MajesticWineplc

# 2017/2018 Full Year Results

14 June 2018

## MAKING HEADWAY

### DESPITE HEADWINDS

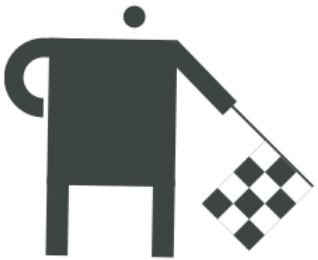


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# Making headway despite headwinds:

1. Keep doing what we're doing
2. Do it faster
3. Do it better





# Making headway despite headwinds:

1 **Keep doing what we're doing**

2 **Faster**

3 **Better**

***We delivered profitable growth despite tough UK market***

*i) Underlying revenue up 4.0%*

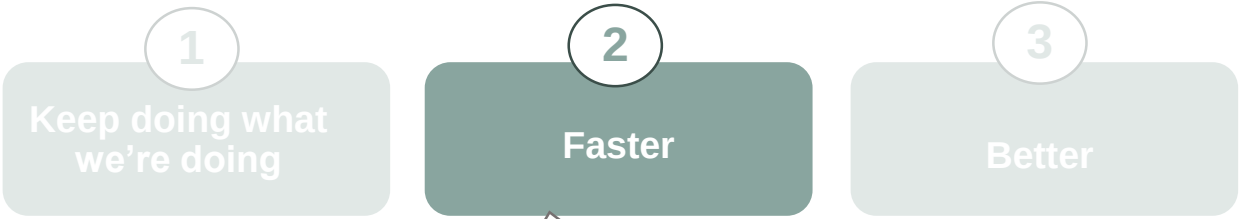
*ii) Adjusted EBIT up £6.4m*

*iii) KPIs heading the right way*

*iv) 20% of Sales International, 45% of Sales Online*

***The plan is working - So we are sticking to it***

# Making headway despite headwinds




***We plan to double our investment in new customer acquisition from £14m to £28m because:***

*i) The potential investment pool is bigger than we thought*
*ii) The returns are trending up, not down*
*iii) We have good early indications that the same tactics work in Majestic Retail*

# Making headway despite headwinds

1 Keep doing what we're doing

2 Faster

3 Better

***We don't just want to grow faster – we want to do it better, by:***

*i) Continuing to optimise our new customer investment*

*ii) Removing unproductive work, so our people can focus on customers*

*iii) Delivering a step change in efficiency*

*iv) And finally, getting Majestic Commercial growing again*

# Making headway:

1. **Keep doing what we're doing**
2. **Faster**
3. **Better**

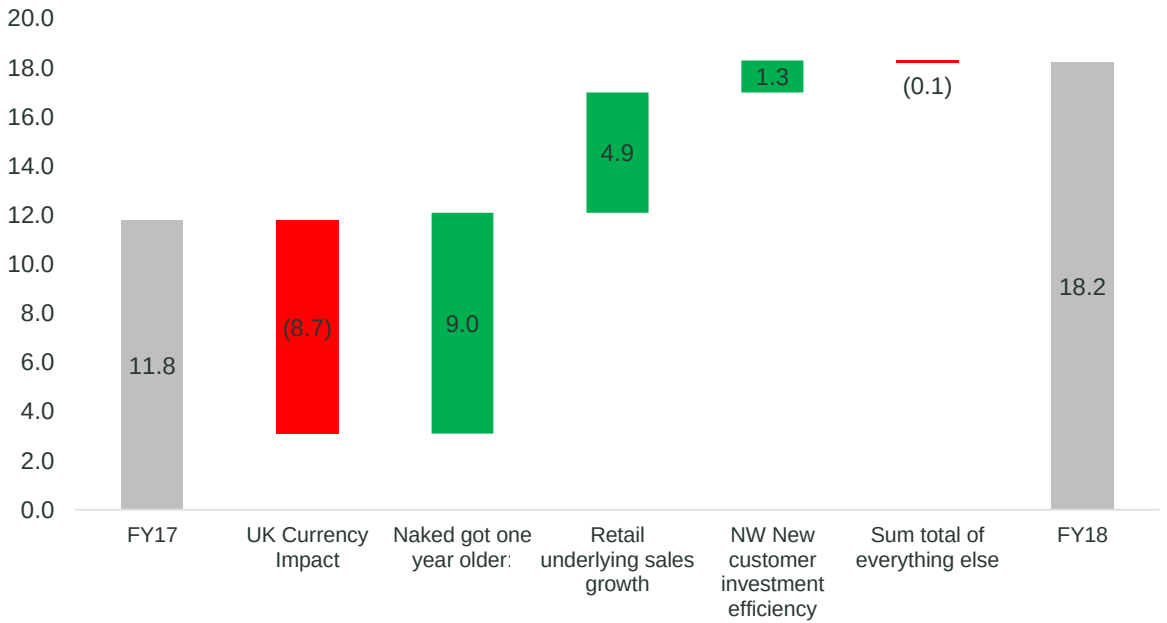


# Keep doing what we're doing

| What we said we'd do | What we've done |
|---|---|
| Deliver profitable growth | Adjusted EBIT up 29% on FY17 (55% underlying) |
| Deliver an increased ROI | 4.7x Payback on customers recruited in the year vs 4.4x in FY17 |
| We would focus on growth in year 3 of the transformation plan | Now doubling new customer investment |
| Be close to completing the last heavy lifting projects | Completed integration of Majestic and Naked supply chain |
| Grow international and online | International 20% and online 45% of Group sales |
| End the year with a strong balance sheet | Net Debt: Adjusted EBITDA of 0.35x |
| Pay a dividend in line with expectations | 7.2p total dividend vs FY17 5.1p |

