighted with the performance achieved this year, the most important impact is the extent to which I believe we have built a bigger and better business with materially enhanced medium-term growth prospects.

The importance of the US was underlined in the year, being 48% (FY20: 45%) of Group sales. In this market we have a clear differentiator; the high quality of wines that we are able to provide to customers at significantly lower prices than retail providers, while operating at a much larger scale than other DtC players. At the same time, we have materially accelerated growth and taken market share in our longest established UK market: proof of the growth headroom available to Naked.

Medium-term ambition

As we head into FY22, Naked as a business is now stronger than ever, and thanks to our unique business model we are well positioned to sustain growth in the year ahead, even after a year that included higher-than-expected order frequency and lower-than-expected customer acquisition costs driven by the COVID-19 pandemic-related government restrictions and lockdowns.

While making exact predictions around the next 12 months is not much easier than it was last year, we are clear around the shape of our medium-term prospects. We expect Naked Wines to be growing sales at c.20% p.a, underpinned by continued strong unit economics. Equally, as the business scales, we see a clear path to an EBIT margin in excess of 10% at mature scale. Indeed, while undoubtedly flattered by some of the impact of the pandemic, our Standstill EBIT margin in FY21 gives an indication of the

potential for this level of margin as we continue to scale the business.

Strong performance in FY21

- Record performance and customer growth in an unprecedented year
- Delivered high-level customer experience despite managing rapid growth and supply challenges owing to the pandemic
- Achieved our highest-ever Net Promoter Score (NPS)

We delivered an exceptionally strong trading performance in all our markets this year. I would like to thank all our colleagues around the globe for their dedication, without which this would not have been possible.

From a commercial perspective, highlights include sustained high growth in the second half of the year and the combination of materially increased Investment in New Customers with above target investment returns:

- Group revenue grew by +68% to £340.2 million, with growth of 80% in H1 and 59% in H2
- Active Angel numbers increased by 53%, or 300,000 subscribers, to 886,000
- Investment in New Customers increased 113% to £50.0 million with 5-Year Forecast Payback of 3.0x vs 2.6x in the prior year
- Repeat Customer Contribution profit increased 83% to £84.9 million driven by:
 - Sales retention of 88%
 - Enhanced Repeat Customer Contribution margin of 30% (FY20: 27%) as the benefits of scale and increased stock velocity flowed through to our repeat economics, partially offset by increases in transportation and logistics rates. We expect approximately half of this margin accretion to be enduring
- Our statutory loss before tax for the year of £(10.7) million is a result of broadly flat year on year Adjusted EBIT, the fair value adjustment of our deferred consideration from the sale of Majestic and on open FX contracts, currency movements and goodwill amortisation

Our teams have done an incredible job managing this growth while maintaining the high standards we set in terms of the customer experience. At times our operations have been challenged by triple-digit growth rates and we acknowledge that our availability in some markets has not been what we would expect in a normal year. Overall, I am delighted that we have:

- Almost doubled our fulfilment capacity, including opening new warehouse space in all our markets
- Launched a full remote customer service model while maintaining 5* feedback from customers above 90%
- Maintained wine quality with a customer Buy-it-Again rating average of 91%

The commitment of all our colleagues has been critical to us achieving our highest ever Net Promoter Score of +60.

A differentiated model driving sustainable growth

- Our growth is sustainable and our longer-term expectations are raised
- Our model has proven its ability to empower winemakers, and to generate strong consumer loyalty and attractive unit economics
- We expect to deliver higher levels of ROI as we further scale the

business

Over the last year, we have seen across retail categories an unprecedented acceleration in demand moving online. The long-term online winners will be businesses that have differentiated offers that create sustainable value for their consumers and for their suppliers.

"It's wine delivery day! I started getting deliveries to cut down on time lingering in the supermarket to look at bottles, but the wine from Naked Wines is so good I'm going to keep this up after the pandemic."

Quote from one of our new Angels, Jules W

That is exactly the type of business model we have been focused on creating at Naked since we launched in 2008. Our 100% digital business model works for everyone involved. The model is revolutionary, giving both wine drinkers and winemakers a better deal.

We have a sustainable way to make high-quality wine at a lower cost, combined with an efficient DtC model that is the foundation of Naked's quality and value advantage. It's a simple formula: when consumers come to Naked they get to enjoy better wine for their money - which can be measured.

Signs of enduring change

The most important impact of the past 12 months is the extent to which we have built a bigger and better business with materially enhanced medium-term growth prospects:

- Scale efficiency in logistics and fulfilment costs reducing the cost to get a case of wine to our customers which both supports margins and offers opportunities to improve service levels
- Increased Stock Keeping Unit (SKU) scale which enables our winemakers to drive down production costs which can then be shared with our members
- A larger member and revenue base which allows us to more effectively leverage investment in our infrastructure and core customer proposition

During the year, we have seen evidence of our Angels deepening their relationship with Naked and our winemakers. Engagement between winemakers and Angels has been at record levels and we believe that has contributed to us seeing a significant increase in the retention rates across our customer cohorts. Clearly it is too early to be definitive on the outlook as our markets re-open fully; however, the data we have seen so far, including in Australia where more of the economy has been open for longer, remains encouraging.

Bringing exciting new talent into the platform

- Our appeal to talented winemakers is manifesting in growing relationships
- Our growth provides them with even greater creative opportunities and earning potential
- With our winemaker partners we've achieved a number of exciting "firsts" in FY21

The past year has not just been a breakthrough for online from a consumer perspective. Winemakers have recognised that a DtC strategy is critical to the long-term success of any wine brand and that online is a critical component of that. The tough environment for small and independent producers around the world, combined with the increasing visibility of Naked Wines, has further enhanced our appeal to highly talented winemakers.

In the past year we have worked with more than 60 new winemakers. Among some of the highlights of the past year for me are:

- Agreeing Angel exclusive projects with some of the winemakers we initially supported via the COVID Relief Fund (Jesse Katz, Ryme Cellars, Ana Keller, Núria Altés and Rafael de Haan)
- Launching debut vintages with some wine royalty from around the world (Patricia Benitez, Daniel Baron, Josh Pfeiffer)
- Launching new talented winemakers including Rudy von Strasser (founding father of Napa's Diamond Mountain AVA) and Cristian Vallejo (winner of multiple awards for best wine in Chile with Vina Vik)
- Continuing to provide a platform to some of the best undiscovered talent in the industry such as Jen Buck, who Angels reduced to tears by crowdfunding over £80,000 in one Zoom call!

Accelerating our strategy

Around 18 months ago, we set out three pillars to our growth plan; following an exceptional year of growth we have revisited this. Our biggest opportunity remains the same, to build a leading position in the US wine market. However, in light of a year that accelerated the pace of online migration by multiple years, we too are accelerating our plans. We have identified areas of our business or approach which can be enhanced. Our FY22 strategic initiatives are as follows:

Enhance customer proposition

While we are proud of our customer proposition, we continue to see substantial scope to further enhance it. We are focusing in particular on the following areas this year:

Quality perception: As a data-led business we are obsessive about measuring the quality of our wines. The Naked model gives us a sustainable way to make better wines for less; that is how we offer great value to our members. Our Angels agree. However, as a challenger model selling exclusive brands, we recognise we have more work to do to drive quality perception among the wider market and influence the potential Angels of tomorrow. Put simply, today we aren't getting fair credit for the quality of exclusive wine brands we are making. Our plans to address this include: entering more wines for awards and critic review to deliver third party credentialing; innovating our digital product to better showcase these awards; and creating and sharing more content that highlights our winemakers and their experiences. Finally, we continue to bring on more A-List winemaking talent and will build out our luxury range of wines alongside expanding offerings from traditional "old world" wine regions to support our specialist and quality credentials.

