

MajesticWineplc

2016/17
Full Year Results

Analyst & Investor Presentation
June 2017

Past the tipping point

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We are past the tipping point



1

Past the tipping point financially

- *H2 EBIT 51% up on prior year*
- *8th year for Naked and 8th quarter for Majestic of compounding sales*

2

Past the tipping point operationally

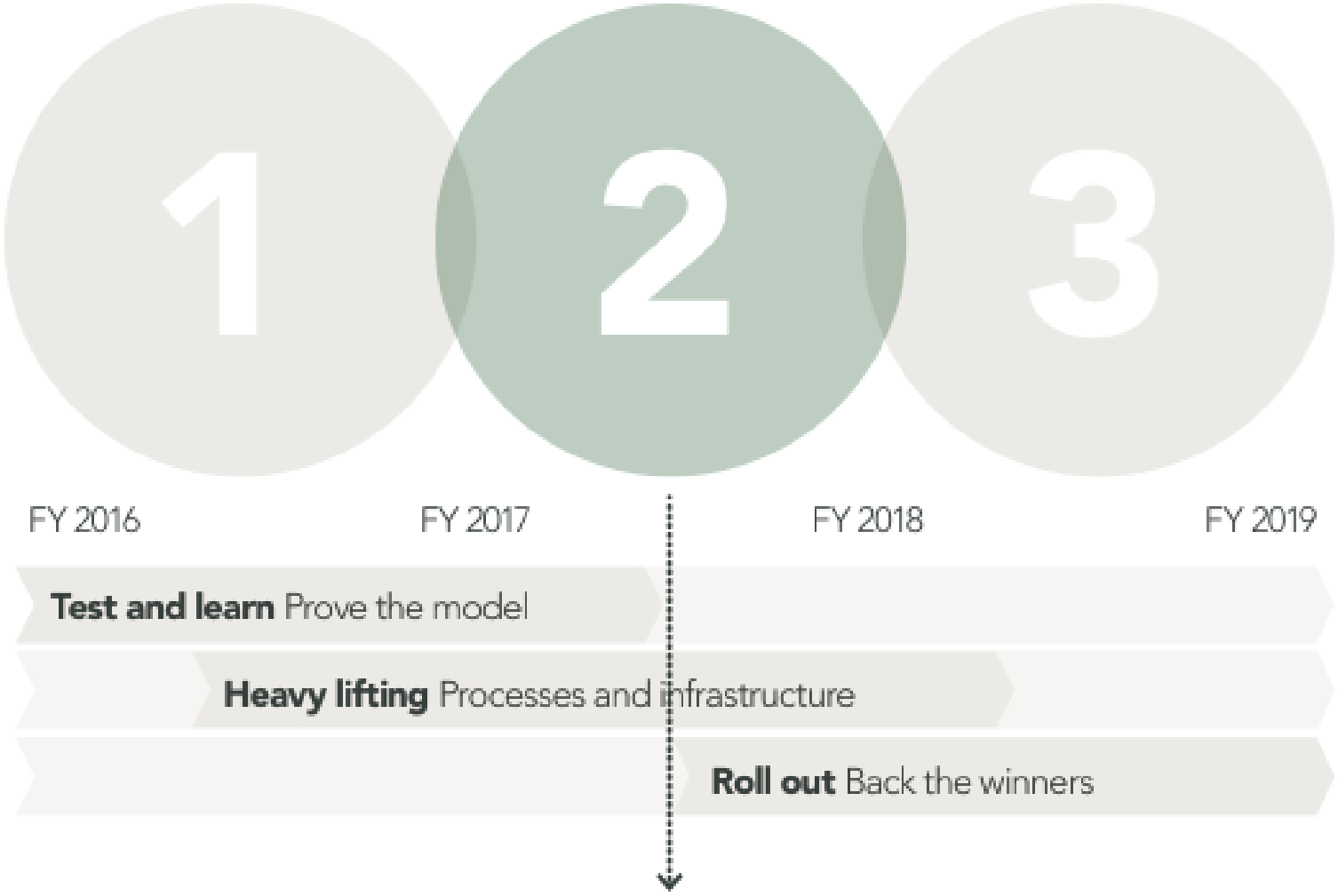
- *Completed the riskiest and most cost intensive phase*
- *Costs and risks coming down*
- *Test and learn delivered clear winners and losers*
- *Substantial progress made on heavy lifting*

3

Reiterate £500m sales target – affirming current profit expectations

- *We are in better shape than we were two years ago*
- *So we are keeping guidance consistent*
- *Despite expecting tougher trading environment*

Where we are in the transformation timetable – lots to do but costs and risks are coming down



