
"Creating sustainable growth in shareholder value, by doing the right thing"
Investor Site visit to Norwich
1 March 2016
naked wines
MAJESTIC
wine warehouse

AGENDA

10.30	Train departs Liverpool St
12.27	Arrive Norwich
12.30	Transfer to Naked HQ and lunch on arrival
13.00	Presentations and Questions
14.45	Walk-round
15.15	Wine Tasting and Presentation
16.30	Bus departs for Norwich Train station / Football
17.00	Train departs for London
18.57	Train arrives at Liverpool St

Presentations:

Introduction: Our Group Vision

Part 1: Naked Wines - a real life working example

Part 2: Customer Engagement

Part 3: Proof the model works: Taste the difference!



Introduction:
Our Group Vision

OUR **VISION** IS TO..



Deliver **sustainable** growth in shareholder value

…by **doing the right thing***

for our customers, suppliers and people

** If we wouldn't want to tell our mums about it, we don't do it!*

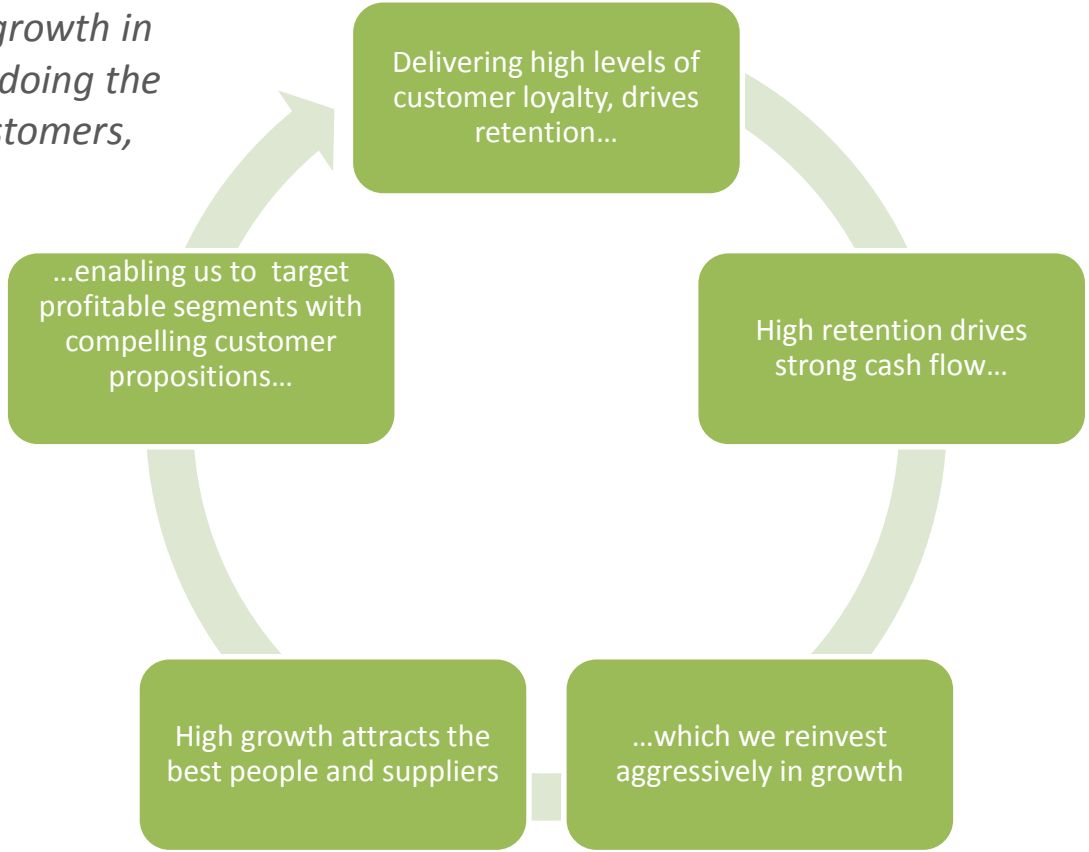
GROUP **OVERVIEW**

	Majestic Retail	Naked Wines	Majestic Commercial	Lay & Wheeler
Market size*	£2.2bn (UK)	£17bn (Global)	£2.0bn	£0.7bn
Sales for the year to March 2015	£231m	£81m	£42m	£10m
Proposition	Help people find wines they will love	Making a privilege into a pleasure	Making your wine list profitable	Your trusted guide into fine wine
Competitive advantage	800 delightful graduates who love wine	The model – crowdfunding independent winemakers	200 delivery hubs	Normal people who happen to love fine wines

** Source: Internal data*

NAKED WINES MODEL

Delivering sustained growth in shareholder value by doing the right thing for our customers, suppliers and people



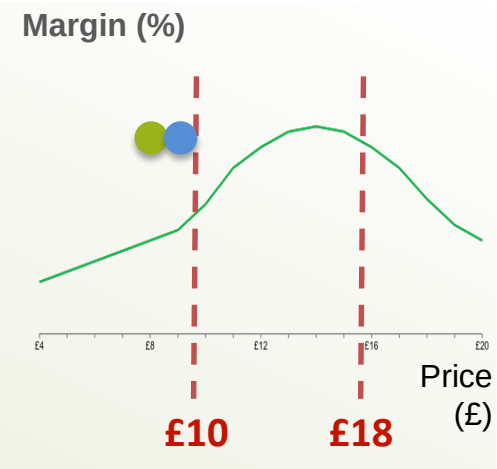


Part One:
Naked Wines – Real life example

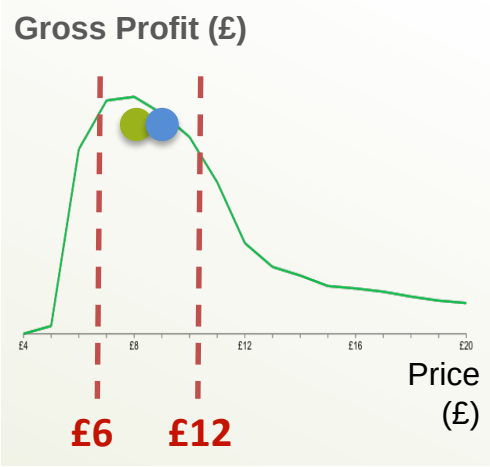
1 TARGETING PROFITABLE SEGMENTS…



x



=





Naked & Majestic target the most profitable segment of the wine market: **customers looking for inspiration**.

