

NEWS RELEASE

Proposed sale of Majestic Retail and Commercial

8/2/2019

RNS Number : 6672H

Majestic Wine PLC

02 August 2019

THE INFORMATION CONTAINED WITHIN THIS ANNOUNCEMENT IS DEEMED BY THE COMPANY TO CONSTITUTE INSIDE INFORMATION AS STIPULATED UNDER THE MARKET ABUSE REGULATION.

2 August 2019

Majestic Wine PLC

**Proposed sale of Majestic Retail and Commercial and related assets
for approximately £100 million**

Majestic Wine PLC ("Majestic", the "Group" or the "Company") today announces that it has entered into an agreement to sell Majestic Wine Warehouses Limited ("MWWL") and Les Celliers de Calais S.A.S. ("LCDC"), which together comprise the Majestic Retail and Commercial businesses ("Majestic Retail and Commercial") to CF Bacchus Holdings Limited ("BidCo"), a vehicle controlled by funds managed by Fortress Investment Group LLC, for a total consideration of £95m (the "Disposal").

A separate sale of one freehold property previously owned by MWWL to an independent third party is expected to realise a further £5m subject to approval of a planning application for redevelopment, bringing total proceeds to approximately £100m.

These transactions represent a major milestone in the Group's history, enabling the Board to focus on driving growth in the Naked Wines business ("Naked"), which has a disruptive online model and operates in fast growing markets.

Highlights

- Binding agreement to sell the combined Majestic Retail and Commercial businesses for a total consideration of £95m:
 - BidCo will pay initial cash consideration of £78m for the shares of MWWL and LCDC, the two companies through which Majestic Retail and Commercial trade;
 - An additional £5m of consideration payable in cash is deferred for two years, and contingent on the post-Brexit regulatory landscape and performance of LCDC (comprising the Group's French operations);
 - A further £12m of consideration will be retained by BidCo in the form of a loan note (the "Loan Note") which will be an unsecured interest-bearing loan from the Company to BidCo due to be repaid by no later than five years from completion of the Disposal;
 - The Disposal is conditional on the approval of the Group's shareholders at a General Meeting, EU regulatory clearance and satisfactory transfer of MWWL's bonding arrangements; and
 - Completion of the Disposal is expected to occur in the fourth quarter of 2019.
- A separate agreement to sell a freehold property for net proceeds of £5m plus potential overage payments has been signed with a property developer. Completion is subject to obtaining planning approval for the redevelopment.
- The net proceeds of both transactions will initially be used towards:

- Eliminating the Group's debt;
 - Investing in the growth of Naked; and
 - Returning £3.8m to shareholders by way of a special dividend of 5.2p per share, as announced with the full year results on 13 June 2019.
- Naked is currently testing a number of initiatives, and may develop options for additional initiatives, which have the potential to increase its rate of investment and growth. Therefore, any further returns to shareholders will be considered once the Company has realised additional proceeds from its ongoing program of sales and clarified its future capital requirements.
 - The Disposal is subject to Majestic shareholder approval. A circular containing further details of the proposed Disposal and containing the notice convening a General Meeting to consider a resolution to approve the Disposal will be sent to Group shareholders as soon as practicable.
 - The Disposal is unanimously recommended by the Board.
 - Irrevocable undertakings or letters of intent have been received from shareholders holding shares representing, in aggregate, approximately 27 per cent of the issued ordinary share capital of the Company.

Commenting on the Disposal, Rowan Gormley, CEO of Majestic, said:

"I am delighted that we have managed to secure an independent future for both Naked and Majestic Retail and Commercial, allowing both companies to pursue growth by focusing on their unique propositions.

I would like to thank all staff, customers and suppliers for their loyalty during this process.

We look forward to the future and continuing to focus on what we do best... sharing our spectacular wines from our hundreds of talented winemakers with our customers!"