Easier to shop: There are other areas we can work on to broaden the appeal of our offering, such as making the shopping experience more enjoyable and delivering a more relevant offering for different demographics of customers. In order to win these benefits, we have added highly skilled resources to our product management and technology capabilities this year. We anticipate this resulting in a faster and richer rate of innovation and change. For example, in FY20 we launched a new app to customers which has been very well received. In the coming year, priorities include:

- better data-led personalisation of the shopping experience;
- rolling out enhanced CRM and CMS tools to enable our teams to deepen segmentation of our communications; and

- a focus on driving overall ease and speed of shop across missions and devices.

Scaling subscriptions: Our subscription products have been a standout success in the past year. We have generated over 95,000 orders through our automated ordering products, with 19% of our customer base now subscribed to our Never Miss Out and 2% to our Wine Genie product. Never Miss Out is directly responding to one customer concern inherent to a wine business working with smaller producers, discovering a favourite wine and then having it sell out. By addressing this problem, we are seeing enhanced retention rates which deliver substantial levels of incremental sales. We see material scope to innovate further here and will both extend the scope of Never Miss Out, adding frequency options and case variants, and look to roll Wine Genie out at greater scale.

Leverage scale to enhance value creation

As we build scale, we will deepen our competitive moats and enhance the appeal of Naked to all our key stakeholders. The operating leverage in our logistics and fulfilment costs has been apparent immediately, but over the medium term we will also see the benefits that increased scale unlocks as we are able to further reduce the costs of making high-quality wines and reduce sourcing costs in non-wine spend. Our bias as we look to the long term is to share these benefits with customers in the form of enhanced value or elevated quality, as opposed to seeking maximum short-term margin expansion. As our business scales, we also enhance the economics and appeal for our winemakers, building further differentiation into our wine proposition. These improvements to proposition and economics via scale are a key element of our long-term strategy.

Broaden and enhance our go-to-market strategy

We see the opportunity to continue to drive customer value via an enhanced customer proposition and through scale efficiency, which gives us an ideal platform to increase our long-term investment in customer acquisition while maintaining attractive returns.

In addition to continued work to develop new marketing channels, we have identified two further key areas of focus for our go to market strategy this year.

- The first is increasing the relevance of our initial offer and onboarding process. This involves focusing on the personalisation of offers (in terms of communication, wines, subscription and economics) to New Customers. We see substantial upside in customer quality and investment efficiency from better differentiating our offers and tailoring the introduction to Naked around each individual's unique tastes and preferences.
- Second, we will continue to deploy Marketing R&D spend as we broaden our marketing approach beyond pure direct response advertising to encompass brand development. We have identified clear opportunities to support long-term growth via improving key brand metrics - notably awareness, brand comprehension and the perception of wine quality. Our initial testing this year has given us confidence that we understand the messages required to move these metrics and we will continue to test into a more balanced mix of marketing spend.

We are a mission-driven company

- We've executed at a high level through a tough environment.

- We've stepped up to support independent winemakers through COVID-19 while building new relationships and delighting customers.
- We've broadened our commitment to advancing equality and inclusion in our business and within the wine industry.
- The experiences of the past year have led us to take decisive action to better understand our environmental footprint and how we can raise the bar for sustainability.

In a year like this, where external circumstances have created substantial operational challenges, it's more important than ever for a company to have a clear sense of identity and mission. Our commitment to positively transform the wine industry has enabled us to retain focus through a demanding year, and I'm delighted by the way our teams instinctively continue to look for ways to broaden that impact.

As well as providing growth and stability to our existing winemakers, we have sought to harness our platform and Angel base to support winemakers and growers who have been most impacted by forces beyond their control this year. In the summer, we launched our \$5 million COVID Relief Fund. This resulted in us sourcing 105 new wines from 36 new winemakers, many of whom we have subsequently built longer-term relationships with, having achieved high customer ratings. In the autumn, our Australian business launched an A\$5 million campaign to "Stop the Squeeze" on Aussie growers and winemakers as the impact of Chinese tariffs hit hard on the Australian wine industry. Now, more than ever, we believe Naked has a role to play acting as a force for positive change in the wine industry and building long-term sustainable relationships that benefit customers and suppliers mutually.

Another dimension of this belief is that we can play a positive role in supporting greater equality and diversity in our industry. In FY21 we took a number of major steps to further this, alongside doubling down on some long-standing partnerships:

- We have launched the Naked Emerging Vinter programme in collaboration with the Roots Fund which will mentor an aspiring winemaker from a minority background each year
- We have renewed our scholarship programme in Stellenbosch, SA and have added a new programme for access to the prestigious University of California, Davis, to support new minority winemaking talent
- We have founded a charitable trust in the UK to amplify the impact of our long-standing partnership with Carmen Stevens to raise money for kids in Western Cape, SA. I'm immensely humbled by the support of our Angels in helping us raise more than £750,000 in our April 2021 appeal

This was another year where the challenge of an evolving climate was ever present. We work in an agricultural business which is reliant on the climate so we cannot be bystanders in the debate around climate change and sustainability. The impact is real for our winemakers and colleagues who have been impacted in recent years by wildfires.

We have completed an end-to-end CO2 carbon footprint audit to identify the biggest carbon emission drivers in our UK business and are in the process of rolling this out for our supply chain globally. Following this, we will be drafting a plan to raise the bar at Naked, and we hope to provoke conversations and wider change in the industry.

Our investment philosophy

- We remain committed to our core belief in how we drive long-term returns and value for shareholders.
- We are enhancing key disclosures to make clearer how we measure progress against our philosophy.
- We take a well-rounded and thoughtful approach to capital allocation.

For those of you who may be looking at Naked Wines for the first time, or are new investors to our business, it is important that we lay out clearly the investment philosophy to which we subscribe. We are committed to maximising the long-term value of the business and believe that we best achieve that aim through deployment of the appropriate level of investment, subject to delivery of our target levels of investment return. We have a consistent bias towards building a sustainable, high-quality business with high retention rates, and we optimise for the long term, not the short term. With a business model that invests up front to acquire customers in anticipation of future returns, our perspective on investment is inherently fundamental to our business success and so I believe it is worth expanding upon it here.

While our philosophy is not changing, we are making some changes to some of our associated disclosures and given the criticality of this issue it's important to explain why we are doing this.

From "Lifetime" to 5-Year Forecast Payback

We originated our 20-Year "Lifetime" Payback measure to reflect the very high levels of retention exhibited by our loyal customer base and to reflect our philosophical belief in a focus on building for the long term. However, we must acknowledge that 20 years is a long time to predict anything over and surely if 2020 has taught us anything it is that nothing is certain. We have been dual publishing a 5-Year Forecast Payback measure alongside our 20-year measure and from this point will transition fully to the 5-year measure. We believe this has a number of benefits:

- 5 years is a time horizon for which we have multiple fully aged cohorts in all our markets
- The 5-Year Forecast Payback projections can be set against the disclosure we make on realised payback by year for the five most recent cohorts
- We believe it is a time horizon that appropriately balances a tangible ability to predict customer behaviour while maintaining a focus on building a business for the long term underpinned by high-quality, highly loyal customers

It is worth noting that while we have disclosed a Year One Payback measure to assist in projecting future business performance, internally our operational and investment decision-making is orientated around our longer-term payback performance. With the move to a 5-Year Forecast Payback, this will not change. To put it simply, where we have a choice between optimising for short-term metrics (i.e. driving the fastest possible payback on an investment) and maximising value over the medium to long term (i.e. higher 5-Year Forecast Payback), we choose the latter.

An agnostic investment approach

While historically our investment disclosure has focused on the direct spending to acquire new members (either through media costs or via subsidised first purchases), we are philosophically agnostic in terms of our assessment of investment opportunities. In practice, while the business was capital constrained and our returns from Investment in New Customers were limited by available capital there were limited practical investment choices to

be made. Thankfully, the business today is in a different position and so it is useful here to share how we view some of the investment opportunities outside of direct New Customer acquisition.