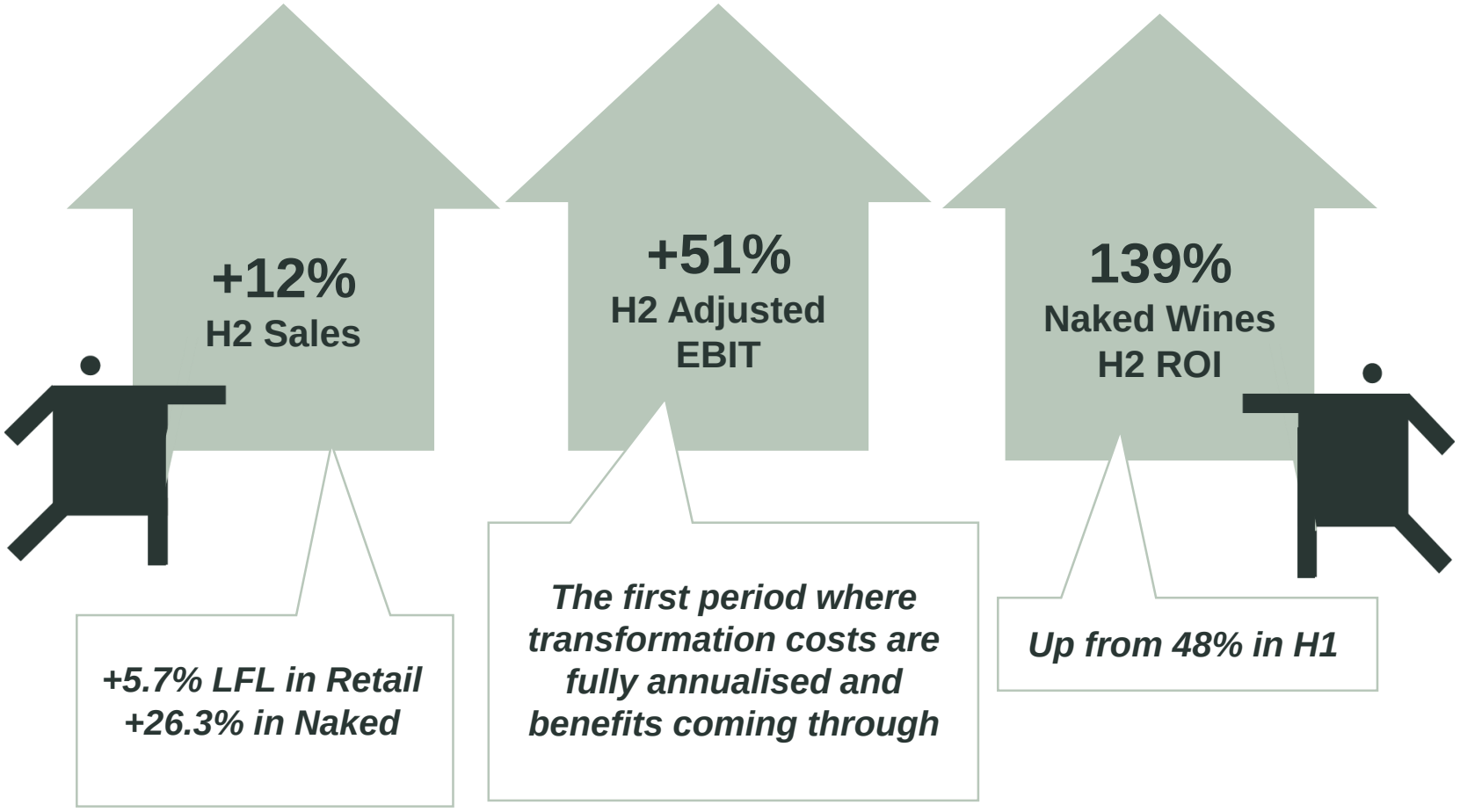
The superficial view…

£461.1m
Sales up
+11.4%

£10.8 m
Underlying
PBT down
-29.2%



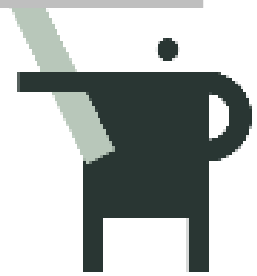
H2 illustrates long term potential



We are past the tipping point

1

Past the tipping point financially



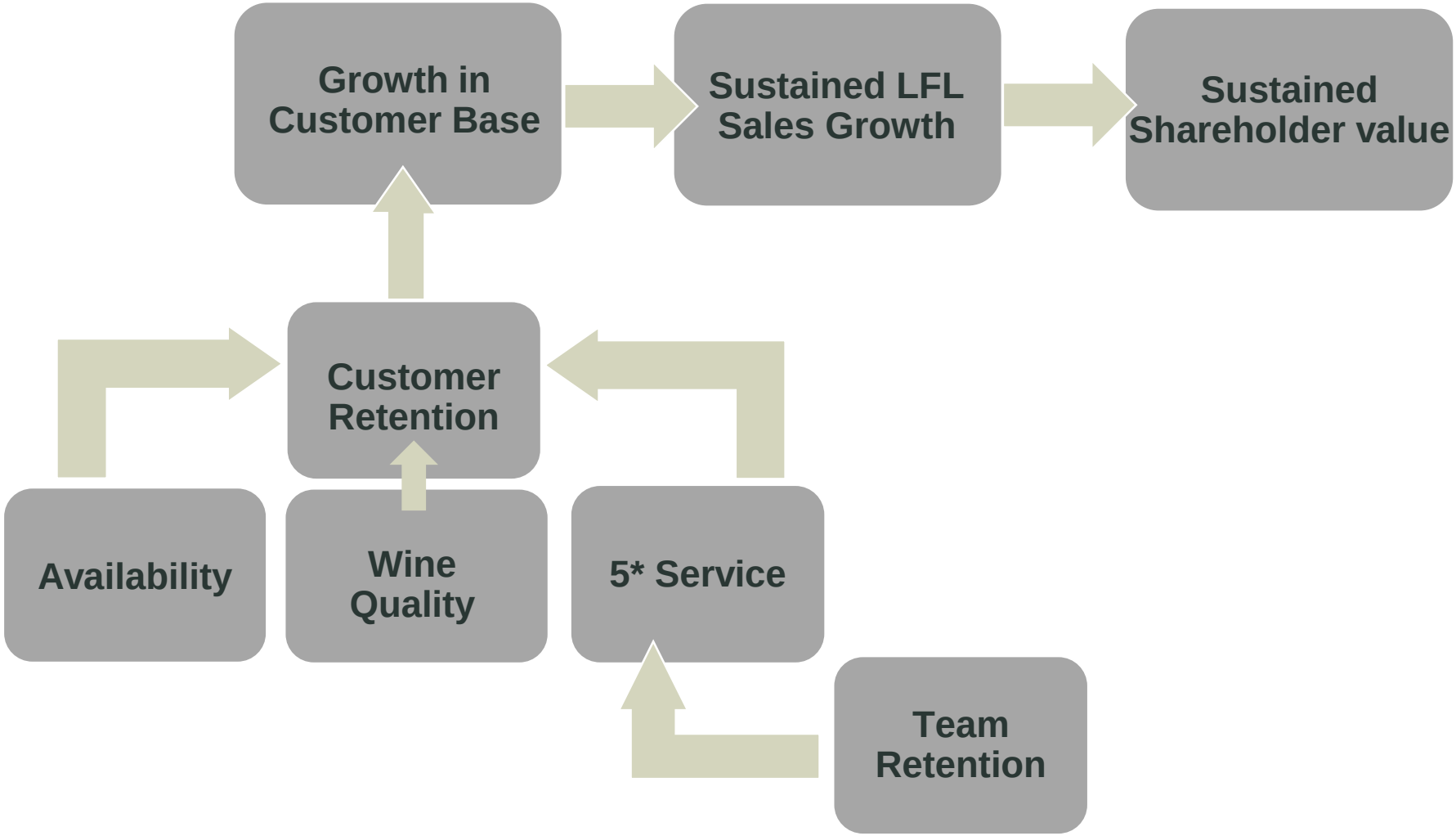
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Past the tipping point operationally

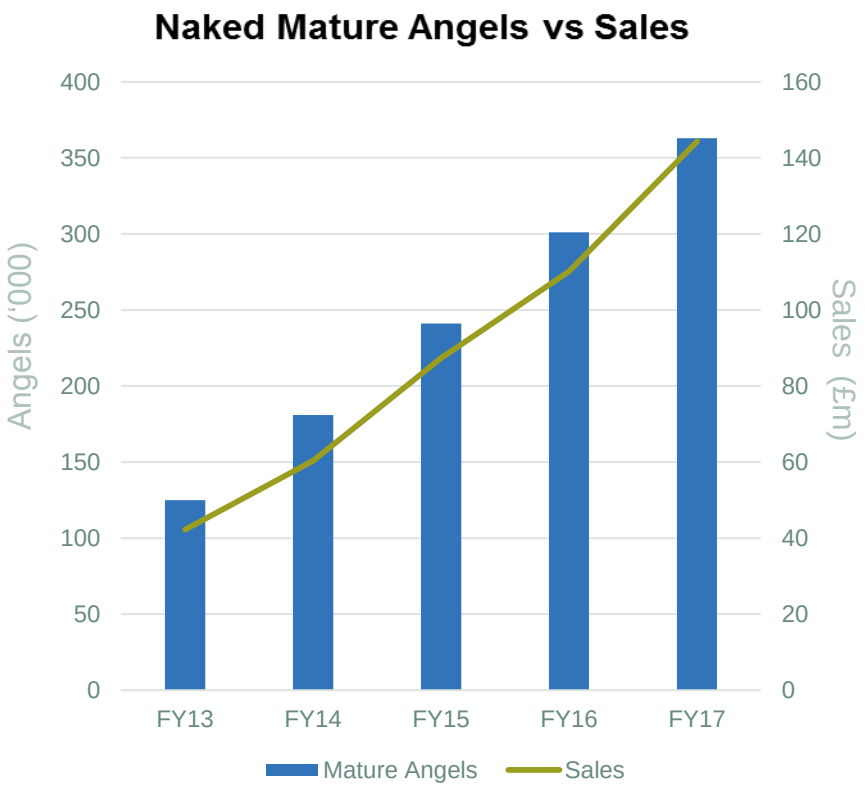
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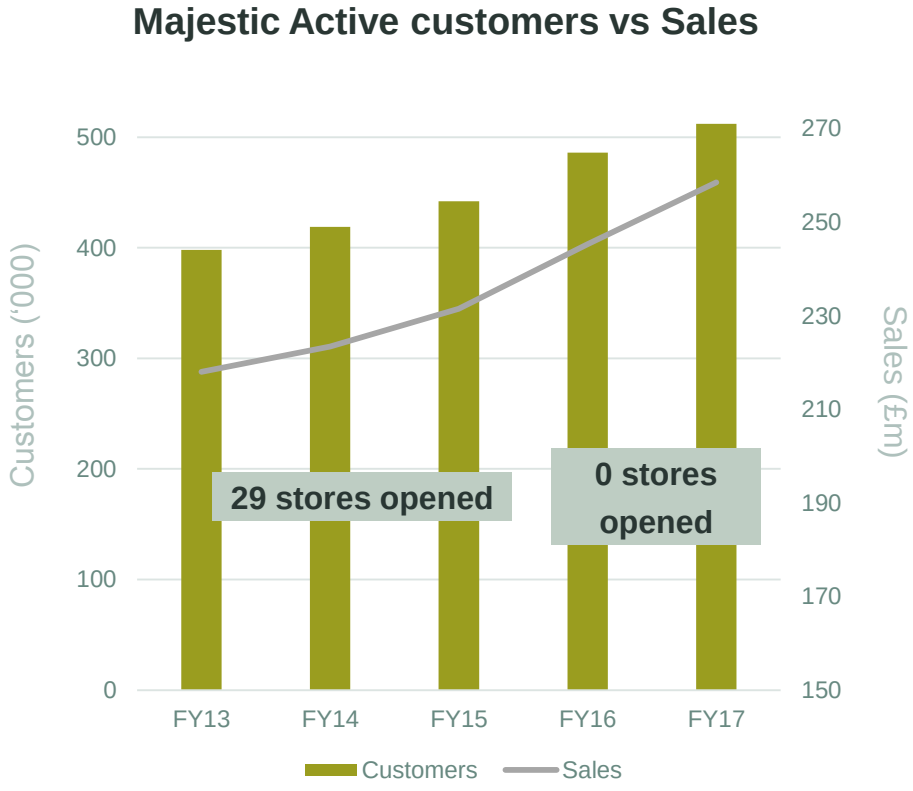
Reiterate £500m sales target – affirming current profit expectations