Enquiries:

Majestic Wine PLC
Rowan Gormley, Chief Executive Officer
James Crawford, Chief Financial Officer

Email:
investor.relations@majestic.co.uk
Tel: 01923 298 200

Rothschild & Co (Financial Adviser)
Majid Ishaq
Edward Duckett
Tel: 020 7280 5200

Investec (NOMAD & Broker)
David Flin
Carlton Nelson
David Anderson
Tel: 0207 597 5970

Instinctif Partners (PR Agency)
Damian Reece
Guy Scarborough
Tel: 0207 457 2020
Tel: 07931 598 593
Tel: 07917 178 920

ADDITIONAL INFORMATION

Strategic rationale for the Disposal

Today's announcement represents another significant milestone in the evolution of the Group, by freeing up capital and resource to pursue the significant growth opportunity ahead of Naked.

On 25 March 2019, the Board of Majestic Wine plc announced that it had taken the difficult but strategically important decision to focus all of its capital and energy on delivering the growth potential of its Naked business while realising value from Majestic Retail and Commercial.

While the Board believes that Majestic Retail and Commercial have the potential to be long-term winners, the Board considers that focusing the Group's resources behind Naked is the best way to maximise value for our shareholders. Naked operates in much larger and faster growing markets, it

has a disruptive model that will benefit from the consumer shift towards online, and it has first mover advantage and a more defensible competitive position relative to Majestic Retail and Commercial.

In the last three years we have:

- Almost doubled Naked in size with our largest and fastest growing operation now being the US, which grew its revenue by 21% in the year ended 1 April 2019 ("FY19");
- Built a database of 18m wine reviews and ratings;
- Built a loyal and profitable repeat customer base;
- Built a 200 strong winemaker portfolio, producing 1,000 wines in 17 countries; and
- Built robust infrastructure able to deliver market leading service levels.

We have been increasing our rate of investment into Naked and are targeting deploying £26m into new customer acquisition in FY20. What gives us the confidence to do that? The short answer is that the economics of a subscription business with loyal customers who behave predictably give us long-term contribution growth in exchange for upfront investment. If we continue to invest at the current rate, maintain current retention levels and achieve the targeted payback, the future repeat contribution will continue to scale. That's if we maintain the current rate of investment. We think we can go faster.

As growth investment drives future contribution, we want to take advantage of our strong returns and increase the rate of investment in customer acquisition to maximise future value. We believe we have the model, the experience and the opportunity to accelerate investment, at our targeted payback, and in doing so materially increase future contribution and value.

The Disposal of Majestic Retail and Commercial is a big step towards simplifying the Company into one business model, operating under a single brand, and with intense management focus on delivering an ambitious growth strategy.

Principal terms of the Disposal

The Disposal Agreement between the Company and BidCo was entered into on 2 August 2019. Pursuant to the Disposal Agreement, the Company has agreed to dispose of Majestic Retail and Commercial to BidCo for total consideration of £95m. Of this amount, £78m is payable in cash on completion, £5m is deferred cash consideration where payment is contingent on the post-Brexit regulatory landscape and performance of LCDC and a further £12m of the consideration is being financed by the Loan Note between the Company and BidCo.

The Disposal is conditional upon: (i) the passing of an ordinary resolution approving the Disposal by shareholders at a General Meeting; (ii) EU regulatory clearance; and (iii) satisfactory transfer of MWWL's bonding arrangements.

Furthermore, the Disposal Agreement contains certain warranties, indemnities and covenants given by the Company which are customary for a transaction of this nature. A policy to insure the majority of warranty and indemnity items has been purchased alongside the transaction which reduces the scope of the Group's liability under the Disposal Agreement.

In the event that the Disposal Agreement terminates due to the shareholder approval not being received by 1 February 2020 or the Company accepting a competing proposal to acquire MWWL and/or LCDC, the Company has agreed to pay BidCo an amount equal to its costs and expenses incurred in connection with the Disposal up to a maximum of 1% of the Group's market capitalisation, based on the closing share price on the day prior to this announcement (1 August 2019).