Why? Because…

- These customers value SERVICE
- QUALITY matters – a good buyer can add value
- It's FUN for staff and customers
- 'That's where the money is'

*Majestic Average Price Point: £7.88 / bottle**

*Naked Average Price Point: £9.54 / bottle**

** FY16 YTD, ex sales tax, excluding beer/spirits*

2 …WITH A COMPELLING **PROPOSITION**

British woman speaks of her anguish after vandals poured £60,000 of white wine down the drain

- **Katie Jones, 47, has been making wine in France for four years**
- **Lost 4,000 bottles of white wine - a year's vintage in attack**
- **Claims she was victim of 'wine vandalism' - targeted for being British**

By HUGO DUNCAN FOR THE DAILY MAIL

PUBLISHED: 01:16, 6 May 2013 | **UPDATED:** 09:29, 6 May 2013

Share

A British woman who moved to France to follow her dream of becoming a winemaker has spoken of her anguish after vandals poured £60,000 of her product down the drain.

Katie Jones, who left Leicestershire two decades ago, lost the equivalent of 4,000 bottles of white wine – an entire year's vintage.

The 47-year-old said it was her 'worst nightmare' to discover she had lost a year's work when she returned home after a business trip.



One of our wine makers needed help…

From: **Naked Wines MarketPlace** <rowan@nakedwines.co.uk>
Date: 9 May 2013 11:50
Subject: Please read – help Katie get back on her feet
To: eamon.fitzgerald@nakedwines.com

1,000 Angels needed to rescue Katie Jones. Throw her a lifeline and save £51

Dear Eamon

Please read carefully. This can only happen with your help.

For the past 20 years, Katie Jones has been living her winemaking dream in France

In 2009 she took a massive leap of faith, staking her future on a tiny vineyard perched on a hillside in the Languedoc.

Since then Katie has been grafting away and living the dream, with shiny awards coming in thick and fast. Last year she won a GOLD medal and the Pitou trophy at the prestigious International Wine Challenge.

A few weeks ago vandals brought Katie's business to its knees

…e the gut-wrenching discovery that vandals had emptied the vats containing her entire vintage of Jones Blanc Overnight Katie's winemaking dream had turned into a nightmare.

…agine investing 18 months of blood, sweat and tears… only to see your livelihood drained away into the gutter. Seriously heartbreaking.

We need YOU to help us STICK IT to the vandals

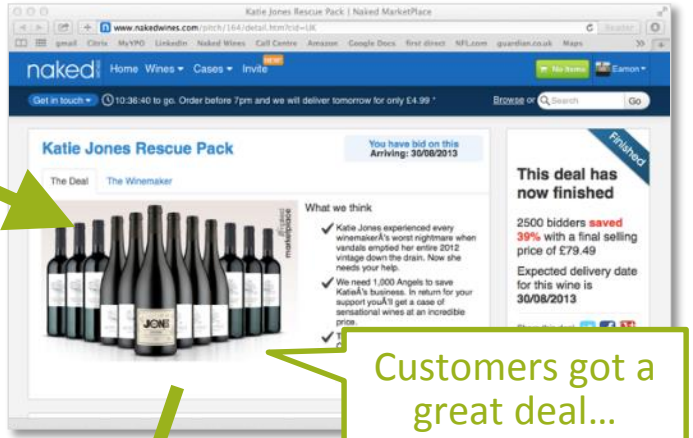
We need 1,000 Angels to rally together and show Katie that she has our support in her time of need. With your help we can get Katie back on her feet producing sensational wine in no time.

And because no… deed goes unnoticed… save £51

Your good deed f… …ll earn you a case of French delights at a frankly ridiculous price – with free delivery to your door in August*.

You'll get **6 bo…** …nd **5 bottles of Syrah** kindly supplied by Katie's neighbour (we've tasted 'em and trust