When reviewing opportunities to invest in additional capability to enhance our customer proposition and technology, we adopt the same mindset of an evidence-based assessment of likely investment returns and a belief in investing to create sustainable long-term value. In short, our perspective is the same as for our direct New Customer acquisition investment. We are seeking to invest where we see opportunity to generate additional long-term value and are minded to focus more on returns over a 5-year horizon than look for immediate payback.

In terms of the last 12 months, the rapid scaling of Naked Wines' membership base has, in the view of the management team, had the impact of making additional investment in a number of areas substantially more attractive. When we assess, for example, the business case to invest more in digital products to accelerate the pace of innovation in our digital customer experience, we are considering the following factors:

- Do we have excess identified opportunities versus current resource levels?
- If yes, what additional opportunities would the investment enable? In what time frame?
- What is our best evidence of the likely value created? Where possible we seek to validate via proof of concept testing ahead of development
- What then is the likely annualised benefit vs the costs - and as such the likely return on incremental investment made through the general and administrative cost line?

Significantly, for this along with many of the investments we are evaluating, the benefit of the investment is a function of either New Customer traffic levels or Angel member numbers. In both these areas, our baseline has increased materially over the last year:

- Our new traffic baseline has more than doubled driven by our increased customer acquisition spend
- Active Angels have increased by 53%

Therefore, the returns on investment in many areas are now substantially more attractive as the cost of developing a new experience or piece of functionality is largely fixed whilst the benefit scales with the number of New Customers of Angels.

It is for this reason that we have chosen to invest in the capability to build New Customer experiences in FY22 and are investing ahead of our prior guidance that general and administrative costs (previously classified as fixed costs) would grow at c.50% of the rate of sales growth. We continue to believe that, over the long term Naked should achieve a large degree of cost leverage, but it is important not to dogmatically stick to policy when circumstances change, and currently we see multiple highly attractive opportunities to invest through the cost base and deliver our target levels of return with confidence.

Continuing to invest in uncovering new opportunity

We invested £3 million in Marketing R&D funds exploring ways to enhance our go-to-market strategy in FY21. Our focus was on testing and developing further marketing channels which we have not previously explored in order to discover which channels can produce good-quality customers and attractive returns for us. We have seen promising initial results with some of the testing

helping to support the growth in productive investment across the year. In particular, we have successfully broadened our digital marketing approach to include multiple Native ad platforms, seen promising early results from both un-addressed and traditional direct mail in the UK and US and started to build an understanding of the relationship between above-the-line spending and the movement of our key brand equity metrics. We will continue this approach in the coming years, as we see Naked having the available cash to deploy through various marketing channels and a medium-term opportunity to extend beyond pure direct response investment.

Equally, we do not want to constrain growth options or compromise existing member experience, therefore we will invest in rebuilding stock levels to meet the demand expected from our higher Angel base and future New Customers, alongside improving the business by investing in technology and teams to increase capability and enhance the customer experience.

In summary

I firmly believe that DtC is the future in wine retail, and that brands should be connecting directly with customers and creating meaningful relationships with them. The path won't be linear but the direction of travel is inevitable. With more people than ever open to the idea of buying wine online, now is the perfect time to showcase the amazing stories that sit behind every bottle. At Naked, we have always believed that stories about people, their dreams, motivations and struggles, are universal and resonate far more than a narrow focus on terroir, tannin profiles or aromas. By connecting winemakers and wine drinkers directly, we are building a business that is emotionally as well as rationally differentiated, where a personal connection, provenance and authenticity reinforce a foundation of great-value, high-quality wine.

I've never been more excited about the future for Naked Wines.

Nick Devlin
Chief Executive

FINANCIAL REVIEW

Introduction

I joined Naked Wines as Chief Financial Officer in December 2020 and took my place on the Company's Board in January 2021, to replace James Crawford who moved to head up our UK business.

Shift to online wine purchasing drives growth

Naked Wines delivered strong growth in FY21. Growth accelerated in all three of our geographies, particularly in the US, which is our largest market opportunity and where our offering is most differentiated.

Many online businesses have benefited from COVID-19 as consumers adapted to government restrictions and lockdowns over the past year. The wine sector also shifted towards online, resulting in a larger customer base for Naked, higher customer retention, and more frequent purchases. Ultimately, we think the Naked model, in particular the value proposition we deliver to our consumers and our winemakers, will drive differentiation and win market share.

Our Angel subscriber base increased 53% over the last year, resulting in economies of scale that have reinforced our competitive position, enhancing our appeal to both customers and top winemaking talent. Additionally, the scale drove an increase in contribution margins across the business. Repeat Customer Contribution profit was £84.9 million, an 83% increase over the prior year.

This increase in Repeat Customer Contribution profit helped fund an increase in Investment in New Customers to £50.0 million, a 113% increase over the prior year, and delivering a 5-Year Forecast Payback for the FY21 cohort of 3.0x.

Adjusted EBIT loss of £1.5 million was relatively flat with the prior year, despite the increased investment spend.

	FY21 £ million	FY20 £ million	YoY %
Total sales	340.2	202.9	+68%
Cost of sales	(204.7)	(125.3)	+63%
Gross profit	135.5	77.6	+75%
<i>Gross profit margin</i>	<i>40%</i>	<i>38%</i>	<i>+160bps</i>
Fulfilment costs	(58.3)	(35.0)	+67%
<i>% of total sales</i>	<i>17%</i>	<i>17%</i>	<i>(10)bps</i>
Contribution profit	77.2	42.6	+81%
<i>Contribution profit margin</i>	<i>23%</i>	<i>21%</i>	<i>+170bps</i>
Advertising costs	(42.3)	(19.8)	+114%
<i>% of total sales</i>	<i>12%</i>	<i>10%</i>	<i>+270bps</i>
General and administrative costs ¹	(36.4)	(25.2)	+44%
<i>% of total sales</i>	<i>11%</i>	<i>12%</i>	<i>(175)bps</i>
Adjusted EBIT	(1.5)	(2.4)	(37)%
Finance income / (charges)	1.0	(0.5)	(300)%
Adjusted loss before tax	(0.5)	(2.9)	(82)%

¹ G&A costs reported here are as per the income statement excluding £3.6m of acquisition and related amortisation costs, £2m of fair value adjustments relating to open FX contracts and £0.7m of PLC foreign

exchange revaluations (see note 7 for further information on these items). In FY21, G&A costs now include £1.0m of share-based payment charges, previously reported as adjusted items (FY 2020: £1.0m) and £3.0m from the Marketing R&D fund.

Strong FY21 performance

The Group delivered total sales growth of +68% to £340.2 million, driven by 78% growth in the US, which now represents 48% of the total business. We saw a shift towards online wine purchasing in all our markets as consumers adapted their purchasing habits following the COVID-19 related government restrictions and lockdowns. Total sales growth included an increase in Repeat Customer sales of 63% to £283.9 million.

Gross profit was £135.5 million, with a gross profit margin of 40%, a 160 basis point increase over the prior year. The increase in margin was due to a mix shift to the US, and product mix as we optimised the range to preserve quality of service during the peak of COVID-19.

Fulfilment costs were £58.3 million, remaining flat at 17% of total sales. In FY21, fulfilment costs benefited from lower stock levels and increased scale efficiencies, slightly offset by increases in transportation and logistics rates.

Contribution profit was £77.2 million, with a Contribution profit margin of 23%, a 170 basis point increase over the prior year, driven by Gross profit margin improvements.

Advertising costs were £42.3 million, representing 12% of total sales, a 270 basis point increase over the prior year. In FY21 we increased our investment across all channels and geographies, particularly digital channels in the US and UK markets. Please note that the vast majority of advertising costs are focused on acquiring New Customers, the New and Repeat Customer breakdown on the next page for additional details and the segmental note to the accounts.