Reminder: Our goal is to achieve sustainable growth by growing our customer base



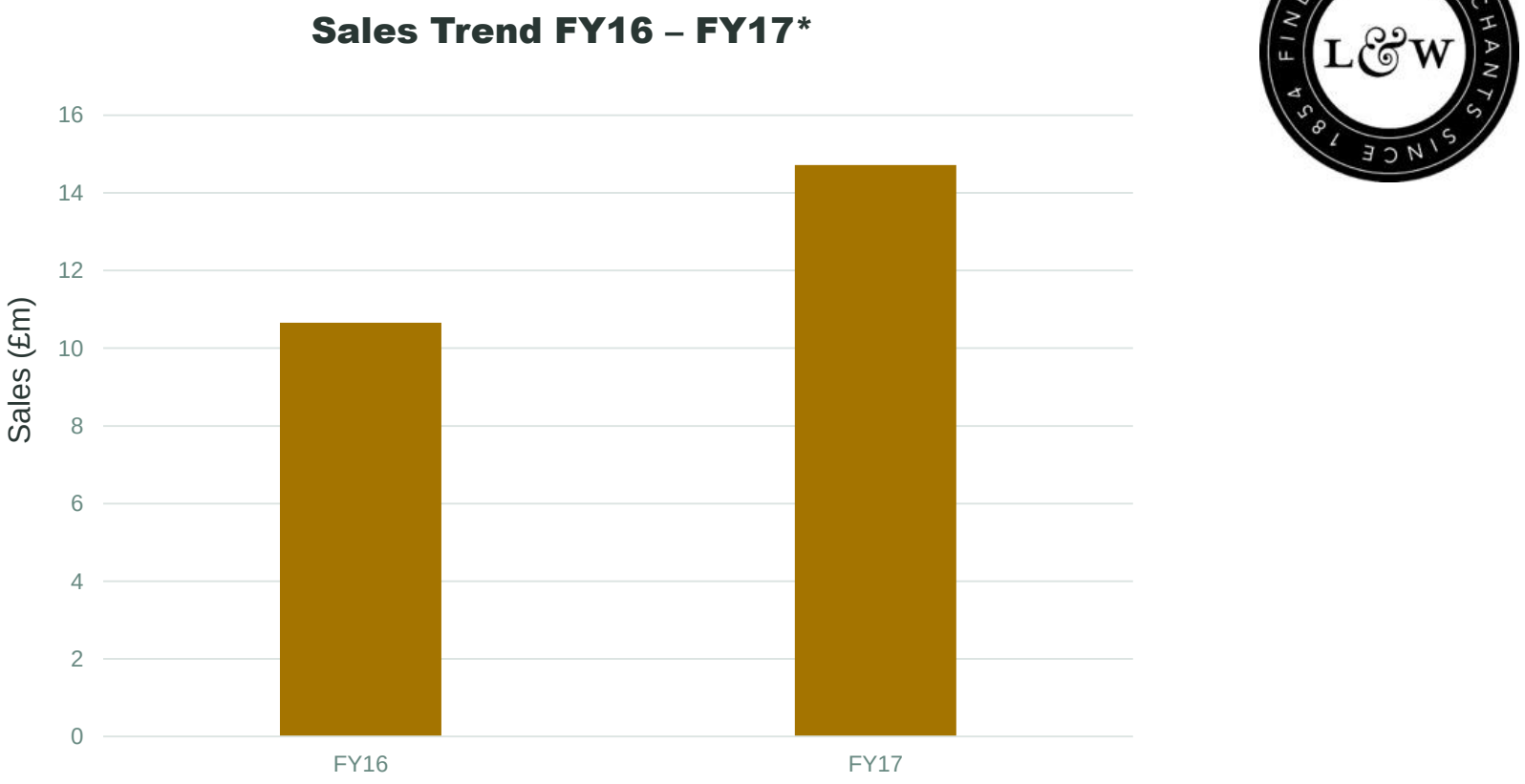
The plan is working: we are achieving sustainable growth





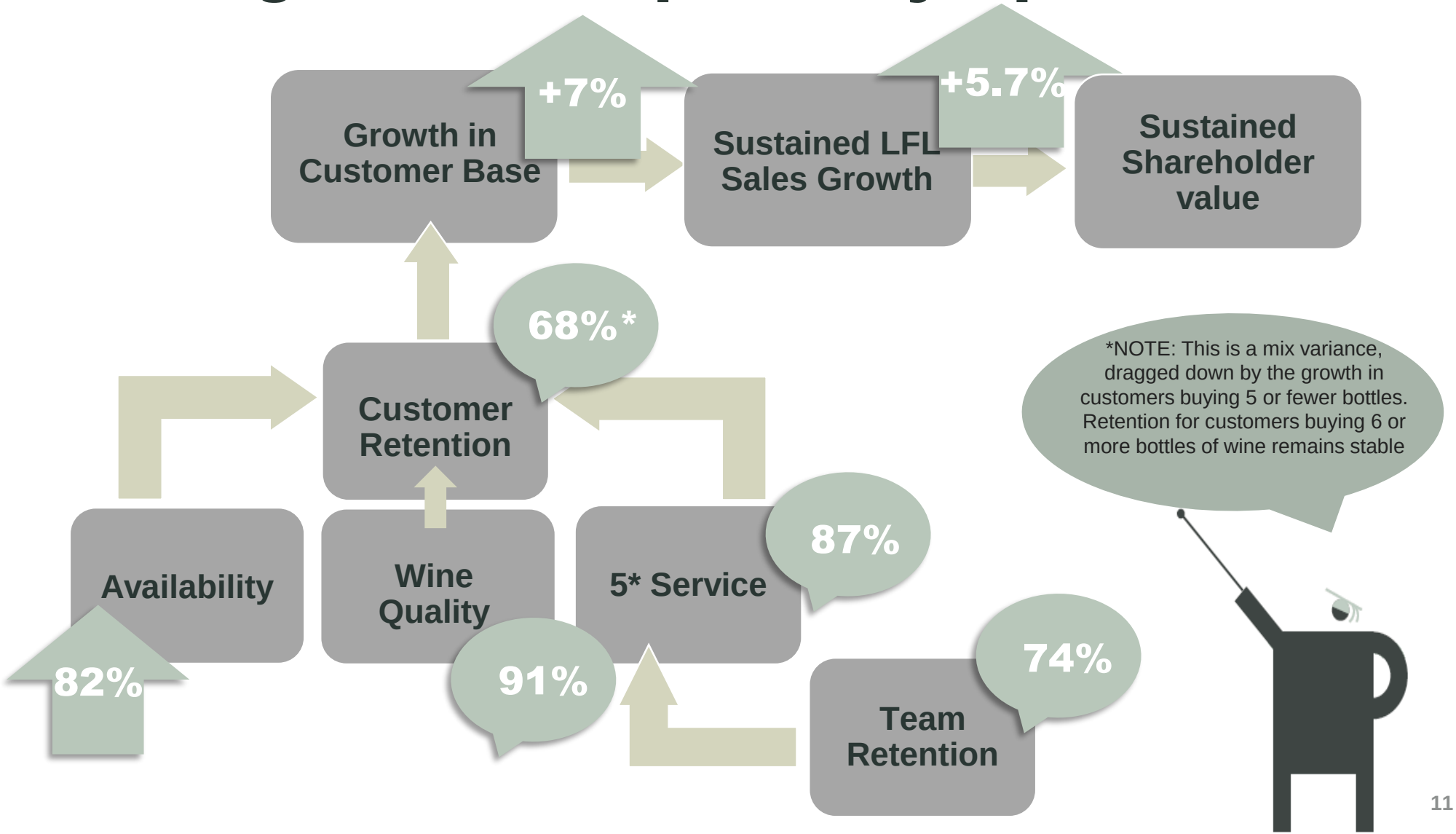
Reminder – we are not claiming we can walk on water. Just that we can grow sales faster than the market for as long as we can retain customers better than average

Lay & Wheeler - the plan even works in a 160 year old business model!



* On a management basis, excluding En Primeur

Retail growth underpinned by input KPIs



Which are in turn underpinned by strategic initiatives…

Growth in Customer Base

Sustained LFL Sales Growth

Sustained Shareholder value



- ✓ 76,000 hours of dull task removed
- ✓ Enhanced bonus scheme
- ✓ Enhanced career path

Availability

Wine Quality

5* Service

Team Retention

74%

5* Service



- ✓ Staff measured & rewarded on 5* service = Improvement in multi bottle customer retention
- ✓ Improved store environment – estate looks & feels more loved
- ✓ Refits: reducing task hours and improving customer experience

Sustained Shareholder value

Retention

Availability

Wine Quality

5* Service

87%

Team Retention

Wine Quality



- ✓ Range tailored to store – engaging staff as well as customers
- ✓ 45 own label products – 4.7% of sales
- ✓ 91% average Buy it Again rating

Sustained Shareholder value

Availability

Wine Quality

91%

5* Service

Team Retention

Availability



- ✓ Availability up from 66% to 82%
- ✓ National fulfilment centre = next day delivery on 1250 SKU's
- ✓ £0.9m cost saving opportunity

Growth in

Sustained LFL

Sustained Shareholder value

Availability

82%

Wine Quality

5* Service

Team Retention

Growth in the customer base

+7%

Growth in Customer Base

68%

Customer Retention

- ✓ Personalised CRM introduced
- ✓ New high engagement CRM introduced
- ✓ 15% improvement in welcome process