As part of the Disposal, the Company and BidCo have also entered into a Transitional Services Agreement ("TSA") to support the IT infrastructure currently managed by the Company's in-house IT department. The arrangement lasts for a minimum of one year and delivers development work plus ongoing support at a cost to BidCo of approximately £1.5m in the first year. A separate reverse transitional services agreement is also being entered into to allow Naked and Lay and Wheeler customers to continue benefiting

from the 'click & collect' service offered by Majestic Retail.

A circular containing further details of the proposed Disposal and containing the notice convening a General Meeting of shareholders to consider a resolution to approve the Disposal will be sent to Group shareholders as soon as practicable.

The Loan Note

£12m of the purchase price is being financed by way of an unsecured Loan Note issued by BidCo to the Company. The Loan Note will mature on the fifth anniversary of the date of completion, unless repaid in full before that date. The Loan Note will bear interest of 3% p.a. for the first three years, 4% in year four and 5% in year five, to be paid annually. The terms of the Loan Note limit distributions (or certain other payments) by MWWL unless a base level of EBITDA generated by MWWL is maintained.

Other transactions

Excluded from the Disposal is the sale of one Freehold property, currently operating as the Ealing store, which has been sold for £7m plus potential overage payments to an independent property developer, with net proceeds of at least £5m in cash expected. Completion of that sale is subject to securing planning approval for redevelopment of the site.

A potential sale of Lay and Wheeler is being explored separately. This sale has received significant interest from multiple bidders.

Information on the Purchaser

The Majestic Retail and Commercial businesses will be acquired by BidCo, a vehicle controlled by funds managed by Fortress Investment Group LLC ("Fortress"). Fortress is a leading, highly diversified global investment manager with approximately \$39.2 billion of assets under management as of 31 March 2019. Founded in 1998, Fortress manages assets on behalf of over 1,750 institutional clients and private investors.

Financial effects of the Disposal and use of the proceeds

Financial effects of the Disposal on the Majestic Group

At the date of this announcement, while the Group financial statements and segmental reporting have been audited for FY19, the subsidiary accounts are still being finalised and reviewed. As such, amounts shown below are unaudited values for FY19. Audited values for FY18 are footnoted¹.

The unaudited FY19 combined net asset value of MWWL and LCDC was £81m, of which £0.9m relates to the freehold to be sold separately.

In FY19, Majestic Retail and Commercial contributed £311.8m to the Group's underlying revenue of £505.1m and £13.8m to the Group's Underlying Adjusted EBIT of £12.1m. In the period since 1 April 2019, in common with other UK-focused retail operators, Majestic Retail and Commercial has experienced a challenging short-term period of trading. Majestic Retail and Commercial's ongoing contribution to the continuing Group will cease following completion of the Disposal. If completion occurs by 30 September 2019, the Majestic Retail and Commercial business will be reported as discontinued in the FY20 results of the continuing Group.

In FY19, Naked generated revenue of £178.4m, contribution of £20.7m and Adjusted EBIT of £6.7m. In line with our strategy, we increased our investment in new customer acquisition for Naked by £5.0m to £19.1m, which drove an increase in sales to new customers of 18% and with an overall forecast payback of 4.0x being achieved. In FY20 we have a target to grow our new customer investment by a further £7.0m whilst maintaining payback discipline.

In addition, in FY19, the Group incurred £9.6m of group costs. These costs are separately disclosed within the Group's audited consolidated financial information and not allocated to specific segments. A large portion of the costs relate to expenditure on IT infrastructure as well as other costs associated with running a publicly listed group of companies; both of which

will be required by the Company on an ongoing basis. In its FY19 results, the Company guided to a potential reduction of £1.0m - £1.5m in group costs in the event that Majestic Retail and Commercial were disposed, which will be delivered through provision of IT support services under the TSA noted above.