Total general and administrative costs (previously named fixed costs) were £36.4 million, representing 11% of total sales, a 175 basis point decrease over the prior year. The cost increase reflects additional roles to support the growth of the Group.

Adjusted EBIT was a loss of £(1.5) million, relatively flat with the prior year, driven by gross profit growth, offset by advertising costs to drive intrinsic value through New Customer cohorts and an increased level of general and administrative costs.

The statutory loss before tax of £(10.7)million (FY20: £(5.4)million) is driven by

- Adjusted trading performance as set out above;
- The change in fair value net of settlement of deferred contingent consideration;
- Fair value adjustments to open foreign exchange contracts and PLC foreign currency balances and;
- Flat year on year charge for the amortisation of acquired intangible assets.

KPIs and disclosures

We have completed a review of our disclosures and considered investor feedback. We have enhanced our reporting to give a 5-Year Forecast Payback measure, and expanded trading disclosure within our statutory financial statements. Our segmental reporting analysis (IFRS 8) is now reported on a geographical basis in line with the markets in which we operate as well as analysing sales and profit between New and Repeat Customers. We have also included more detailed disclosures around the two primary components within Investment in New Customers, being New Customer Contribution profit/loss from sales to New Customers and advertising costs. Lastly, we have renamed fixed costs to general and administrative costs, which we think more accurately reflect the costs which are included in this line.

The Group's business model is to invest in new cohorts of customers and earn a return on that initial investment over the lifetime of the customer. The Group incurs two costs to acquire customers which make up the Investment in New Customers; we offer a discount on the first case of wine to New Customers and therefore typically incur a loss on the first case, and we incur advertising costs to acquire those customers. As customers subscribe to become an Angel and purchase additional cases of wine, the Group recognises this as Repeat Customer sales. The Group provides the following KPIs, to help investors understand business trends and the economics of New and Repeat Customers.

	FY21 £ million	FY20 £ million¹	YoY %
New Customer sales	56.4	29.2	+93%
New Customer Contribution loss	(7.7)	(3.8)	+105%
Advertising costs	(42.3)	(19.8)	+114%
Investment in New Customers	(50.0)	(23.5)	+113%
Repeat Customer sales	283.9	173.7	+63%
Repeat Customer Contribution profit	84.9	46.4	+83%
Repeat Customer Contribution margin	29.9%	26.7%	+320bps
KPIs			
Repeat Customer sales retention	88%	83%	+565bps
Active Angels (repeat customers)	886k	580k	+53%
5-Year Forecast Payback ²	3.0x	2.6x	+0.4x

Year-1 payback	82%	67%	+1,480bps
Standstill EBIT	39.3	9.6	+309%

1 Following a review of the allocation method for fulfilment costs in the current year, we have reallocated costs in the FY20 comparative figures on a consistent basis. This has resulted in a £0.7m movement of costs from Repeat to New Customer costs, which we think more accurately reflects the basis on which these costs arose.

2 As previously stated, we have shifted from the 20 year payback (FY21: 6.2x and FY20: 4.9x) to a 5 year payback, and will remove the longer-term metric from our disclosures going forward.

New and Repeat Customer breakdown

New Customers

Investment in New Customers was £50.0 million, including New Customer Contribution loss of £7.7 million and advertising costs of £42.3 million.

5-Year Forecast Payback for the FY21 cohort was 3.0x, a 0.4x increase over the prior year. We benefited from lower customer acquisition costs in the first half of the year during the initial COVID-19 related government restrictions and lockdowns. Customer acquisition costs normalised as the year progressed.

We continue to have confidence in the quality of the FY21 cohort, with customers more likely to buy goods online, and customer retention, order frequency and community engagement metrics in line with expectations.

Repeat Customers

Repeat Customer sales were £283.9 million, 63% growth over the prior year, reflecting the growing customer base, and increased frequency of Angel orders, which was even higher during COVID-19 related government restrictions and lockdowns.

We saw an increase in our subscription offers Never Miss Out and Wine Genie, designed and personalised to enhance our Angels' experience. Approximately 20% of our Angels have signed up to these programmes which drives incremental value.

Repeat Customer sales retention was 88%, a 565 basis points increase over the prior year, driven by higher customer retention, and an increase in the frequency of Angel orders. We had 886,000 active Angels at the end of FY21, a 53% increase over the prior year.

As New Customers converted to Angels more quickly than usual, combined with the early recruitment of these customers, the FY21 cohort contributed £27.3 million to the FY21 Repeat Customer Contribution profit, which far exceeds the usual first year payback.

Repeat Customer Contribution profit was £84.9 million, a £38.5 million or 83% increase over the prior year. Repeat Customer Contribution margin was 30%, a 320 basis point increase over the prior year, driven by increased scale efficiencies, product mix and the geographic mix shift with significant growth in our higher margin US business. We expect approximately half of the increase to be an enduring uplift.

Adjusted EBIT loss of £(1.5) million, equals Repeat Customer Contribution profit of £84.9 million, less Investment in New Customers of £50.0 million and general and administrative costs of £36.4 million.

US Segment

Total US sales were £161.7 million, growth of 78%, driven by an increase in awareness and demand for our offering and increased order frequency from our Repeat Customer base.

US Adjusted EBIT was £2.0 million, and includes Repeat Customer Contribution profit of £47.9 million, Investment in New Customers of £33.4 million, and general and administrative costs of £12.5 million.

The US segment has the largest market opportunity, the highest growth and the highest Repeat Customer Contribution margin in the Group, which increased 420 basis points to 37% due to increase in gross margin due to range optimisation and increased scale efficiencies. The US segment benefits from the US market's 3-tier distribution system, which results in higher wine prices for consumers. Naked's unique model means that it is able to deliver better value wine to customers and still maintain beneficial gross margins.

US £ million	FY21	FY20	YoY %
Total sales	161.7	90.9	+78%
Investment in New Customers	(33.4)	(14.7)	+128%
Repeat Customer Contribution profit	47.9	23.9	+100%
<i>Repeat Customer Contribution margin</i>	<i>37%</i>	<i>33%</i>	<i>+417bps</i>
Adjusted EBIT	2.0	1.4	+43%

UK Segment

Total UK sales were £133.1 million, growth of 66%, also driven by an increase in awareness and demand for our offering and increased order frequency from our Repeat Customer base.

Adjusted EBIT was £10.9 million, and includes Repeat Customer Contribution profit of £27.3 million, Investment in New Customers of £11.1 million, and general and administrative costs of £5.3 million.

The UK segment is our most mature business and has the highest sales retention among the Group.

UK £ million	FY21	FY20	YoY %
Total sales	133.1	80.0	+66%
Investment in New Customers	(11.1)	(5.9)	+88%
Repeat Customer Contribution profit	27.3	15.7	+74%
<i>Repeat Customer Contribution margin</i>	<i>24%</i>	<i>22%</i>	<i>+193bps</i>
Adjusted EBIT	10.9	6.0	+81%

Australia Segment

Total Australia sales were £45.5 million, growth of 42%, also driven by an increase in demand for our offering and increased order frequency from our Repeat Customer base.

US Adjusted EBIT was £0.9 million, and includes Repeat Customer Contribution profit of £9.7 million, Investment in New Customers of £5.5 million, and general and administrative costs of £3.3 million.

The Australian segment was least impacted by COVID-19 and lockdowns in FY21. We continue to see better year on year mature customer retention in Australia, even as the restrictions lifted and the economy returned toward normal.

Australia £ million	FY21	FY20	YoY %
Total sales	45.5	32.0	+42%
Investment in New Customers	(5.5)	(2.9)	+89%
Repeat Customer Contribution profit	9.7	6.8	+44%
<i>Repeat Customer Contribution margin</i>	<i>25%</i>	<i>24%</i>	<i>+137bps</i>
Adjusted EBIT	0.9	1.3	(24)%

Standstill EBIT

Our calculated Standstill EBIT, the Adjusted EBIT which we would report if we had only invested in New Customers to replenish the current customer base rather than for growth, increased 309% to £39.3 million. This increase is predominantly driven by a £38.5 million increase in Repeat Customer Contribution profit in the year.