Availability

Wine Quality

Team Retention

Sustained shareholder value

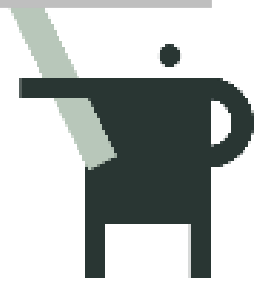
Overview – the plan is working

1

Past the tipping point financially

2

Past the tipping point operationally



3

Reiterate £500m sales target – affirming current profit expectations

‘Test and Learn’ delivered answers

£2.5m under performing spend redeployed

Improving Wine Quality = higher BIA ratings = higher LTV

naked wines

Focus on quality Angels improving ***US retention +5pps***



Next day delivery = incremental sales

Personalised CRM = 15% uplift in welcome process

Majesticwine

20 stores refitted & 15 stores shelved = 4,000 man hours saved

Own label works – and supports margins



Heavy Lifting: costs reducing and benefits starting to come through

IT infrastructure and platform for multichannel growth created

Systems investment has improved our efficiency

First heavy lifting projects complete

More effective processes & tools

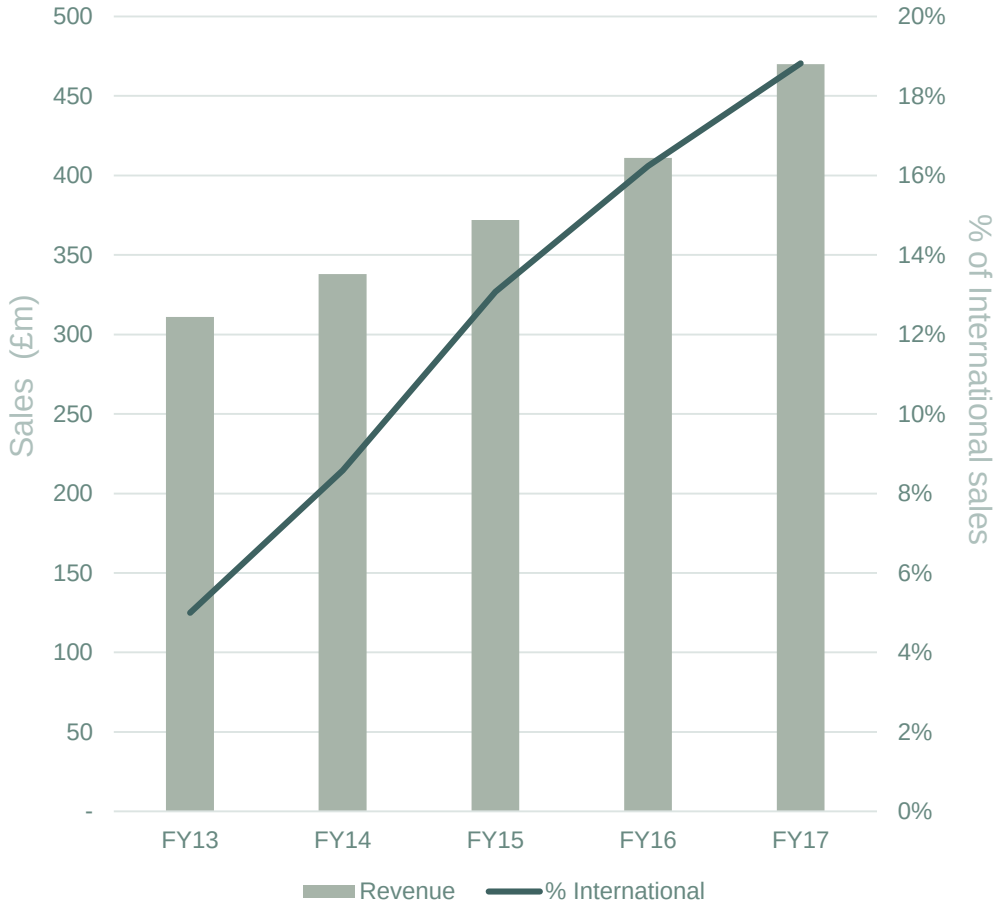


Huge impact on store labour e.g. no more double-keying commercial & internet orders

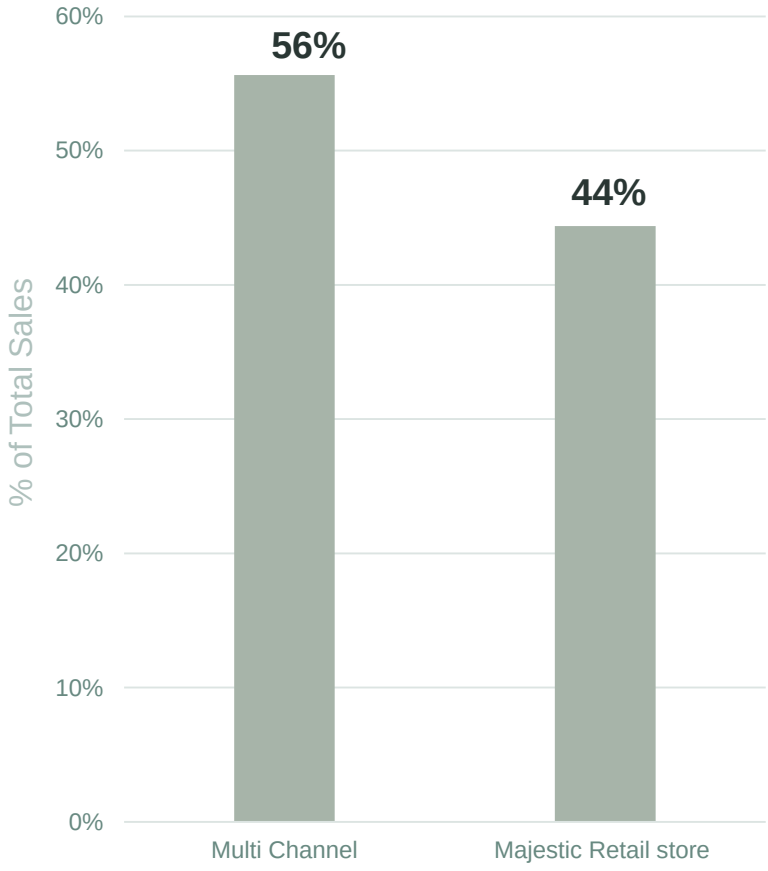
- *Data warehouse created*
- *Annual reviews, talent identification and career progression*
- *In house team replacing dated and outsourced systems*

Two milestones nobody has noticed…

Total Revenue vs International Sales



Multi Channel vs Store sales



We are past the tipping point

1

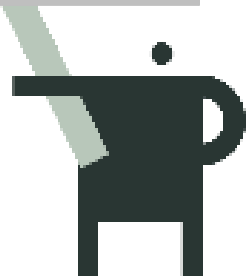
Past the tipping point financially

2

Past the tipping point operationally

3

Reiterate £500m sales target – affirming current profit expectations



Costs and risks naturally coming down – without impacting the transformation

- *Own label range*
- *Next day delivery*
- *Core business*
- *Shelving*

Increased investment in the winners

Costs coming out

Coming up for delivery:

- *New Majestic website and App*
- *Supply Chain improvements*

- *Double running costs, e.g. IT infrastructure*
- *Low retention new customer partners*
- *Automation – freed up from removing double keying*
- *Discontinued testing*

For the record...

Our Investment strategy remains unchanged

2018 guidance of lower sales growth and higher profits based on...

- *Timing of the plan*
- *More accurate investment*
- *Expected tougher economic conditions*
- *NOT cutting back on investment in growth*

We will continue to test and learn

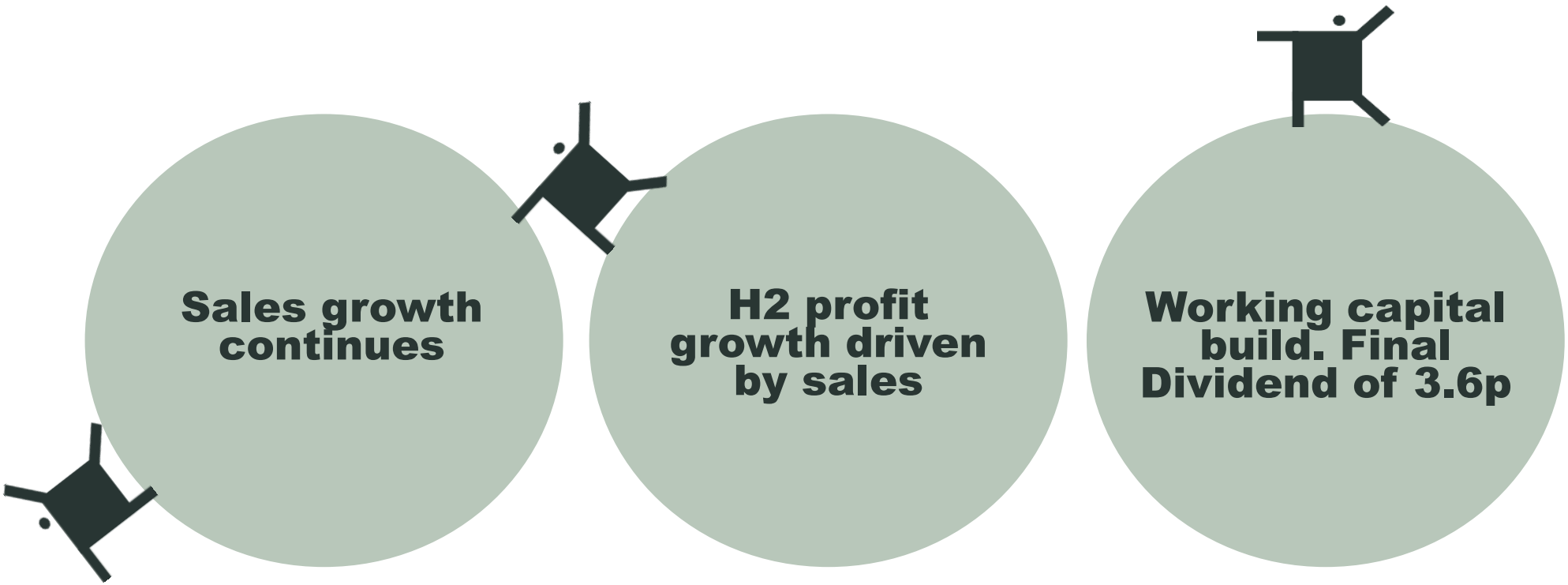
...so expect one step back for every three steps forward