…so we launched an appeal



Customers got a great deal…

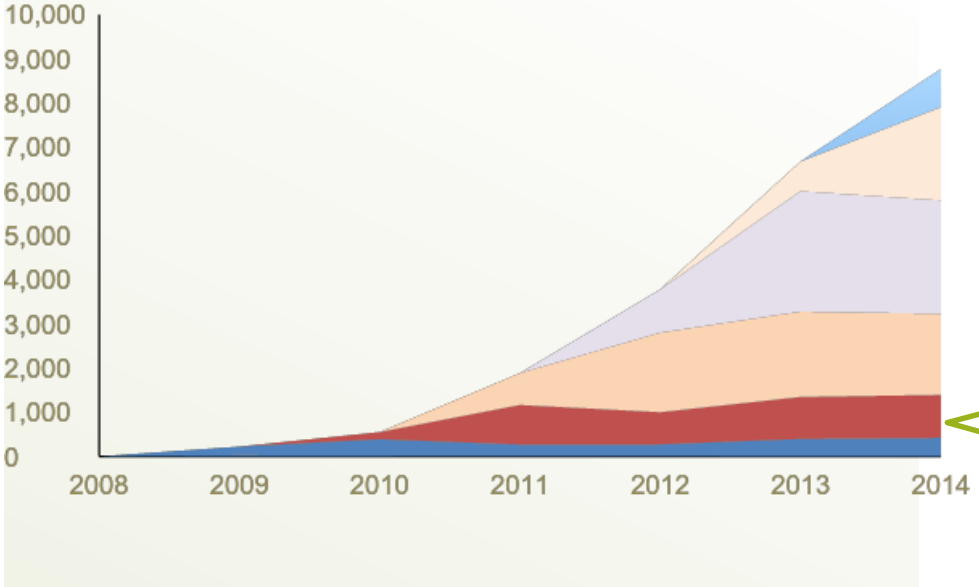




…AND the satisfaction of helping a talented wine maker

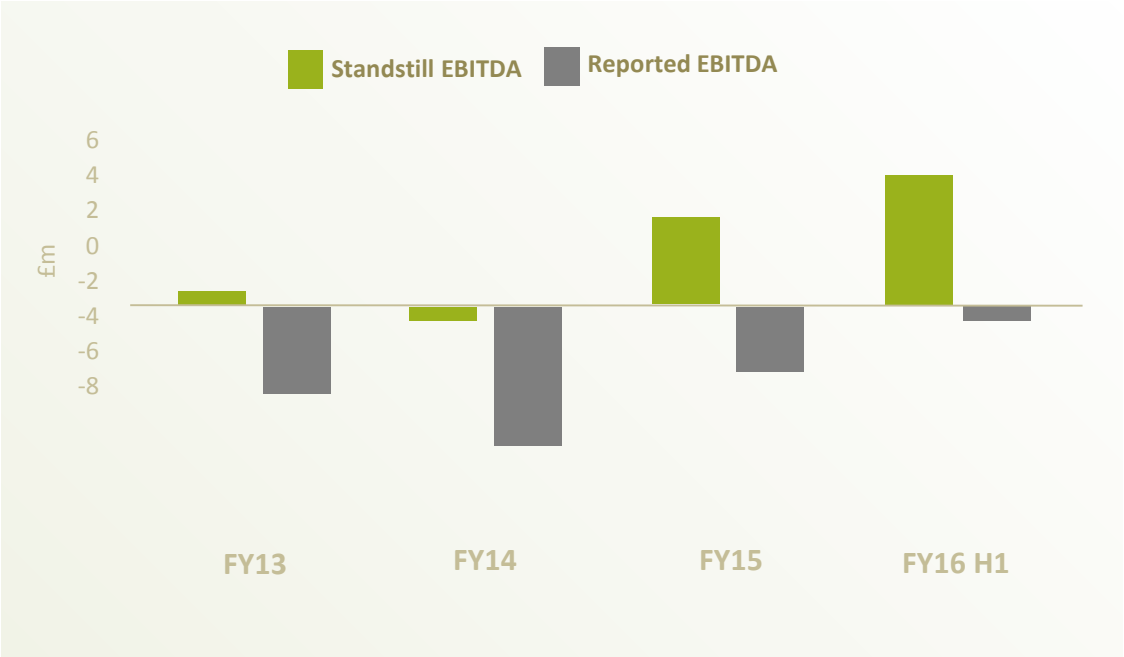
3 DELIVERING LOYALTY AND LIFETIME VALUES

Naked Wines UK Total contribution by year of Angel acquisition (£k)



Contribution compounds year-on-year, driving growth – with even the earliest cohorts of Angels still in growth

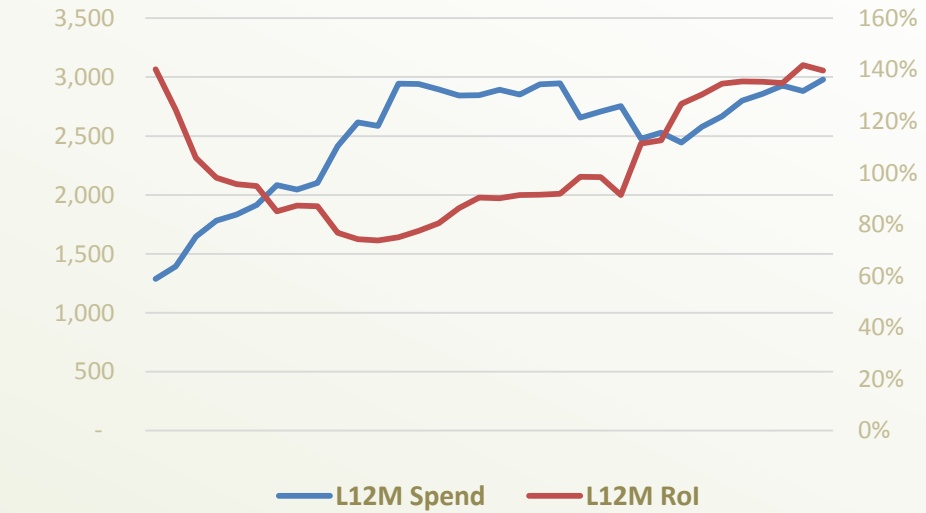
4 …WHICH DRIVES STRONG **CASH FLOW**



If we stopped investing in growth, we would make £5m a year

5 …WHICH WE **INVEST** AGGRESSIVELY

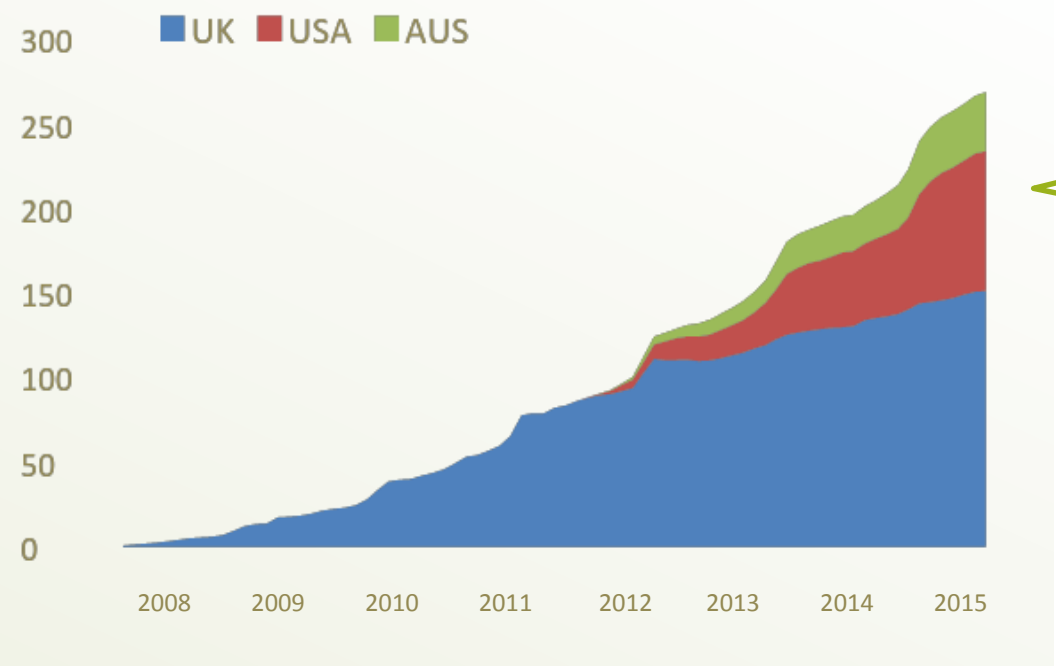
Growth spend & ROI history *(rolling 12 months)*