This measure is enhanced by the higher order frequency we saw in the year. This trend is unlikely to continue in FY22 as customers revert to historic behaviours, therefore this measure will show a high replenishment cost required to maintain the existing Repeat Customer Contribution profit. After FY22 we expect this measure to again reflect the underlying profitability of the business.

Financing costs and tax

Interest income was £1.0 million, an increase of £1.5 million over the prior year. This income is derived from our cash held on deposit with a range of banks and the non-cash amortised interest income on the loan note created as part of the disposal of the Majestic business.

Total tax credit was £0.6 million, a reduction of £1.9 million over the prior year, with the statutory tax rate of (5.9)%. In FY21, we incurred a write-down of the fair value of the deferred contingent consideration from the disposal of the Majestic business, on which we have not recognised a deferred tax asset and we continued to follow the established Group policy of not recognising deferred tax assets in UK Group companies while they remain likely to continue to be loss making.

Cash and cash flow drivers

Cash at 29 March 2021 was £85.1 million (30 March 2020: £54.7 million). We seek to maintain sufficient cash and liquidity to operate the business, given the seasonality in our inventory purchasing cycle and our sales. We allocate capital between organic and inorganic growth investments, such that we deliver returns in excess of our weighted average cost of capital (WACC) and internal hurdle rate. If we identify that we have excess capital, above what is needed to run the business and invest in growth opportunities, this will be returned to shareholders.

Given this capital philosophy, we are focused on utilising our capital to invest in growth. This includes investments in customer acquisition, as well as in our customer proposition and our go-to-market strategy and investing in inventory to increase availability, deliver our growth plans, and our strategic objectives around enhancing the customer proposition. As a result of the significant investment opportunities we see before us, we are not proposing any distributions or returns of capital to shareholders at this time.

We generated £30.6 million of free cash flow, with an Adjusted EBIT loss of £1.5 million and a net working capital inflow of £32.3 million. This net working capital inflow was driven by increases in deferred income of £28.2 million and trade payables of £15.6 million, offset by an increase in inventory holdings of £9.2 million.

Adjusted items relating to non-acquisition items totalled a charge of £6.5 million, an increase of £7.7 million from £1.2 million credit in FY201.

¹ Note, FY20 non acquisition adjusted items have been revised vs what was disclosed in the prior year to

align with the inclusion of share based payment charges within Adjusted EBIT in FY21.

Brexit

The UK's exit from the European Union has included plans to mitigate potential issues arising from new procedures and arrangements now in force. Delays at ports could limit our range, so we communicate regularly with freight forwarders and winemakers to make sure they can provide the required documents to ensure smooth passage at the border. In advance of the end of the Brexit transition period, we had hedged our foreign currency requirements ahead of our usual policy to bridge the transition period and avoid any potential exchange rate shocks.

Looking ahead, there are potential legislation changes which could impact labelling. However, no changes will be required until September 2022 at the earliest, so we will work with winemakers to ensure they are registered correctly and able to comply with any changes.

Outlook

We delivered a strong trading performance through FY21 in all geographies, particularly in the US, driven by demand for our direct-to-consumer wine subscription model, and an accelerated shift in consumer behaviour towards online wine purchases.

We have seen a continued strong performance in our Repeat Customer base in the first two months of FY22, with total sales +8% year on year on a constant currency basis. Repeat Customer sales grew over 30%, which has been partially offset by the normalisation of New Customer sales given the strong comparative in the prior year and lower level of investment spend. Performance for the first two months of the year versus the same period in FY20 has significantly increased, with total sales +96%, Repeat Customers sales +107% and New Customer sales +30%, on a constant currency basis.

We are focused on executing against our strategic initiatives and continuing to drive growth and intrinsic value in the business. Our priorities are i) to invest in New Customers at attractive payback, ii) to enhance the customer proposition to improve LTV, iii) to leverage our scale to enhance value creation, and iv) to broaden and enhance our go-to-market strategy, driving growth.

Our FY22 guidance is as follows:

- Total Group sales expected to be in the range of £355 million to £375 million. Please note we will lap strong comparatives with FY21.
- We will continue to invest in the market opportunity, particularly in the US. Investment in New Customers is expected to be in the range of £40 million to £50 million. We will continue to have a disciplined and data-driven approach toward investing, with a focus on profitable growth and intrinsic value.
- Repeat Customer Contribution profit is expected to be in the range of £85 million to £90 million with the margin expected to decline slightly as we expect around half of the increase in FY21 to be enduring, while sales retention is expected to be in the mid-70%'s, below our long-term average of 83%.
- We expect general and administrative costs² to increase over FY21 as we invest in the strategic initiatives outlined in this report. General and administrative expenses are expected to be in the range of £46 million to £49 million.

We have a sufficient amount of cash available to execute against our FY22 Plan, which includes Investment in New Customer acquisition subject to our returns criteria, inventory purchases to meet our plans, and investment in strategic initiatives and building operational capacity to support this.

2 Note, General and administrative cost guidance excludes amortisation.

Group income statement

For the year ended 29 March 2021

	Note	Year ended 29 March 2021 £'000	Year ended 30 March 2020 £'000
Continuing operations			
Revenue		340,226	202,911
Cost of sales		(204,732)	(125,352)
Gross profit		135,494	77,559
Fulfilment costs ¹		(58,294)	(34,955)
Advertising costs ²		(42,334)	(19,757)
General and administrative costs ³		(42,675)	(27,721)
Fair value loss arising on deferred contingent consideration net of settlement		(3,868)	-
Operating loss		(11,677)	(4,874)
Net finance income/(charges)		1,002	(501)
Loss before tax from continuing operations		(10,675)	(5,375)
Analysed as:			
Adjusted loss before tax³		(514)	(2,896)
Adjusted items:			
Non-cash charges relating to acquisitions	5	(3,646)	(3,646)
Other adjusted items	5	(6,515)	1,167
Loss before tax from continuing operations		(10,675)	(5,375)
Tax	6	635	(1,310)
Loss from continuing operations		(10,040)	(6,685)
Discontinued operations			
Profit from discontinued operations, net of tax		-	14,837
(Loss)/profit for the period		(10,040)	8,152
Loss per share - Continuing operations			
Basic and diluted	7	(13.8p)	(9.3p)
(Loss)/earnings per share - Total Group			
Basic	7	(13.8p)	11.3p
Diluted	7	(13.8p)	11.1p

1. Previously disclosed as distribution costs. The description has been changed to fulfilment costs as it is more relevant to the function and nature of the costs.
2. As the business has expanded, advertising expenditure has become a very significant portion of the Group's general and administrative costs. As such, the Directors have chosen to disclose amounts spent on media and associated spend separately on the face of the income statement. General and administrative costs and advertising spend in the prior year have been reanalysed accordingly on this basis.
3. Share based payment charges have been reclassified in the period from adjusted items and are included within adjusted loss before tax in the year ended 29 March 2021. Comparatives have been reclassified accordingly.