- expect us to be disciplined about cutting the losers

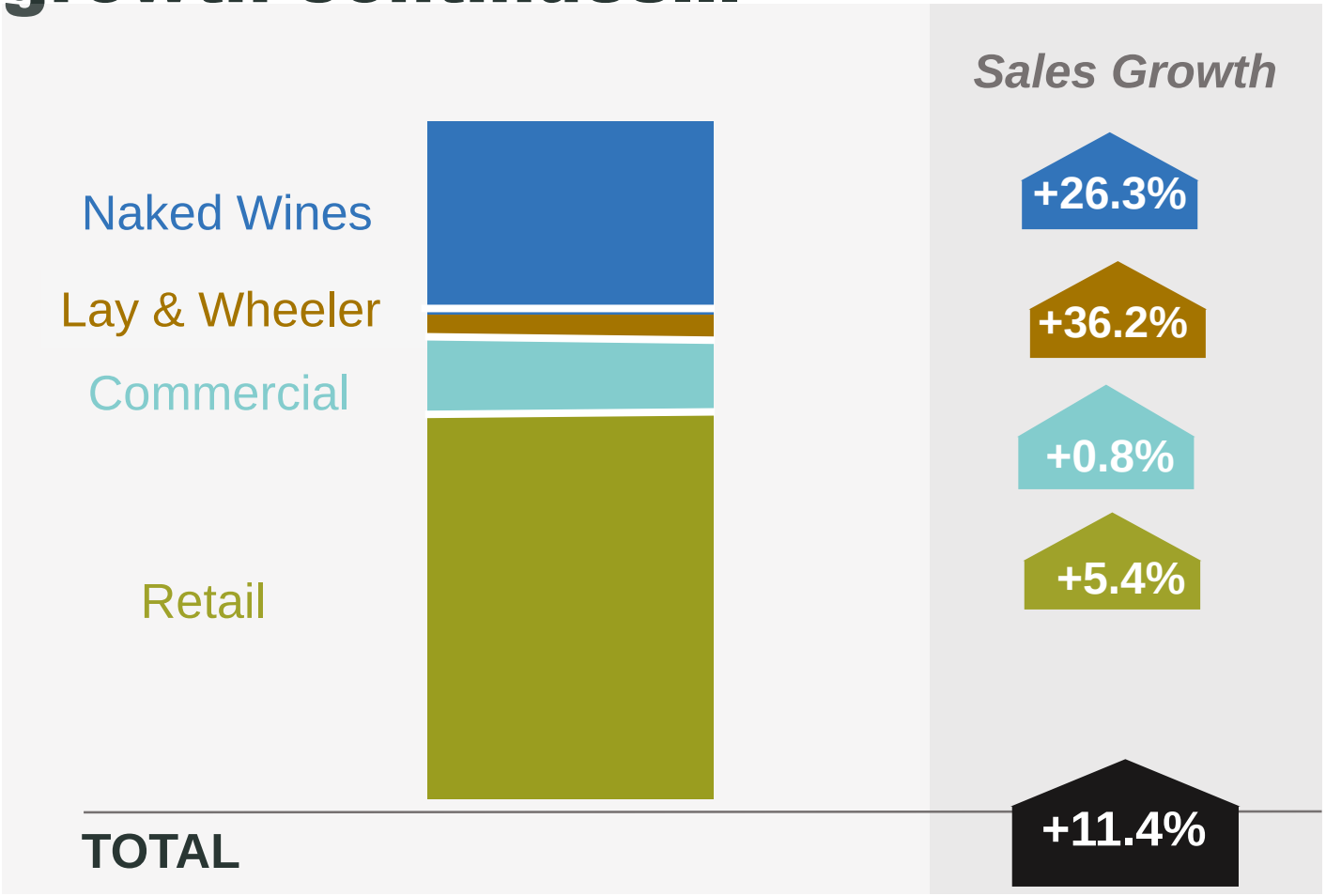
Our priorities for extra cash are...

- *Debt reduction targeting Net Debt: EBITDA = 0.5x*
- *Growth, through new customer acquisition*
- *Distribute excess cash*

Financial Review



FY16/17 – Double digit revenue growth continues…



Notes:
Naked Wines shown on basis of full year in both current and comparator.
Lay & Wheeler shown excluding net en primeur adjustment.
Growth shown using constant FX rates
Restated the current year to a 52 week period

A year of two halves:

Year on year movements:

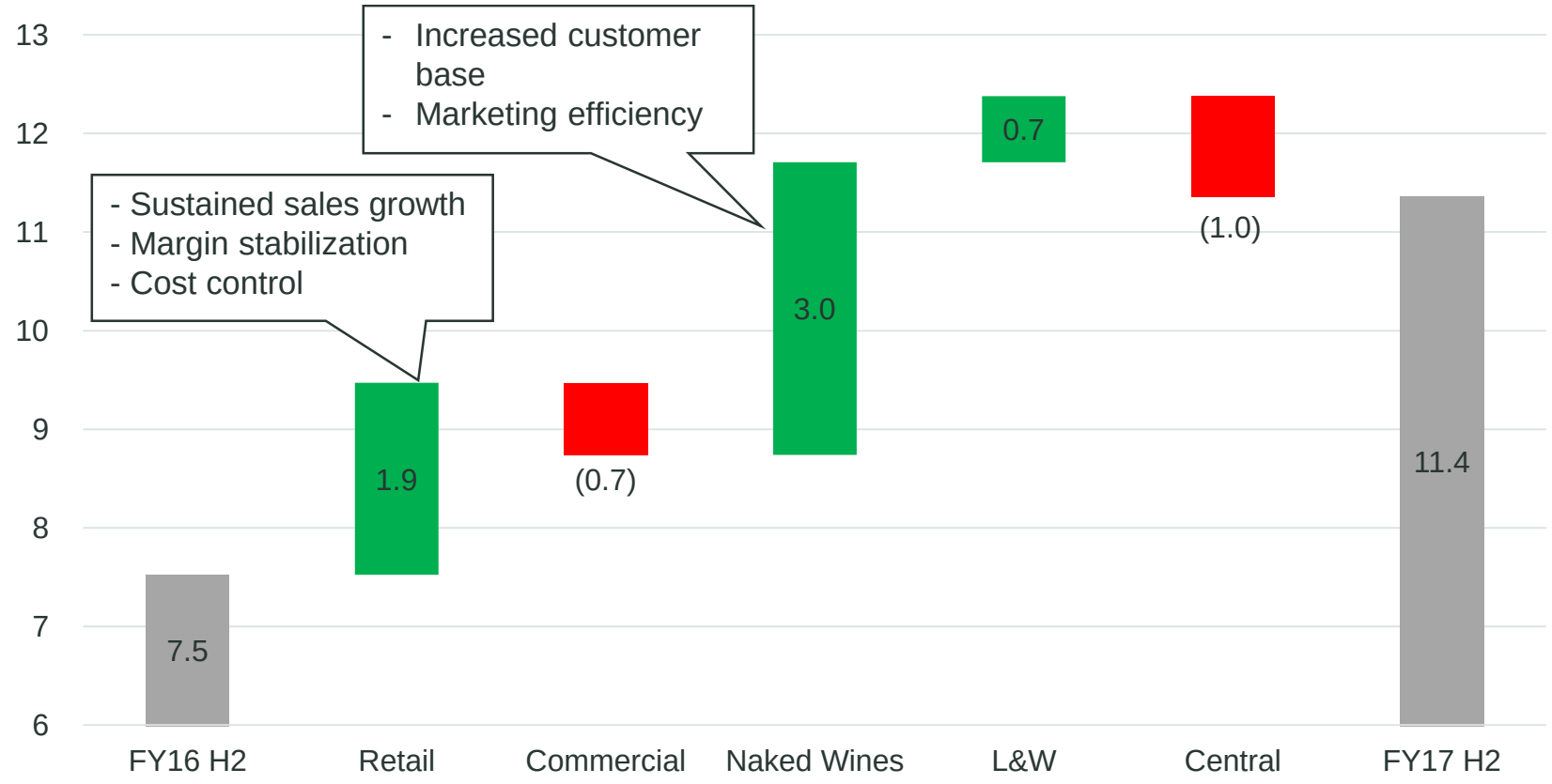
H2: Transformation costs fully annualised. Focused on optimising investments and increasing efficiency

	H1	H2	FY
Sales	£19.8m	£27.4m	£47.2m
Adj. EBIT	£ (8.6)m	£3.8m	£(4.8)m

H1: Second half of the transformation investment. Increased marketing and overhead in Naked Wines