Increasing investment while improving ROI

6 …WHICH DRIVES **GROWTH**

Mature Angel Numbers *(thousands)*



H1: +29k net new Mature Angels (vs +16k in H1 FY15)*

**Reminder: A Mature Angel is an Angel who has started their fourth month*

7 GROWTH **ATTRACTS THE BEST** PEOPLE AND WINE MAKERS

Some of our Famous Wine Labels:























OUR APPROACH TO INVESTMENT – **AGGRESSIVE AND DISCIPLINED**

JAMES' JOB DESCRIPTION:

"Release under-performing capital and redeploy it into proven high ROI opportunities, while being agnostic about Country, Company, Open/Capex, Customer acquisition/retention etc…"

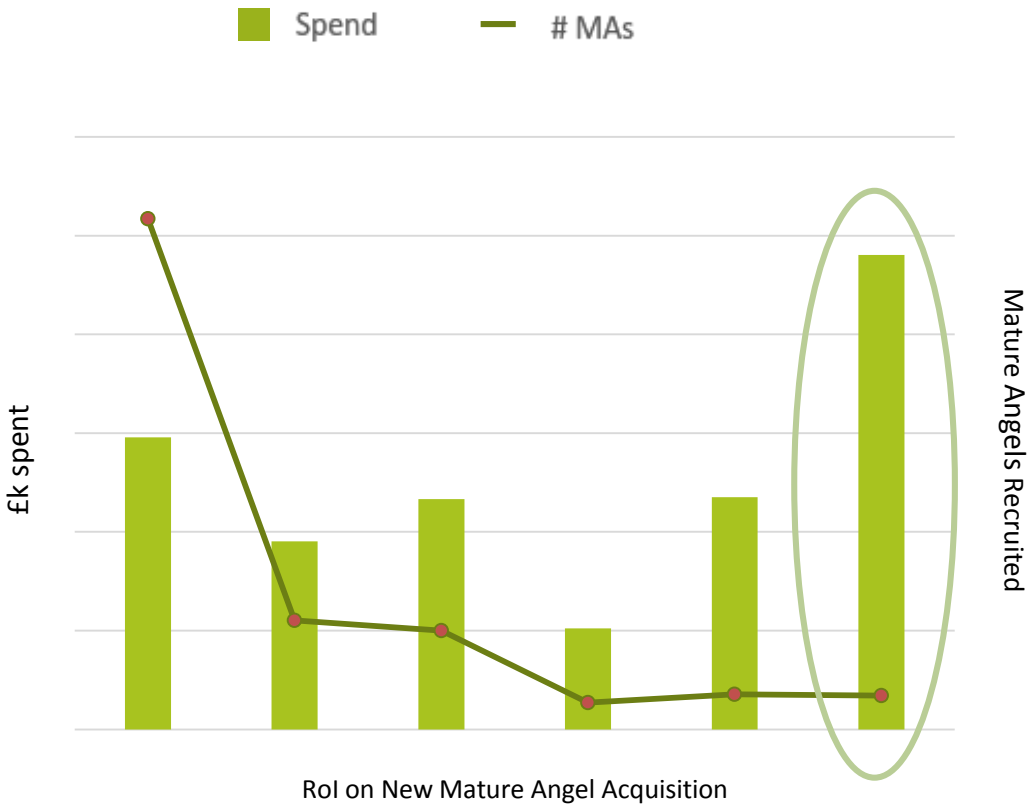
AIM TO DELIVER **ABOVE MARKET ROI**

WE ARE AGNOSTIC ABOUT COUNTRY, COMPANY, OPEX/CAPEX, ACQUISITION/RETENTION

Current ROI's:				
	Retail	Commercial	Naked Wines	L&W
New Customers	30%+	60-80%	>100%	TBC
Stores	<25%	n/a	n/a	n/a
Wine quality – Bottle ageing	TBC	TBC	~20%	TBC
Wine Quality - Product	TBC	TBC	50%+	TBC
Service – 5* Inbound	TBC	TBC	>100%	
Service – Outbound	TBC	TBC	<0% to >100%	TBC
Earlier Wine Maker payment	20-25%			

We have a rich opportunity to redeploy capital efficiently

EXAMPLE 1: CUSTOMER ACQUISITION



1. Cut the new business budget by this much at the start of the year
2. Review proposals to build spend back up
3. Ensure that deals in here are not repeated

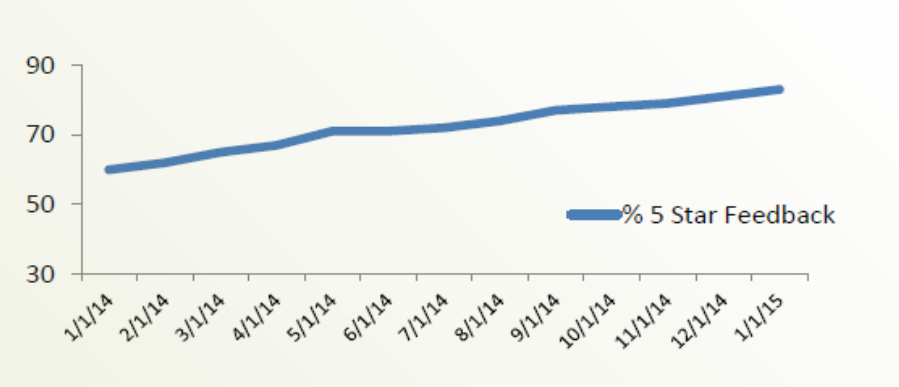
EXAMPLE 2: **OUTBOUND SERVICE**

		UK		USA	
		% Contacts	RoI	% Contacts	RoI
Jul-15	Campaign 1	47%	148%	36%	375%
	Campaign 2	29%	1204%	24%	610%
	Campaign 3	11%	216%	26%	385%
	Campaign 4	9%	72%	11%	-75%
	Campaign 5	3%	-15%	3%	20%
Dec-15	Campaign 1	38%	54%	19%	73%
	Campaign 2	45%	1629%	60%	1223%
	Campaign 3	17%	69%	14%	236%
	Campaign 4	0%	n/a	8%	7%
	Campaign 5	0%	n/a	0%	n/a