Group balance sheet

For the year ended 29 March 2021

	29 March 2021 £'000	30 March 2020 £'000
Non-current assets		
Goodwill and intangible assets	33,982	35,996
Property, plant and equipment	1,452	1,234
Right-of-use assets	2,780	5,289
Investment property	855	899
Deferred tax assets	3,993	3,309
Other receivables	9,520	13,005
	52,582	59,732
Current assets		
Inventories	76,130	69,935
Trade and other receivables	7,168	5,737
Financial instruments at fair value	41	539
Cash and cash equivalents	85,148	54,736
	168,487	130,947
Assets classified as held for sale	-	953
	168,487	131,900
Total assets	221,069	191,632
Current liabilities		
Trade and other payables	(40,757)	(26,046)
Deferred Angel and other income	(69,902)	(43,632)
Lease liabilities	(645)	(1,165)
Provisions	(1,570)	(1,165)
Bond financing	(30)	(84)
Financial instruments at fair value	(1,405)	(143)
	(114,309)	(72,235)

Non-current liabilities		
Provisions	(393)	(348)
Lease liabilities	(2,231)	(4,198)
Deferred tax liabilities	(771)	(1,272)
	(3,395)	(5,818)
Total liabilities	(117,704)	(78,053)
Net assets	103,365	113,579
Shareholders' funds		
Called-up share capital	5,487	5,466
Share premium	21,162	21,162
Capital reserve - own shares	-	(17)
Capital redemption reserve	363	363
Currency translation reserve	99	1,381
Retained earnings	76,254	85,224
Equity shareholders' funds	103,365	113,579

Group cash flow statement

For the year ended 29 March 2021

	Note	Year ended 29 March 2021 £'000	Year ended 30 March 2020 £'000
Cash generated by operating activities			
Cash generated/(used) by operations	8	34,207	(117)
UK income tax paid		274	(276)
Overseas income tax paid		(880)	(268)
Net cash generated/(used) by operating activities - continuing operations		33,601	(661)
Net cash generated by operating activities - discontinued operations		-	22,290
Net cash generated by operating activities		33,601	21,629
Cash flows from investing activities			
Disposal of discontinued operations, net of cash disposed of		-	63,761
Interest received, including interest received on the vendor loan note		559	-
Purchase of property, plant and equipment		(845)	(569)
Purchase of intangible fixed assets		(1,824)	(544)
Proceeds received on settlement of deferred contingent consideration		175	-
Proceeds from sale of asset held for resale		953	-
Net cash (used in)/from investing activities - continuing operations		(982)	62,648
Net cash used in investing activities - discontinued operations		-	(2,430)

Net cash (used in)/from investing activities	(982)	60,218
Cash flows from financing activities		
Interest paid (including lease interest)	(116)	(344)
Issue of ordinary share capital	-	53
Repayments of principal under lease liabilities	(904)	(1,153)
Draw down of borrowings	-	-
Repayment of borrowings	(54)	(22,459)
Equity dividends paid	-	(3,786)
Net cash used in financing activities - continuing operations	(1,074)	(27,689)
Net cash used in financing activities - discontinued operations	-	(6,625)
Net cash used in financing activities	(1,074)	(34,314)
Net increase in cash	31,545	47,533
Cash and cash equivalents at beginning of year	54,736	6,997
Effect of foreign exchange rate changes	(1,133)	206
Cash and cash equivalents at end of year	85,148	54,736

Notes to the Company financial statements

continued

1. General Information

Naked Wines plc, "the Company" is a public limited company and 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 is Norvic House, Chapel Field Road, Norwich, NR2 1RP. The Group's principal activity is the retailing of wines, beers and spirits.

2. Basis of accounting

The financial information set out above does not constitute statutory accounts within the meaning of section 435(1) and (2) of the Companies Act 2006 nor contain sufficient information to comply with the disclosure requirements of International Financial Standards ("IFRS") but are derived from those statements.

The consolidated financial statements comprise the financial statements of the Group as at 29 March 2021 and are presented in UK Sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

The auditors have reported on the underlying accounts from which this financial information has been drawn and their report is unqualified, did not draw attention to any matters by way of emphasis and did not contain any statements under section 498 (2) or (3) of the Companies Act 2006.

The financial statements of Naked Wines plc for the year ended 29 March 2021 were authorised for issue by the Board of Directors on 10 June 2021 and the balance sheet was signed on behalf of the Board by Shawn Tabak, Chief Financial Officer.

The Group's financial reporting year represents the 52 weeks to 29 March

2021 and the prior financial year, 52 weeks to 30 March 2020.

3 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

As part of the Group's going concern assessment, management has produced forecasts that have been sensitised to model plausible but severe downside scenarios and their impact on the Group and its global markets, which have been reviewed by the Board of Directors. These forecasts demonstrate that the Group has access to sufficient cash reserves (net cash £85.1m at 29 March 2021), for the forecast period of more than 12 months beyond the date of the signing of these financial statements, to enable the Group to meet its obligations as they fall due.

Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

4 Segmental reporting

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). During the course of the year and following the accelerated growth and maturation of the business, the Board has determined that the Executive Directors of the Company are now the CODM of the business. Previously, the CODM was determined to be the Board. This is on the basis that the Executive Directors 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 now presents its segmental analysis based on the three geographic locations in which the Group operates rather than one operating segment which it was previously based on.

Performance of these operating segments is assessed on continuing revenue, adjusted EBIT (being operating profit excluding any adjusted items) and adjusted PBT (being profit before taxation 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 not allocated to the operating segments as this reflects 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 being wine and associated beverages.

Goodwill has been allocated to the segments based on value in use, see note 14 for further details.

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.

Prior year comparatives have been represented accordingly.

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

	Naked Wines USA £'000	Naked Wines UK £'000	Naked Wines Australia £'000	Unallocated £'000	Total £'000
Year ending 29 March 2021					
Revenue					
New Customer sales	31,908	17,303	7,160	-	56,371
Repeat Customer sales	129,797	115,755	38,303	-	283,855
	161,705	133,058	45,463	-	340,226
New Customer Contribution loss	(3,275)	(3,585)	(852)	-	(7,712)
Advertising costs	(30,163)	(7,529)	(4,642)	-	(42,334)
Investment in New Customers	(33,438)	(11,114)	(5,494)	-	(50,046)
Repeat Customer Contribution profit	47,870	27,301	9,741	-	84,912
	14,432	16,187	4,247	-	34,866
General and administrative costs	(12,445)	(5,279)	(3,303)	(15,355)	(36,382)
Adjusted EBIT	1,987	10,908	944	(15,355)	(1,516)
Finance income	-	-	-	1,108	1,108
Finance charges	(75)	(14)	(17)	-	(106)
Adjusted profit/(loss) before tax	1,912	10,894	927	(14,247)	(514)
Adjusted items:					
Non-cash items relating to acquisitions	-	-	-	(3,646)	(3,646)
Other adjusted items	-	-	-	(6,515)	(6,515)
Profit/(loss) before tax	1,912	10,894	927	(24,408)	(10,675)
Depreciation	859	315	227	49	1,450
Amortisation	1	-	-	3,837	3,838
Year ending 29 March 2021	USA £'000	UK £'000	Australia £'000	Total £'000	
Geographical analysis					
Reported third party revenue	161,705	133,058	45,463	340,226	
Non-current assets excluding deferred current assets	3,516	44,597	476	48,589	

1. General and administrative costs - Per income statement excluding £3,646,000 of acquisition related amortisation costs, £1,966,000 of fair value adjustments relating to open FX contracts and £681,000 of PLC company foreign exchange revaluations.