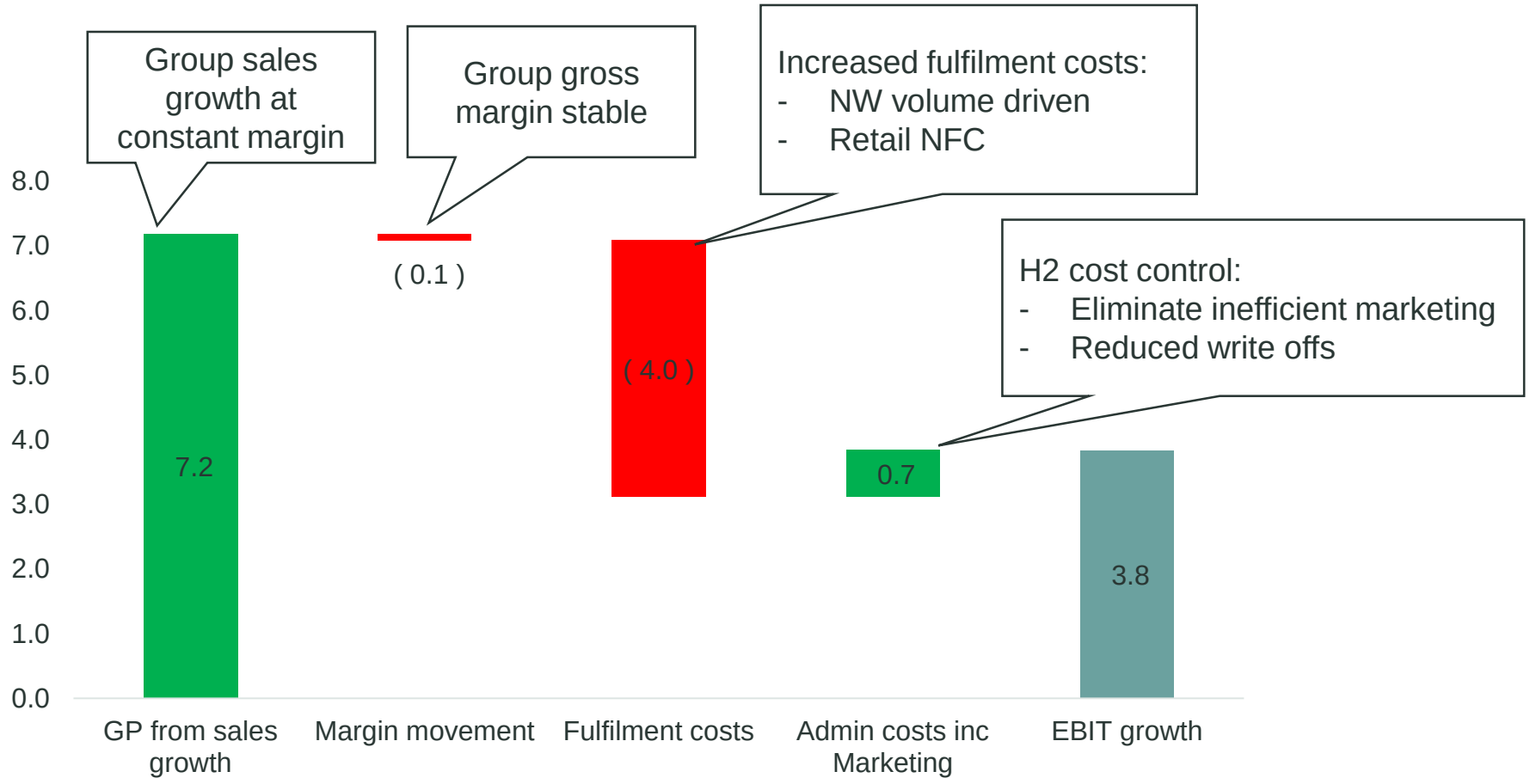
H2 strongly driven by Retail and Naked Wines

Adjusted EBIT
FY17 H2 52 week basis
GBP m



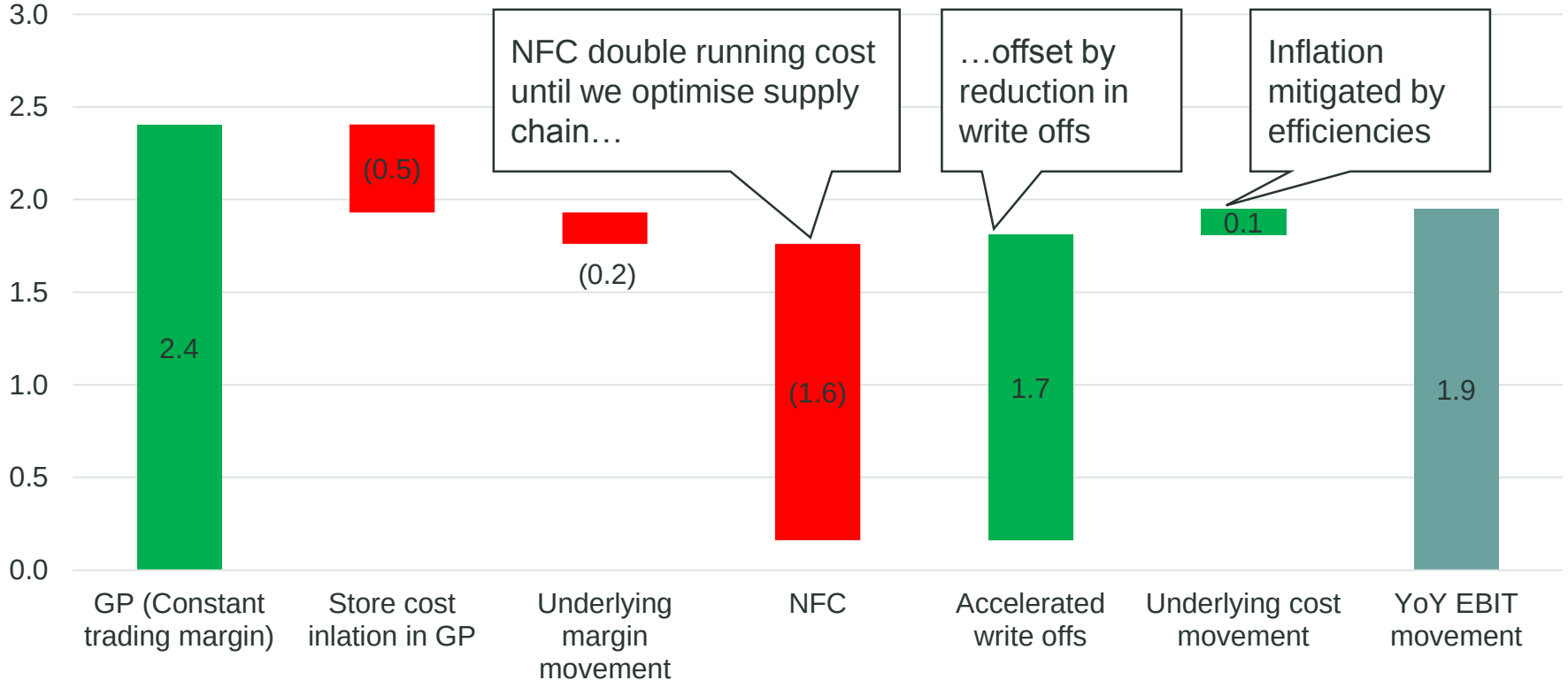
Group H2 profit growth sales led, with cost control

Drivers of H2 Adjusted EBIT
H2 FY17 vs FY16, 52 week basis
GBP m



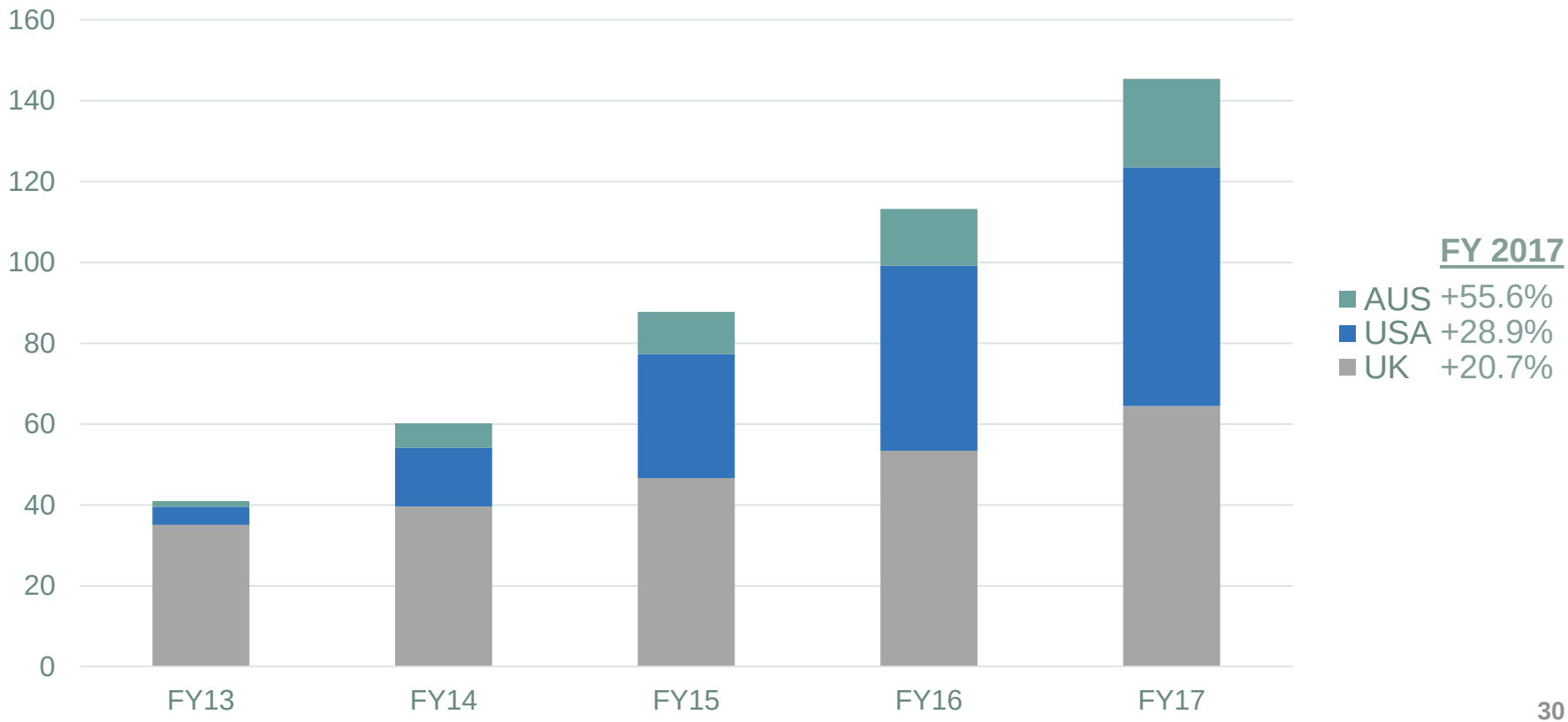
Retail: Sales driven profit growth, margin stabilised