- *Redeployed resource out of low value campaigns*
- *Test and Learn – analyzing ROI down to the level of individual outbound campaigns – optimize our service for ROI*

EXAMPLE 3: **INBOUND SERVICE**

	Key Metrics (Indexed to 5*=100)	
	12M Attrition	Annual Value
1*	84	27
2*	88	43
3*	94	58
4*	97	68
Total 1 to 4*	95	60
5*	**100**	**100**

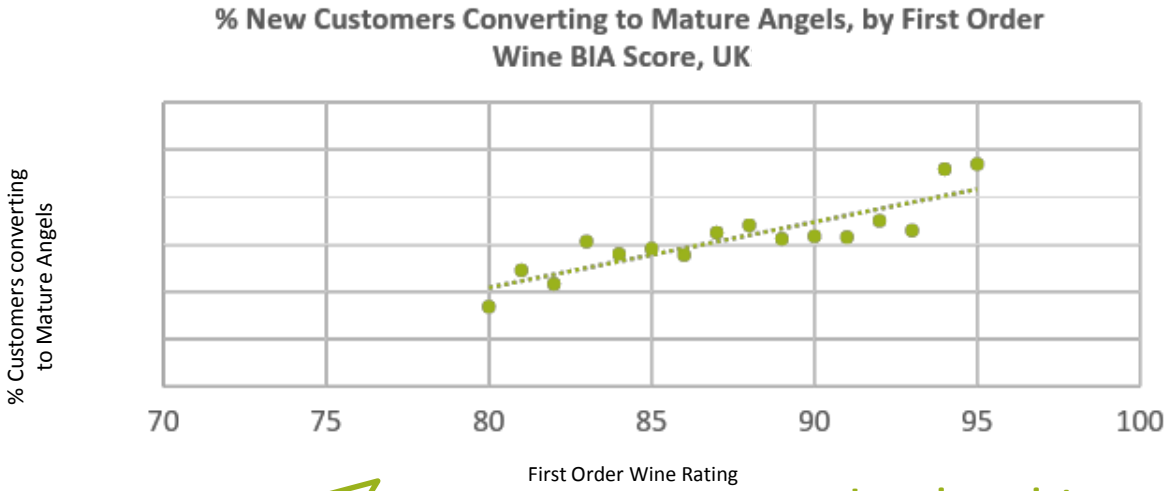


An Angel giving a 5 rating has twice the lifetime value of 1*-4* rating*

5 ratings have gone up from 65% to 85%*

EXAMPLE 4: IMPACT OF WINE INVESTMENT ON RETENTION

* BIA = Buy It Again



Example Wine 1 :
Substituted with a reserve level product:

Result: Gross Profit reduced by 4.3% however base BIA score increased by 10bps to 91

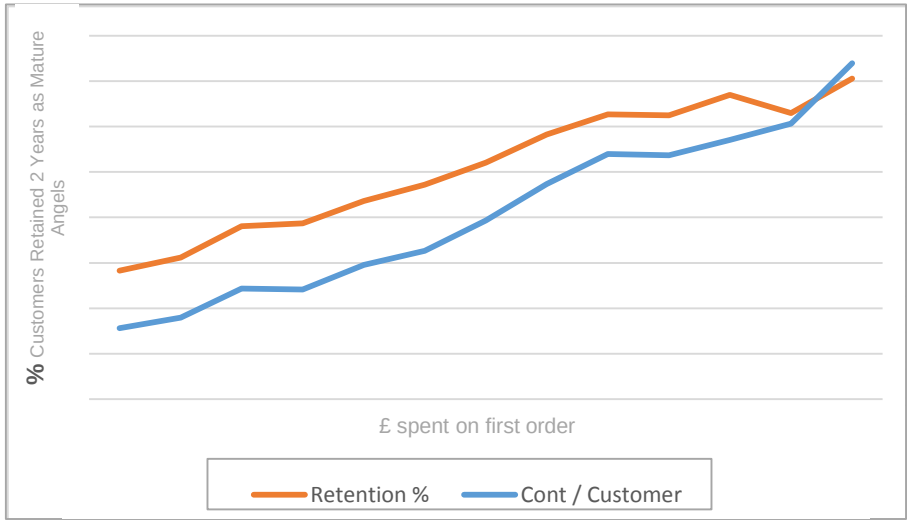
Customers with stronger BIA* %'s across their initial orders go on to deliver substantially greater loyalty and consequently lifetime value

Learning points:

- First… Guide people to the highest rated wines during the recruitment process
- Connect new customer budgets for new angels to BIA rating achieved
- Then… Review winemaking options to improve scores: Better wine, lower price, longer aging

EXAMPLE 5: IMPACT OF FIRST ORDER VALUE ON ROI

Retention rate & annual contribution/customer *(by first order spend, UK)*



*Focus our recruitment activity on **higher quality prospects**, who are willing to spend more on first case…*

*…leads to much **lower attrition** and step change in customer **lifetime value***

HOW DO YOU PUT A **VALUE** ON NAKED?

1. How big could it be?
2. How quickly can we get there?
3. The Plan...

HOW **BIG** COULD IT BE?

Benchmark examples:

	UK	USA	AUS
Market size	**£2bn**	**£14bn**	**£1bn**
Notable competitors and sales	Laithwaites (c.£170m); Virgin Wines (c.40m); Wine Society (c.£80m)	Laithwaites USA (c.$170m?); Winery direct (c.$1.6bn)	??