1 FY18 audited values for MWWL and LCDC combined are: Revenue £307.1m, Adjusted EBIT £15.8m, Reported PBT £11.2m and Net Asset Value £87.9m

Use of proceeds

The Board's capital allocation policy, in order of priority, is to maintain a healthy balance sheet, invest for growth, and return surplus cash to shareholders.

It is expected that the proceeds of the Disposal on Completion, after payment of transaction costs, will be approximately £74m. The Disposal will not be subject to tax as the businesses being sold qualify for the Substantial Shareholding Exemption.

The net proceeds will be used to:

- Eliminate the Group's net debt, which stood at approximately £15.5m at end FY19 and is anticipated to be in excess of £30m when the transaction completes;
- Invest in the growth of Naked;
- Return £3.8m to shareholders by way of a special dividend of 5.2p per share.

The Company is currently exploring or intends to explore a number of initiatives which have the potential to increase its rate of investment and growth. Alongside this, the transaction terms defer the receipt of a considerable amount of the proceeds. Any further cash inflows may result from:

- Deferred consideration relating to LCDC;
- Repayment of the Loan Notes;
- The separate sale of a freehold property, the Ealing store, to a property developer subject to obtaining planning approval for

- redevelopment;
- The sale of Lay and Wheeler.

Further returns to shareholders will be considered on a regular basis, taking into consideration both the continuing Group's future capital requirements and additional cash inflows.

Strategy for the continuing Group

The continuing Group will have an online subscription business operating in large and growing markets. The strategy is to pursue the attractive growth opportunity by maximising investment in new customer acquisition for as long as the targeted rate of return on those investments is achievable.

Steps to completion

The Disposal will require approval by the Company's shareholders. The Company will, as soon as practicable, send a circular to its shareholders convening a meeting to approve the Disposal.

EU regulatory filings are being made as a result of the diverse holdings of Fortress and its parent company Softbank.

Subject to shareholder approval and EU regulatory/competition clearances, completion of the Disposal is expected to take place in the fourth quarter of 2019.

Recommendation

The Board considers the Disposal to be in the best interests of the Company and is unanimous in its recommendation of the Disposal. Accordingly, the Board intends to unanimously recommend to shareholders to vote in favour of the resolution to be proposed at the General Meeting.

Irrevocable undertakings and letters of intent

Bidco has received irrevocable undertakings from shareholders representing approximately 16 per cent of the issued ordinary share capital of the Company and letters of intent to vote in favour of the Disposal from shareholders representing approximately 11 per cent of the issued ordinary share capital of the Company. Therefore, Bidco has received irrevocable undertakings or letters of intent from shareholders representing, in aggregate, approximately 27 per cent of the issued ordinary share capital of the Company.

Market Abuse Regulation

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation. The person responsible for release of this announcement is Alex Iapichino, Group General Counsel and Company Secretary.

About Majestic Wine PLC

Majestic Wine PLC is a quality wine specialist, with operations in the UK, USA and Australia.

Our goal is to try to beat the market by investing in customer relationships, rather than stores. We do that through:

- Investing in business models that compound, i.e. that get stronger with growth
- Investing with discipline, because we are able to test new opportunities before we roll them out
- Using data and technology to continuously improve - every quarter we double up on our best performing investments, and cut the worst

Our divisions:

1. Naked - Naked's customers in the UK, USA and Australia crowd fund independent winemakers in exchange for preferential prices on exclusive wines
2. Retail - The UK's largest specialist wine retailer. We help people find wines they will love by employing highly engaged, well trained people

equipped with state of the art tools and unique wines

3. Commercial - A specialist on-trade supplier. We help our customers make more money from their wine list by offering national pricing and scale but local delivery and training
4. Lay and Wheeler - A specialist fine wine merchant. We are a trusted guide for people who love fine wine, supplying the world's finest wines with a personal service

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

END

MSCZLLBBKVFFBK