Retail Adjusted EBIT Drivers
H2 FY17 vs FY16, 52 week basis
GBP m



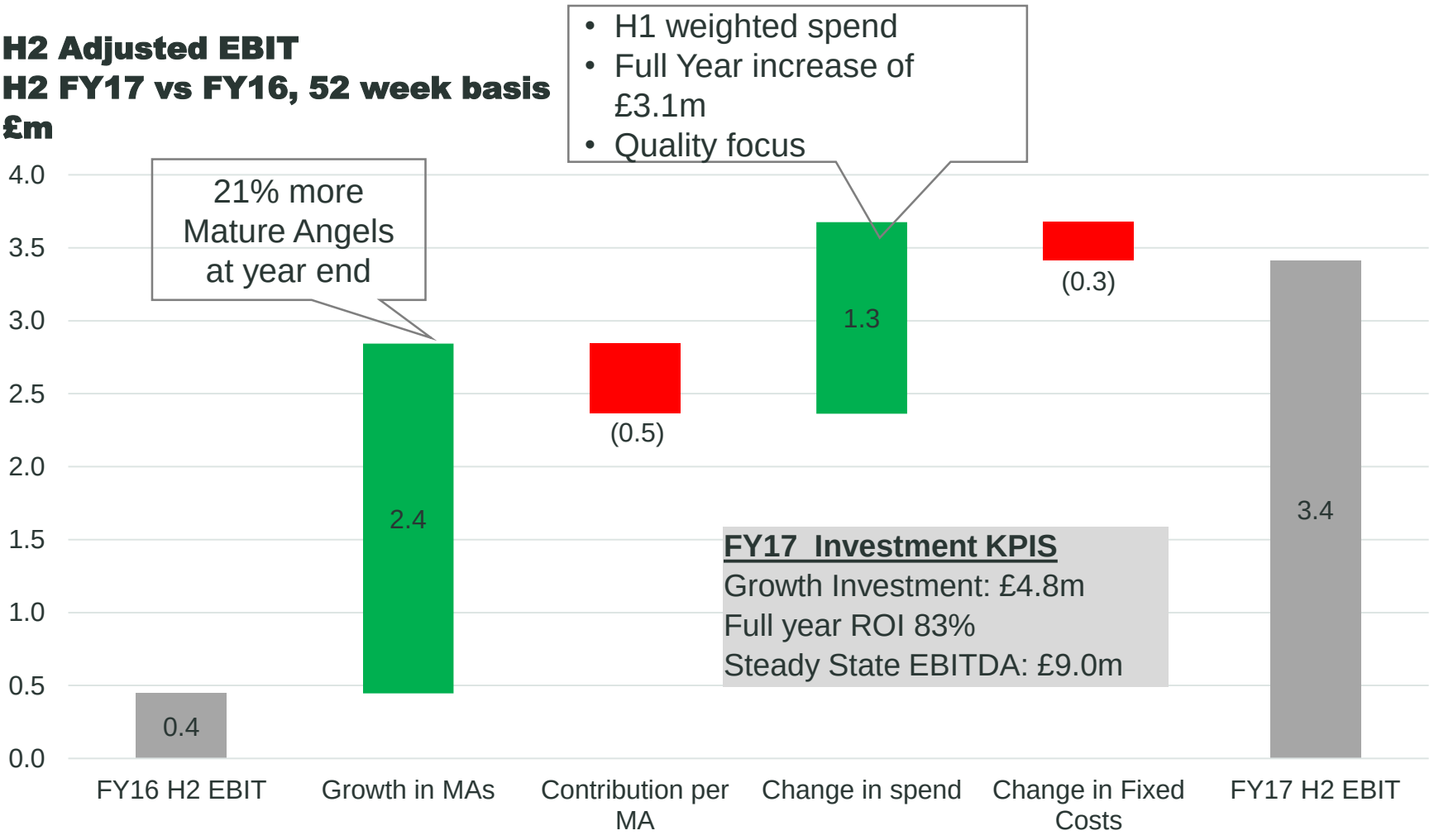
Naked: Sales growth strong in all markets, US back on track

Naked Wines Sales
FY13 - FY17, 52 week basis
GBP m



Naked: Profit growth coming from customer growth, economics and lower investment year on year

H2 Adjusted EBIT
H2 FY17 vs FY16, 52 week basis
£m



Investment review has yielded winners and losers

Business Unit / Spend	Implications	
Retail: Refits	• Shelving works • Identifying best performing characteristics	✓
Retail: National Fulfilment Centre	• Demand exists • Opportunity to optimise between NFC and stores	✓
Retail: Staffing	• Drives KPI improvements • Lifetime benefits to be confirmed	
Retail: Marketing	• Strong returns from reactivation • Partnership delivering c.100k new customers	✓
Naked: New business marketing	• Focus on high lifetime value • Reduced spend, H2 ROI 139% • Slower sales growth in near-term	✓
Naked: Outbound sales team	• Significant value generation • Some optimisation opportunity	✓
Commercial: BDMs	• Reduced number of staff • Rebuilding growth platform	

Medium term profitability coming into focus

Cost outlook

Targeting a near-flat cost base for the group in FY18

Aiming for improvement in reported gross margin

Revenue implications

Planning for lower rate of growth in Retail

Naked Wines will slow **this year** as we eliminate low quality new business. Long term growth unchanged

Commercial to remain flat

Net implication

Current market range for mid-term profitability looks reasonable

Cash delivery in FY17 impacted by working capital movements

	FY17	FY16	YoY
	£m	£m	%
Adj EBIT	14.1	16.6	-15.1%
Addback D&A	6.7	8.0	-16.3%
Adj EBITDA	**20.8**	**24.6**	**-15.4%**
CapEx	**(3.5)**	**(6.2)**	**-43.5%**
Working Capital Movement	**(11.1)**	**(4.6)**	**141.3%**
Inventory	(9.8)	(13.3)	-26.3%
A/P	(4.5)	1.4	-421.4%
A/R and Prepayments	(4.9)	3.4	-244.1%
Angel funds and def income	8.1	3.9	107.7%
Free Cashflow	**6.2**	**13.8**	**-55.1%**
FCF Excl Working Capital	17.3	18.4	-6.0%

Reduced CapEx again year on year

Significant Working Capital build:
- Naked and Retail Inventory
- Timing of year end (A/P, Angel Funds)

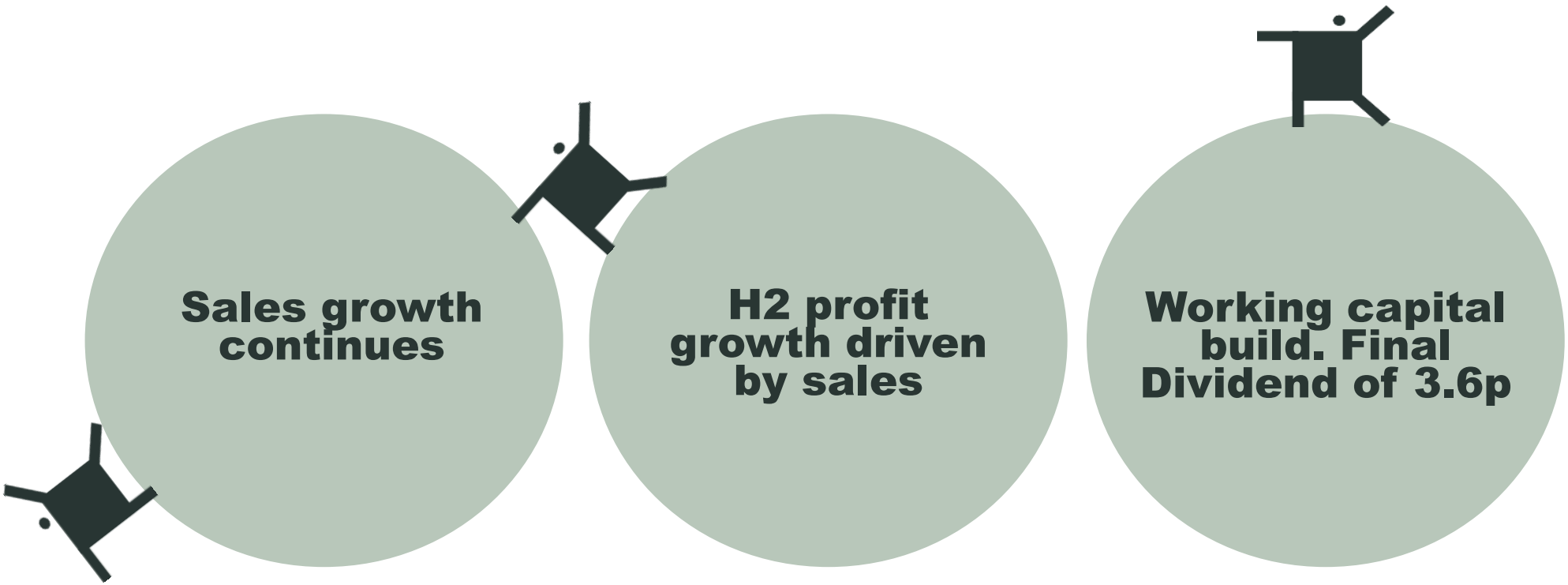
*Unwind in early FY18: **£9m paydown of RCF by end May***

Year end net debt £0.2m higher

3.6p Final Dividend, 5.1p for the year

Banking covenants show higher gearing due to lower profits and treatment of NW Bond

Financial Review



Summary and Outlook

- Weaker consumer demand
- Higher input prices
- Higher rates and other input costs



- Model is working:
  - Initiatives driving KPIs, driving customers, driving sales
- Customer base +12%
- Test and learn results now in:
  - We can back the winners and cut the losers
- We've made progress on the heavy lifting, double running costs coming out
- Naked USA firmly back on track

Restating £500m sales target - and comfortable with current analyst profit expectations for FY19, despite tougher trading environment

Conclusion – we are a better business than we were two years ago



International

c.20% of sales now International



Multichannel

Over 50% of sales now delivered to customers



Sustainable growth model

Growing sales without growing branches



In-house Transformation capability

Questions?