HOW QUICKLY CAN WE GET THERE: MODELLING

SIMPLIFIED GROWTH MODEL

NOTE: COST CATEGORISATIONS ARE NOT THE SAME AS RESULTS PRESENTATION

See comments in cells for FY16 assumptions

	FY15	FY16	FY17	FY18	FY19	FY20
INPUTS						
Growth Spend	-3.1	-3.0	-3.0	-3.0	-3.0	-3.0
"Growth in Growth Spend"						
RoI on Growth Spend	120%	140%	140%	140%	140%	140%
Growth in Admin Costs		26%				
Average contrib margin	*7.2%*	*10%*				
OUTPUTS						
Contribution (after mkting costs)	5.7	10.7	14.9	19.1	23.3	27.5
Admin (exc mkting costs)	-8.3	-10.5	-10.5	-10.5	-10.5	-10.5
EBIT	**-2.6**	**0.2**	**4.4**	**8.6**	**12.8**	**17.0**
Sales	79	107	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Sales growth		*35%*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*	*#DIV/0!*

THE PLAN: INVESTING IN OUR CUSTOMERS ALLOWS US TO MAXIMISE RETURNS, FOR LONGER

Target higher value customers

- *Lower volumes short term – but greater lifetime return*
- *Higher acquisition cost per customer*

More attentive customer service

- *Increases service cost but delivers enhanced ROI*

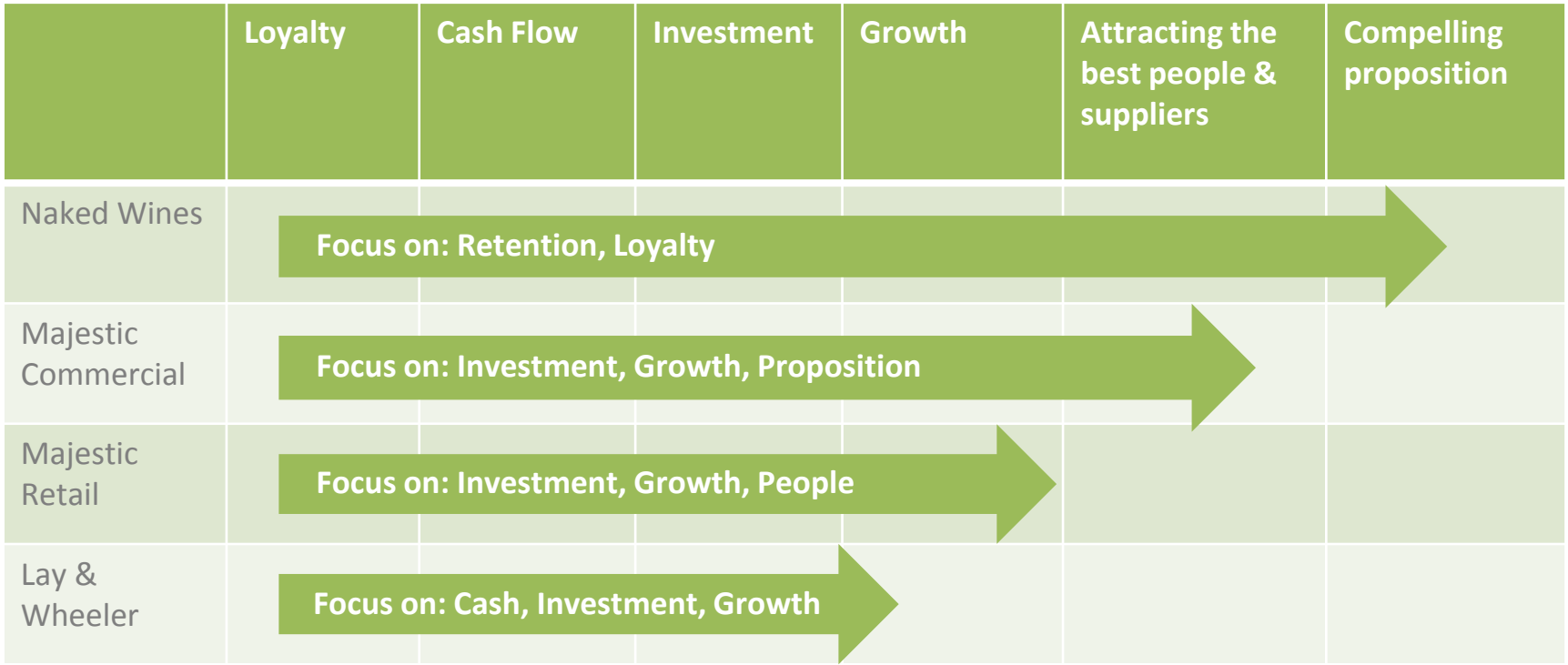
Acquisition + **Retention** → **Long term Value**



Strengthen our Value proposition to enhance customer lifetime value

- *Improved quality by investing deeper in supply chain*
- *Hold wine longer*
- *Improve range breadth & depth*

THE PLAN: APPLYING NAKED'S PRINCIPLES ACROSS THE GROUP




Part Two:
Customer engagement
naked wines
MAJESTIC
wine warehouse

OUR CUSTOMER **ENGAGEMENT STRATEGY** IS…



ENGAGING CUSTOMERS IS ABOUT SPEAKING TO THE THINGS THAT **REALLY MATTER** TO THEM

Functional needs
(money, time, health)



Emotional needs
(recognition, expression, inspiration, excitement)

We want customers to feel…
…they matter
…they're doing something good
…they're safe
…they're smarter than their peers

OUR LOYALTY STRATEGY IS ABOUT MAKING CUSTOMERS **FEEL GOOD**

Feel-good narrative – the difference you can make as an Angel

1. Tone – friendly, approachable, not stuffy

2. Personalised communication

- *Feedback changes recommendations*
- *Over 100 different personal emails sent daily on the same campaign*
- *6 million ratings on products in our taste database*

Constantly improving everything we do using the data we've collected through our database

3. Test and Learn

OUR CAMPAIGNS ARE ABOUT **FOSTERING LOYALTY** – NOT DIRECT SELLING

"Pockets are the most sensitive part of a human. To reach them, you must touch hearts and minds first"