	Naked Wines USA £'000	Naked Wines UK £'000	Naked Wines Australia £'000	Unallocated £'000	Total £'000
Year ending 30 March 2020 *					
Revenue					
New Customer sales	17,910	7,445	3,881	-	29,236
Repeat Customer sales	72,994	72,548	28,133	-	173,675

	90,904	79,993	32,014	-	202,911
New Customer Contribution loss	(485)	(2,422)	(849)	-	(3,756)
Advertising costs	(14,200)	(3,500)	(2,057)	-	(19,757)
Investment in New Customers	(14,685)	(5,922)	(2,906)	-	(23,513)
Repeat Customer Contribution profit	23,877	15,713	6,770	-	46,360
	9,192	9,791	3,864	-	22,847
General and administrative costs	(7,806)	(3,777)	(2,614)	(11,045)	(25,242)
Adjusted EBIT	1,386	6,014	1,250	(11,045)	(2,395)
Finance income	-	-	-	321	321
Finance charges	(101)	(57)	(21)	(643)	(822)
Adjusted profit/(loss) before tax	1,285	5,957	1,229	(11,367)	(2,896)
Adjusted items:					
Non-cash items relating to acquisitions	-	-	-	(3,646)	(3,646)
Other adjusted items	-	-	-	1,167	1,167
Profit/(loss) before tax	1,285	5,957	1,229	(13,846)	(5,375)
Depreciation	855	559	208	15	1,637
Amortisation	-	-	-	3,697	3,697
		USA	UK	Australia	Total
Year ending 30 March 2020	£'000	£'000	£'000	£'000	£'000
Geographical analysis					
Reported third party revenue	90,904	79,993	32,014		202,911
Non-current assets excluding deferred current assets	4,161	51,636	625		56,422

* The allocation of variable costs has been changed from nine litres of wine to a hybrid basis of allocation which better reflects the correct allocation of variable costs between nine litre equivalent and six bottle cases which have become a larger part of the business in the current year. Prior year comparatives are stated on a consistent basis.

1. General and administrative costs - Per income statement excluding adjusted items of £2,479,000 (see note 5 for details).

5 Adjusted items

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

Reclassification of share-based payment charges

As the Group has built up a consistent rolling three years of LTIP and SIP schemes, current year and prior year share based payment charges are now more comparable. For the first time, in the year ended 29 March 2021, these charges have been reclassified from adjusted items to adjusted EBIT and the comparative statements have been restated accordingly (2020: £1.0m). Share based payment charges are therefore no longer reported in adjusted items.

In the year, the adjustments made to reported loss before tax are:

	Year ended 29 March 2021 £'000	Year ended 30 March 2020 £'000
Non-cash charges relating to acquisitions		
Amortisation of acquired intangibles	(3,646)	(3,646)
	(3,646)	(3,646)
Other adjusted items		
Fair value loss arising on deferred contingent consideration net of settlement	(3,868)	-
Fair value movement through P&L on foreign exchange contracts and associated unrealised foreign currency inventory	(1,966)	396
Foreign exchange movements on plc company currency bank balances	(681)	771
	(6,515)	1,167
Total adjusted items	(10,161)	(2,479)

Amortisation of acquired intangibles

These items reflect costs of customer acquisition from prior to the purchase of the Naked Wines business. In order to reflect the cost of current new customer acquisition in its adjusted PBT, 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.

Fair value loss arising on deferred contingent consideration net of settlement

During the year, the Directors were approached by CF Bacchus Holdco Limited, the holder of the deferred contingent consideration obligation issued as part of the disposal of the Majestic business. In the light of restrictions on travel and as a result of the new duty-free allowances which came into force on 1 January 2021, the Directors accepted an offer of £175,000 in full settlement of the deferred contingent consideration in respect of the disposal of Majestic's French retail business. This settlement was received on 19 March 2021.

The deferred contingent consideration was valued in the books at £4,043,000 at the end of last year and a fair value adjustment was taken earlier in the year bringing the value down to £nil. After proceeds of £175,000 was received, a loss of £3,868,000 was taken to the profit and loss account and disclosed in adjusted items.

Fair value movement on foreign exchange contracts and associated unrealised foreign currency inventory

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

Foreign exchange movements on funding currency bank accounts

The Group holds net cash on its balance sheet and this includes sums of foreign currency which it will deploy to fund its US and Australian businesses. At 29 March 2021, the FX revaluation of foreign currency balances held in the Group were reported as adjusted items so as not to distort the picture of the underlying business cost base.

6 Tax

(a) Tax charge

	Year ended 29 March 2021 £'000	Year ended 30 March 2020 £'000
Current income tax		
UK income tax	1	12
Overseas income tax	(547)	(324)
Adjustment in respect of prior periods	176	(2,427)
Current income tax charge	(370)	(2,739)
Deferred tax		
Origination and reversal of temporary differences	1,464	1,159
Adjustment in respect of prior periods	(459)	246
Effect of change in tax rate on prior period balances	-	24
Total deferred tax credit	1,005	1,429
Total income tax credit/(charge) for the year	635	(1,310)

(b) Tax reconciliation

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19% (2020: 19%). The reasons for this are detailed below:

	Year ended 29 March 2021 £'000	Year ended 30 March 2020 £'000
Loss before tax	(10,675)	(5,375)
Tax credit at the standard UK corporation tax rate of 19% (2020: 19%)	2,028	1,021
Adjustments in respect of prior periods*	(283)	(2,180)
Overseas income tax at higher rates	(66)	95
Disallowable expenditure	(82)	-
Income not taxable	212	-
Deferred tax not previously recognised	(1,606)	(755)
Share based payments	138	410
Change in tax rate on prior period deferred tax balances	-	99

Foreign exchange	196	-
Total income tax credit/(charge)	635	(1,310)
Effective tax rate	5.9%	-24.4%

* Adjustments in respect of 2020 mainly relate to Group tax relief for losses surrendered to discontinued operations in previous years.

(c) Tax on items recorded in reserves

	Year ended 29 March 2021 £'000	Year ended 30 March 2020 £'000
Deferred tax credit/(charge) on share based payments	331	(397)
Total tax on items credited/(charged) to equity	331	(397)

(d) Deferred tax

	Year ended 29 March 2021 £'000	Year ended 30 March 2020 £'000
At beginning of year	2,037	2,039
Adjustment in respect of prior years	(459)	246
Credited to the income statement in the year	1,464	1,182
Credited/(charged) to other comprehensive income in the year	331	(397)
Disposal of subsidiaries	-	(1,105)
Foreign exchange	(151)	72
At end of year	3,222	2,037

The group has recognised deferred tax assets for deductible temporary differences and unused tax losses that it believes are recoverable. These do not include any uncertain tax positions. The basis of the creation of these assets is the examination of underlying documents and relevant law and regulation for temporary timing differences & future profitability forecasts set out in the business plans approved by the Board.

Deferred tax on losses of £26.8m (2020: £15.5m) relating to losses in the UK, have not been recognised in these financial statements on the basis that there is insufficient evidence of suitable future taxable profits against which to

recover any deferred tax asset created. An amount of £3,868,000 relating to the fair value loss arising on deferred contingent consideration net of settlement is not included in the deferred tax losses as the timing and the crystallisation of capital loss is unclear. There is no expiry date on these unrecognised losses.

(e) Factors that may affect future tax charges

The Group's overseas tax rate is higher than that in the UK as future profits earned by the Naked Wines subsidiaries in the United States of America and Australia are taxed at 21% and 30% respectively.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries as following the enactment of the Finance Act 2009 the Group considers that it would have no liability to additional taxation should such amounts be remitted.

7 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of the Company, excluding 146,814 (2020: 243,055) shares held by the Naked Wines plc Share Incentive Plan Trust (which have been treated as dilutive share options).

The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. These are share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. All outstanding share options granted have been included in the dilutive earnings per share calculation as there are not anti-dilutive at the year end. In the prior year, 365,626 ordinary shares were not included in the dilutive earnings per share calculation.

	Continuing operations		Group including discontinued operations
	Year ended 29 March 2021 £'000	Year ended 30 March 2020 £'000	Year ended 30 March 2020 £'000
(Loss)/earnings per share			
Basic (loss)/earnings per share	(13.8p)	(9.3p)	11.3p
Diluted (loss)/earnings per share	(13.8p)	(9.3p)	11.1p
	Year ended 29 March 2021	Year ended 30 March 2020	Year ended 30 March 2020
Weighted average number of shares in issue	72,896,800	71,909,151	71,909,151
Dilutive potential ordinary shares:			
Employee share options and contingently returnable shares	1,496,174	1,552,166	1,552,166
Weighted average number of shares for the purpose of diluted earnings per share	74,392,974	73,461,317	73,461,317
Total number of shares in issue	73,161,485	72,874,018	72,874,018

* Share based payment charges have been reclassified from adjusted items and are included within adjusted loss after tax in the year ended 29 March 2021. Comparatives have been restated accordingly. See note 5 for further details.