Appendices



2016/17 Results Summary

	Reported		Underlying		
	FY2017 £m 53 weeks	FY2016 £m 52 weeks	FY2017 £m 52 weeks	FY2016 £m 52 weeks	% YoY Underlying
Revenue	465.4	402.1	461.1	413.9	11.4%
Adjusted EBIT	14.1	16.6	12.1	16.9	-28.4%
Adjusted PBT	12.9	15.0	10.9	15.3	-29.2%
(Loss)/profit before tax	(1.5)	4.7			
Basic EPS	(4.1)p	3.5p			
Adjusted EPS	17.7p	19.2p			
Final Dividend per share	3.6p	0.0p			
Free Cash Flow	6.2	13.8			
Reported net debt	(25.7)	(25.5)			

Group structure

	MajesticWine	naked wines	Wine Specialists Commercial	LAY & WHEELER INTERNATIONAL WINE MERCHANTS SINCE 1854
Market size	£2.2bn (UK)	£17bn (Global)	£2.0bn	£0.7bn
Reported Sales for the year to April 2017	£262.2m	£144.3m	£46.6m	£12.3m
% increase	+5.4%	+26.3%	+0.8%	+36.2%
% of the Group	56%	31%	10%	3%
Reported Adjusted EBIT	£13.3m	£1.4m	£2.5m	£1.0m
Proposition	We help people find wines they will love	Making great wine an everyday pleasure, not a privilege	We make your wine list profitable	Your trusted guide into fine wine
Competitive advantage	1000 delightful team members who love and know wine	The model – crowdfunding independent winemakers	210 delivery hubs enabling more effective, local service	Committed team specialising in helping normal people discover fine wine
Investment Proposition	Cash generative retail business transforming into a multichannel business	Subscription business model with direct marketing expertise	Focused on an unloved section of the trade market	Creating a business opportunity out of the demise of en-primeur

Business Unit Detail: Majestic Retail

	Underlying			Reported
	FY 2016/2017 52 weeks £'000	FY 2015/2016 52 weeks £'000	YoY %	FY 2016/2017 53 weeks £'000
Revenue	**258,451**	**245,093**	**5.4%**	**262,200**
Gross Profit	60,762	59,254	2.5%	61,875
Gross Margin	23.5%	24.2%	-0.7pps	23.6%
Distribution costs	(28,370)	(27,671)	2.5%	(28,400)
Admin Costs	(20,130)	(17,416)	15.6%	(20,130)
Adjusted EBIT	**12,262**	**14,166**	**-13.4%**	**13,345**

Business Unit Detail: Naked Wines

	Underlying			Reported
	FY 2016/2017 52 weeks £'000	FY 2015/2016 52 weeks £'000	YoY %	FY 2016/2017 53 weeks £'000
Revenue	**142,182**	**112,581**	**26.3%**	**144,341**
Gross profit	48,182	39,628	21.6%	49,296
Gross Margin	33.9%	35.2%	-1.3pps	34.2%
Distribution costs	(22,671)	(17,728)	27.9%	(23,008)
Administrative costs	(24,871)	(20,815)	19.5%	(24,871)
Adjusted EBIT	**640**	**1,085**	**-41.0%**	**1,417**

Business Unit Detail: Majestic Commercial

	Underlying			Reported
	FY 2016/2017 52 weeks £'000	FY 2015/2016 52 weeks £'000	YoY %	FY 2016/2017 53 weeks £'000
Revenue	45,933	45,557	0.8%	46,628
Gross profit	6,921	7,533	-8.1%	7,071
Gross Margin	**15.1%**	**16.5%**	-1.4pps	**15.2%**
Distribution Costs	(3,070)	(2,590)	18.5%	(3,073)
Admin Costs	(1,457)	(1,173)	24.2%	(1,457)
Adjusted EBIT	**2,394**	**3,770**	-36.5%	**2,541**

Business Unit Detail: Lay & Wheeler

	Underlying			Reported
	FY 2016/2017 52 weeks £'000	FY 2015/2016 52 weeks £'000	YoY %	FY 2016/2017 53 weeks £'000
Revenue	**14,521**	**10,658**	**36.2%**	**12,275**
Gross Profit	3,848	3,026	27.2%	3,882
Gross Margin	31.8%	28.4%	3.4pps	31.6%
Distribution Costs	(1,060)	(869)	22.0%	(1,060)
Admin Costs	(1,842)	(2,005)	-8.1%	(1,842)
Adjusted EBIT	**946**	**152**	**520.7%**	**980**

Central costs & Group

	Underlying			Reported
	FY 2016/2017 52 weeks £'000	FY 2015/2016 52 weeks £'000	YoY %	FY 2016/2017 53 weeks £'000
Central costs				
Administrative costs	(4,184)	(2,324)	80.0%	(4,184)
Adjusted EBIT	**(4,184)**	**(2,324)**	**80.0%**	**(4,184)**

Group including Naked Wines				
Revenue	**461,087**	**413,890**	**11.4%**	**465,444**
Gross profit	119,713	109,441	9.4%	122,124
Gross Margin	26.0%	26.4%	-0.4pps	26.2%
Distribution costs	(55,171)	(48,858)	12.9%	(55,542)
Administrative costs	(52,484)	(43,734)	20.0%	(52,482)
Adjusted EBIT	**12,058**	**16,849**	**-28.4%**	**14,999**
Net Finance Charges	(1,222)	(1,540)	-20.7%	(1,222)
Adjusted PBT	**10,836**	**15,309**	**-29.2%**	**12,877**

Final dividend of 3.6p, in line with dividend policy

	£'000
Adjusted PBT	12,877
Current tax charge	(2,562)
Adjusted Earnings	**10,315**
35% Dividend payout	3,610
Number of Shares	71,232,377
Dividend per Share	5.1p
Less Interim Dividend	(1.5p)
Final Dividend	**3.6p**

Glossary

Group and KPI definitions

Customer Retention	% of repeat and loyal customers from 12 months ago that are still repeat and loyal customers, as measured from our customer databases
Product Availability	% of targeted range available in stores/on websites as indicated by our inventory reporting
Team Retention	% of key staff (e.g. store managers) as of 12 months ago still working per payroll records
Buy It Again Ratings	% of “Yes” scores in the last 12 months as recorded by websites/apps
5* Service Ratings	% of service ratings scoring 5* in last two months as recorded by websites/apps/telephone feedback
ROI	Annual recurring contribution due to an investment
Contribution	Sales value less all product costs less costs of fulfiling the sale e.g. branch staff, credit card fees etc.
Like-for-like	Like-for-like sales trends refer to Retail sales only, include Calais and exclude the impact of new stores and store closures during the year
Underlying	Underlying movement (a) includes the pro-forma presentation of Naked Wines, assuming that Naked Wines was included in the Group results for the whole of the comparative period; (b) includes en primeur revenues in year of order not year of fulfilment, (c) is calculated using constant FX rates for translation and (d) Adjusts the current year to a 52 week period, comparable to the prior year
Adjusted EBIT	Adjusted EBIT is operating profit adjusted for amortisation and impairments of acquired intangibles and goodwill, acquisition costs, share based payment charges, restructuring costs, net fair value movement through P&L on financial instruments and adjusting en primeur results to reflect profits on orders rather than on wine fulfilment
Adjusted PBT	Adjusted PBT is defined as Adjusted EBIT less net finance charges
Free Cash Flow	Free cash flow is defined as cash generated from operations less capital expenditure and excluding cash Adjusted items

Glossary (cont.)

Majestic Retail, Commercial and Lay & Wheeler

Nurture Customer	A customer who has shopped once
Active Customer	A customer who has made a purchase in the last year
Repeat Customer	A customer who has shopped more than once in the last year
Loyal Customer	A customer who has shopped more than six times in the last year
Reactivation	Reactivating sales from a previous active customer who became dormant
NFC	National Fulfilment Centre based in Greenford which services around half of Majestic Retail online orders direct to the customer

Growth Spend	The proportion of total investment which is spent on growing the total Angel base
Contribution per New Mature Angel (CPNMA)	Contribution after subtracting all direct costs that are associated with maintaining that Angel (E.g Delivery, Customer Service, Cost of Sales, Returns etc)
Mature Angel (MA)	A subscription customer for four months or more
Naked Wines Steady State EBITDA	Profit that will be made assuming no new Angels are recruited. Mature Angel base x (Annual Contribution – (Attrition % x CPNMA)) – Fixed Costs
ROI	C-(AXN)/N C = Annual Contribution, A = Attrition rate, N = Cost per New Angel
Recalibration	Increasing the Quality and Lifetime spend of Angels through more targeted recruitment
Annual Contribution	Number of Orders per year x Contribution per Mature Angel
Cohort	A Group of Mature Angels recruited in the same Financial year
Customer Attrition	(1 – Customer Retention %)