Lula da Silva

Most ask…

*'What do I **think** they'll buy?'*

WE ask…

*'What do I **know** they buy?'*



HOW DO WE KNOW WHAT **OUR CUSTOMERS WANT?**

*…they tell us **every single day** through our website*



SERVICE: OUR STAFF ARE **GIVEN THE TOOLS** TO MAKE OUR CUSTOMERS HAPPIER



Project 'Giraffe' - *£25 per agent per month to 'blow customers away'*

'Shark Tank' - *Dragon's Den for staff ideas – e.g. text for wine service*



SERVICE: THE CUSTOMER HAPPINESS TEAM

An Angel giving a 5 rating has twice the lifetime value of 1*-4* rating… so*

	Key Metrics (Indexed to 5*=100)	
	12M Attrition	Annual Value
1*	84	27
2*	88	43
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Total 1 to 4*	95	60
5*	**100**	**100**


So. A delivery of wine went very wrong, twice, which was not the fault of Naked Wines. The 'Customer Happiness Team' reacted instantly and sorted the issue out and I jokingly suggested that "could I have a lorry load delivered as compensation?". Paul seemed to take it to heart and a few days later I did indeed receive an entire lorry load of wine as you can see. My faith in humanity is restored. Please can you promote Paul to Head of Customer Happiness.

Like · Comment · Share

Ruth Gannon, Gemma Colao, Jonathan Ppang and 467 others like this.

24 shares

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Andy Magin As (almost) everyone else - another example of great service from Naked Wines team. Love them.

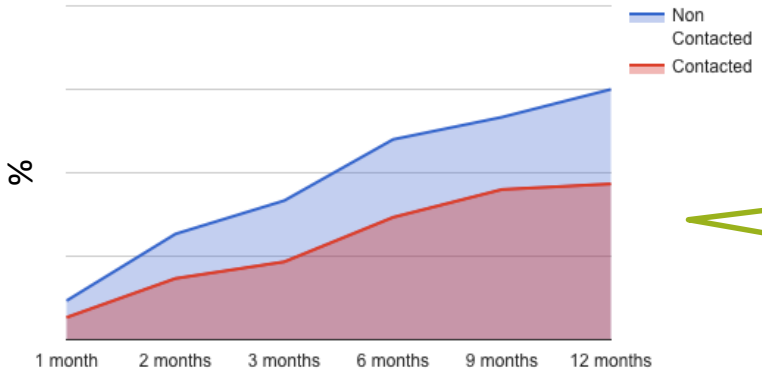
Like · Reply · February 16 at 12:22am



… Staff are incentivised to deliver a 5 service*

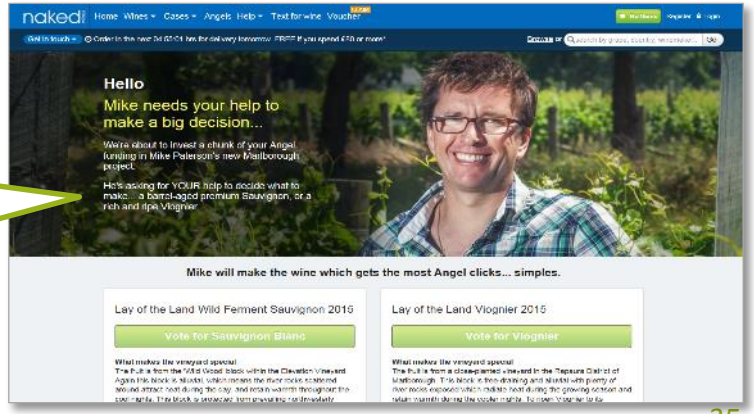
SERVICE: WORKING **IN PARTNERSHIP** WITH ANGELS

New Angel in waiting attrition



Guardian Angels
to help new Angels (improves retention)

Customers can influence products
3,000 Angels voted to help Mike choose between making Viognier or Sauvignon Blanc



GOING THE EXTRA MILE – OUR CUSTOMERS ARE PART OF OUR JOURNEY

Angels raised £120k in 8 hours *to set Carmen up in business…*





…and another £60k *to fund her soup kitchen & feed 3,000 kids for a year!*

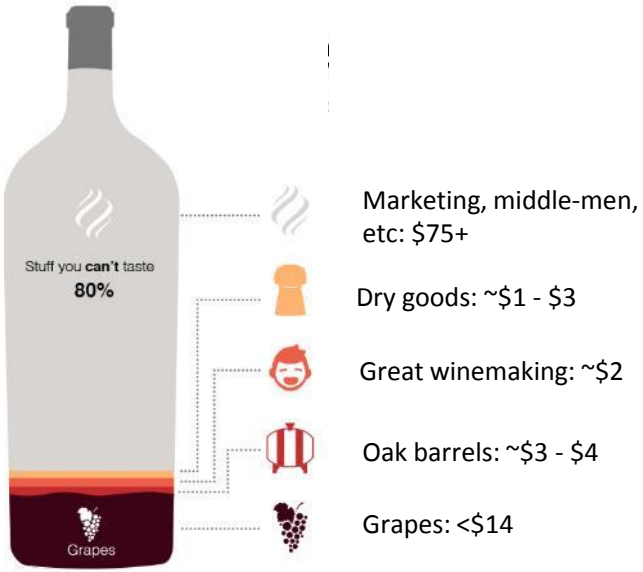


Part Three:

Proof the model works. Taste the difference!

WHY THE NAKED MODEL WORKS –
FOR THE WINE MAKERS AND CUSTOMERS

There's only $20 of wine in a $100 bottle!