If all the Company's share schemes had vested at 100% the Company would have 74,763,497 issued shares.

8 Notes to the cash flow statement

(a) Reconciliation of profit to cash generated/(utilised) by operations

	Year ended 29 March 2021 £'000	Year ended 30 March 2020 £'000
Cash generated/(used) by operations		
Operating loss	(11,677)	(4,874)
Add back:		
- Depreciation and amortisation	5,288	5,336
- Loss on disposal of fixed assets	51	71
- Fair value loss arising on deferred contingent consideration net of settlement	3,868	-
- Fair value movement on foreign exchange contracts	1,760	(935)
- Share based payment charges	777	833
Operating cash flows before movements in working capital	67	431
Increase in inventories	(8,984)	(13,291)
Increase in customer funds in deferred income	28,244	5,312
(Increase)/decrease in trade and other receivables	(1,445)	594
Decrease in trade and other payables	16,325	6,837
Net cash generated/(used) by operating activities	34,207	(117)

(b) Cash and cash equivalents

	29 March 2021 £'000	30 March 2020 £'000
Cash and cash equivalents	85,148	54,736

Included in cash and cash equivalents is a restricted amount of £300,000 which relates to a guarantee to HMRC for customs duties for the UK trading subsidiary.

(c) Analysis of movement in net cash

	30 March 2020	Cash flows	Non-cash movements	29 March 2021
	£'000	£'000	£'000	£'000
Cash and cash equivalents	54,736	31,545	(1,133)	85,148
Borrowings - customer funded bond	(84)	54	-	(30)
Borrowings - IFRS 16 lease liabilities	(5,363)	904	1,583	(2,876)
Gross borrowings	(5,447)	958	1,583	(2,906)
Total net funds/(borrowings)	49,289	32,503	450	82,242

Definitions and Customer experience KPIs

Definitions	
Angel	A customer who deposits funds into their Angel account each month to spend on the wines on our website.
CAGR	Compound annual growth rate. The year-on-year growth rate required for a number of years for a value to grow from its beginning balance to its ending balance.
Company, Naked or Naked Wines	Naked Wines plc
Contribution	A profit measure between gross profit and EBIT, calculated as gross profit less the costs of fulfilling and servicing (e.g. credit card fees, delivery costs, customer facing staff costs) and marketing expenses. We often split contribution into that from new and repeat customers as they can have different levels of profitability.
DTC	Direct to consumer
ESO	Employee stock option
Group	Naked Wines plc and its subsidiary undertakings
LTIP	Long Term Incentive Plan
Marketing - R&D spend	Expenditure focused on researching and testing new marketing channels and creative approaches, with the aim of opening up significant new growth investment opportunities.
New Customer	A customer who, at the time of purchase, does not meet our definition of a repeat customer; for example, because they are brand new, were previously a repeat customer and have stopped subscribing with us at some point or cannot be identified.

New Customer sales	Revenues derived from transactions with customers who meet our definition of a new customer.
Repeat Customer	A customer ('Angel') who has subscribed and made their first monthly subscription payment.
SIP	Share Incentive Plan
Standstill EBIT	The adjusted EBIT that would be reported if Investment in New Customers was reduced to the level needed to just replenish the current customer base.
Total Addressable Market (TAM)	TAM represents the available market which Naked sees as a revenue opportunity which it could serve
Customer experience KPIs	
Product availability	% of targeted range available on websites as indicated by our inventory reporting.
Wine quality - "Buy it again ratings"	% of "Yes" scores in the last 12 months as recorded by websites/ apps
5* customer service	The number of service ratings scoring 5* as a % of total ratings in the last 12 months as recorded by websites/apps/telephone feedback.

Alternative performance measures (APMs)

EBIT	Operating profit as disclosed in the Group income statement.
Adjusted EBIT	Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, acquisitions costs, restructuring costs, fair value movement through the income statement on financial instruments and revaluation of funding cash balances held.
EBITDA	EBIT plus depreciation and amortisation
Adjusted EBITDA	Adjusted EBIT plus depreciation and amortisation, but excluding any depreciation or amortisation costs included in our adjusted items e.g. amortisation of acquired intangibles.
Adjusted PBT	Adjusted EBIT adjusted for net finance income
Free cash flow	Cash generated by operating activities less capital expenditure and before adjusted items and taxation. A reconciliation of this metric is provided below.
Net cash	The amount of cash we are holding less debt at year end.
Investment Measures	
Investment in new customers	The Investment in New Customers during the year, including contribution profit/loss from New Customer sales and advertising costs. Please note we have updated the description of this term to elaborate on its components, but the underlying calculation has not changed.
New Contribution loss	The contribution earned from sales to New Customers.
5-Year Forecast Payback	The ratio of projected future repeat contribution we expect to earn from the new customers recruited in the year over the investment to recruit them. We forecast contribution at a customer level using a machine learning algorithm which 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.
5-Year Lifetime Value	The future contribution we expect to earn from customers recruited in a discrete period of time. We calculate this future contribution using a Machine Learning (ML) model. Collecting data for a number of key customer characteristics including retention, order frequency and order value along with customer demographics and non-transactional data, the ML algorithms then predict the future (lifetime) value of that customer.
Repeat Customer Contribution profit	The ratio attributable to sales meeting the definition of sales to repeat customers after fulfilment and service costs.
Repeat Customer sales retention	The proportion of sales made to customers who met our definition of "Repeat" last year that were realised again this. Using our website data, the population who were subscribers in the prior year are identified and their sales in the current year then assessed. This is done for each month and summed to calculate the full year retention.
Year 1 Payback	This short-term payback measure shows the actual return in this financial year of our investment in the prior year.

Free cash flow

	29 March 2021 £m	30 March 2020 £m
Adjusted EBIT	(1.5)	(2.4)
Add back depreciation and amortisation (<i>excludes amortisation of acquired intangibles included in adjusted items</i>)	1.7	1.8
Add back IFRS 2 charges	0.8	0.8
Adjusted EBITDA	1.0	0.2
Working capital movement		
Inventories	(9.2)	(13.3)
Deferred Income	28.2	5.3
Trade and other receivables	(1.4)	0.6
Trade and other payables	15.6	7.1
Repayments of principal under lease liabilities	(0.9)	(1.2)
Working capital movement	32.3	(1.5)
Pre-tax operating cash flow	33.3	(1.3)
Capital expenditure	(2.7)	(1.1)
Pre-tax operating cash flow / "Free cash flow"	30.6	(2.4)
Reconciliation to statutory cash flow statement		
Free cash flow	30.6	(2.4)

Capital expenditure	2.7	1.1
Repayments of principal under lease liabilities	0.9	1.2
Net cash generated/(used) by operating activities	34.2	(0.1)

Standstill EBIT calculation

	29 March 2021 £m	30 March 2020 ¹ £m
Standstill EBIT is calculated as		
Repeat contribution (a)	84.9	46.3
Less: replenishment spend (e)	(12.2)	(11.5)
Less: General and administrative costs ²	(33.4)	(25.2)
	39.3	9.6
Repeat contribution (a)	84.9	46.3
Repeat Customer sales retention (b)	88.0%	83.3%
Repeat contribution lost to attrition (=a x (1-b)) (c)	10.0	7.7
Year One Payback (d)	82.0%	67.0%
Spend to replenish lost repeat contribution (=c/d) = (e)	12.2	11.5

1. The basis of the cost allocation has been updated in the current year and prior year comparatives are stated on a consistent basis.
2. General and administrative costs exclude £3.6m amortisation, £2.0m fair value adjustments, £0.7m adjustment for FX and £3.0m marketing - R&D spend.

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