Significant cost built into wine pricing that the Naked model avoids:

- ❑ Multiple tiers of margin, particularly in the USA
- ❑ Winery sales and marketing costs are often greater than the cost of the wine
- ❑ Cost of capital and risk – wineries typically have to finance 40-48 months of production

… AND IT'S EVEN MORE EXTREME IN THE US

The **three-tier system** of alcohol distribution is the **system** for distributing alcohol in the US. The **three tiers** are producers, distributors, and retailers. Therefore there are two ways for Americans to buy Wine:

…Through the Three-Tier System

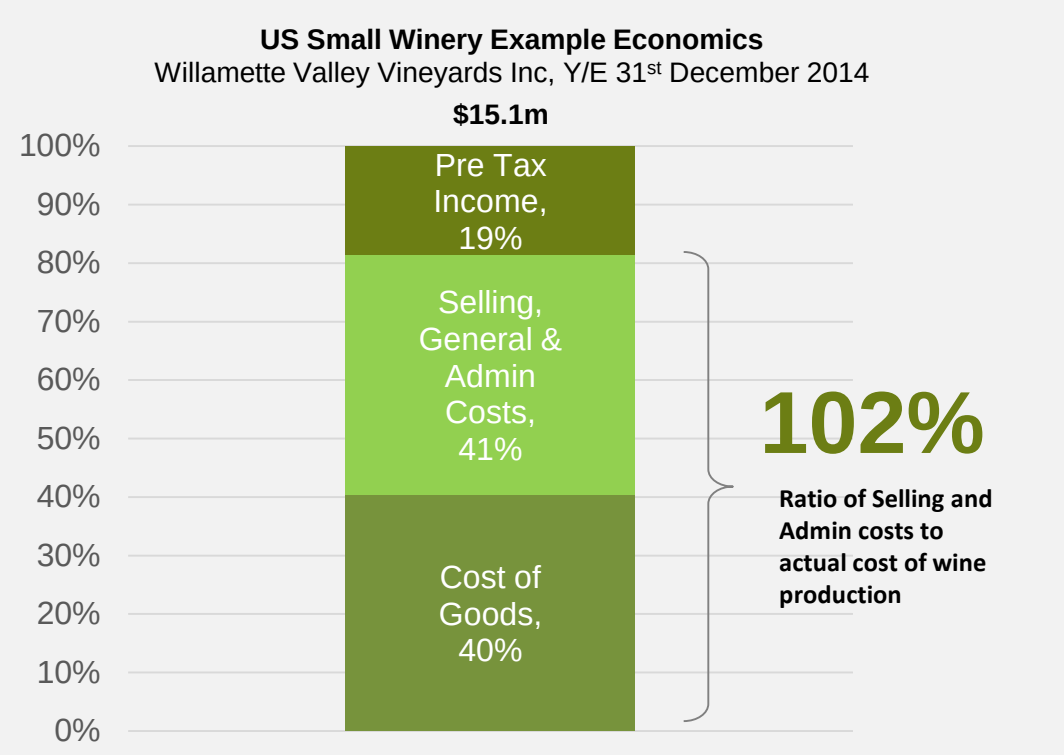


OR …Directly from the producer (The Naked Model)



UNDER THE TRADITIONAL 3 TIER MODEL:

THE COSTS OF REACHING THE CONSUMER MEAN SALES COSTS EXCEEDING MONEY SPENT ON MAKING THE WINE



- Willamette Valley are a boutique, listed, Oregon based producer
- Selling wines with retail prices from $12 to $100 a bottle
- Annual production of 108,000 cases across 3 sites in Oregon
- Focus on direct / retail sales channel (c50% of revenues)

Source: Willamette Valley Vineyards Inc 10k filing – 2015-03-26

THE NAKED MODEL IN ACTION:
TASTE THE DIFFERENCE!

1. Breaking the Economics
2. Hero Winemaker
3. A little goes a long way
4. SuperTuscan vs Superstar
5. Customer is King

1 BREAKING THE **ECONOMICS**



Jean Philippe Moulin – Chef de Cave

(previously of Ruinart, Perrier Jouet, Mumm)

- *Bond holder request to "Land a rockstar"*
- *1er Cru vs Grand Cru*
- *24 months vs 48 months Ageing*
- *Ruinart 65% more in price.*

2 HERO vs BRAND

Bill Small – New Zealand Winemaker

- *Saw the chance to snap up grapes from a vineyard destined for a famous wine*
- *Cloudy Bay - £25*
- *Small & Small Sylvia Reserve - £10.49*
- *92% of 32,300 BIA*
- *Intl. Trophy for Best Sav Blanc at Decanter*
- *Price: £10.49*



2 A LITTLE GOES A **LONG WAY**



Much loved Portuguese wine by Hermano Veloso

- *91% Buy It Again Rating*
- *Top 10 in Winemaker Scorecard*
- *What can a little more cash do to a Proven Winner…?*

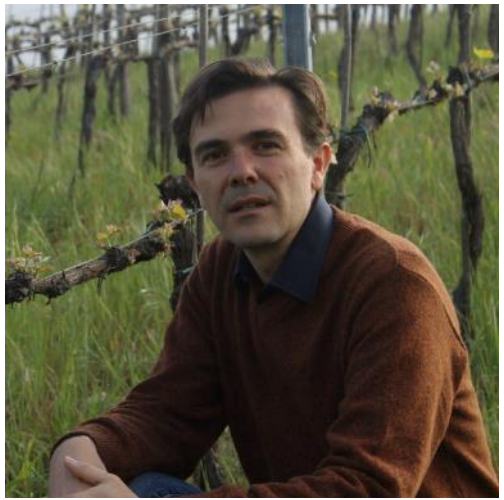
…£0.26 additional investment in Cogs =

- *94% Buy it Again Rating*
- *Fuller, richer, smoother wine*
- *Premium packaging*
- *Greater LTV*

KATIE JONES



4 SUPERTUSCAN VS. **SUPERSTAR**



Stefano di Blasi

Curator & winemaker of Tignanello & Solaia.
Poggio di Guardia – an icon in the making
…at 25% of the price of Tignanello!

5 CUSTOMER IS **KING**



Daryl Groom

Maker of Grange…

"I make more money selling my wine through Naked at $15 a bottle than through the 3 tier system at $50 a bottle"

Result: 94% rated Fine Wine

Price: £14.99

UK TASTING SHEET

Order	Wine	Price
1	Ruinart Blanc de Blanc	£64.99
2	Jean Philippe Moulin Blanc de Blanc	£22.99
3	Cloudy Bay Sauvignon Blanc 2015	£25.00
4	Small and Small Sylvia Reserve Sauvignon Blanc 2015	£10.49
5	Galodoro	£6.99
6	Galodoro Reserva	£7.99
7	Katie Jones Fitou 2014	£14.99
8	Tignanello 2012	£75.00
9	Stefano di Blasi Super Tuscan 2014	£18.99
10	DRG Daryl Groom Barossa Shiraz 2013	£14.99

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