# Key drivers of performance in 2018

**Group Underlying Adjusted EBIT**
FY18 vs FY17
GBP m

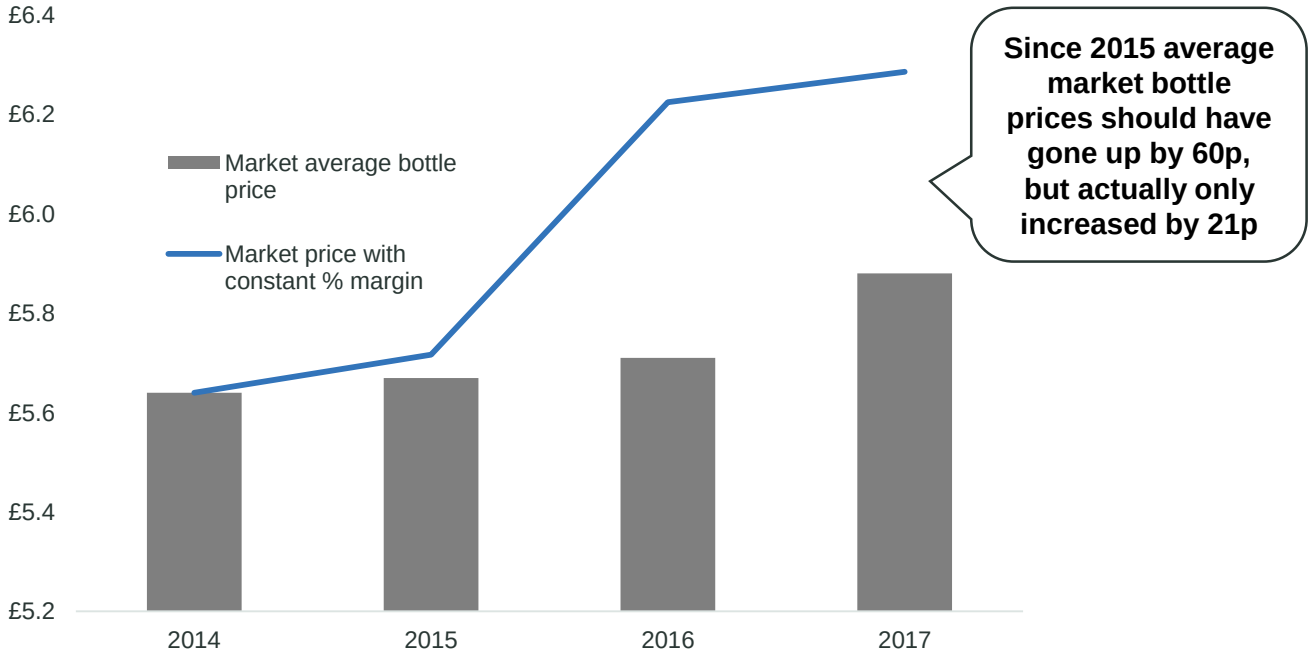



Note: £1.3m is the total of £0.8m reduction in new customer investment (See slide 30) and £0.5m of YoY COGs impact.

# 1. Retail top line growth offset by FX pressures

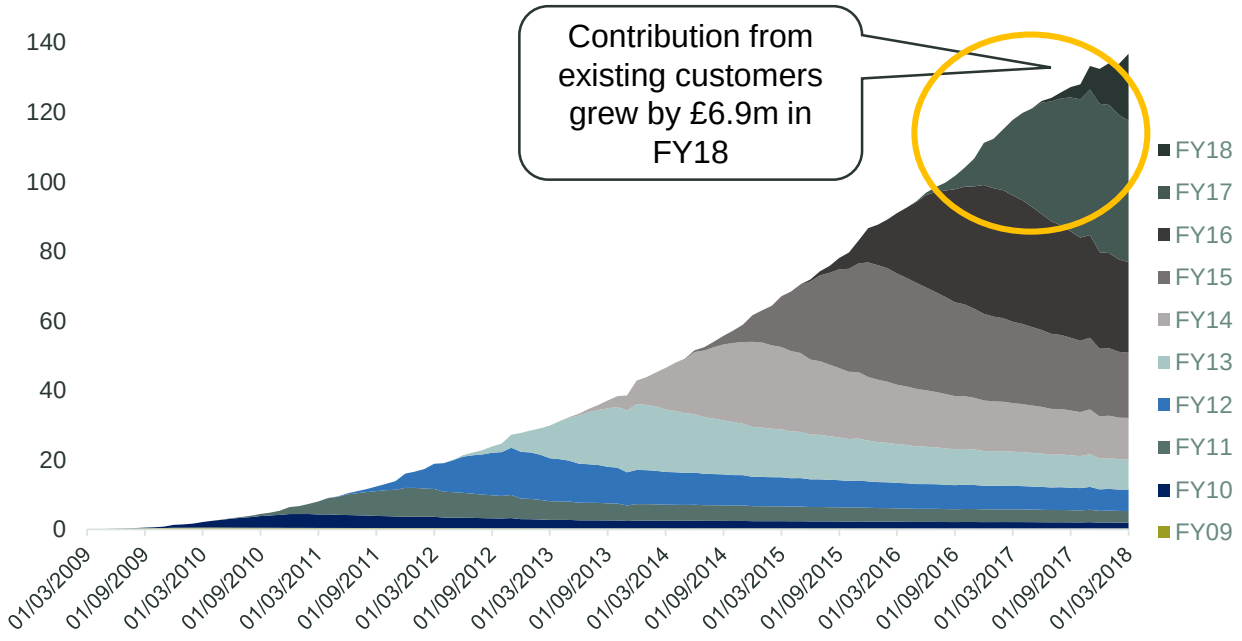
**Market average bottle price vs price with constant % margin**

GBP



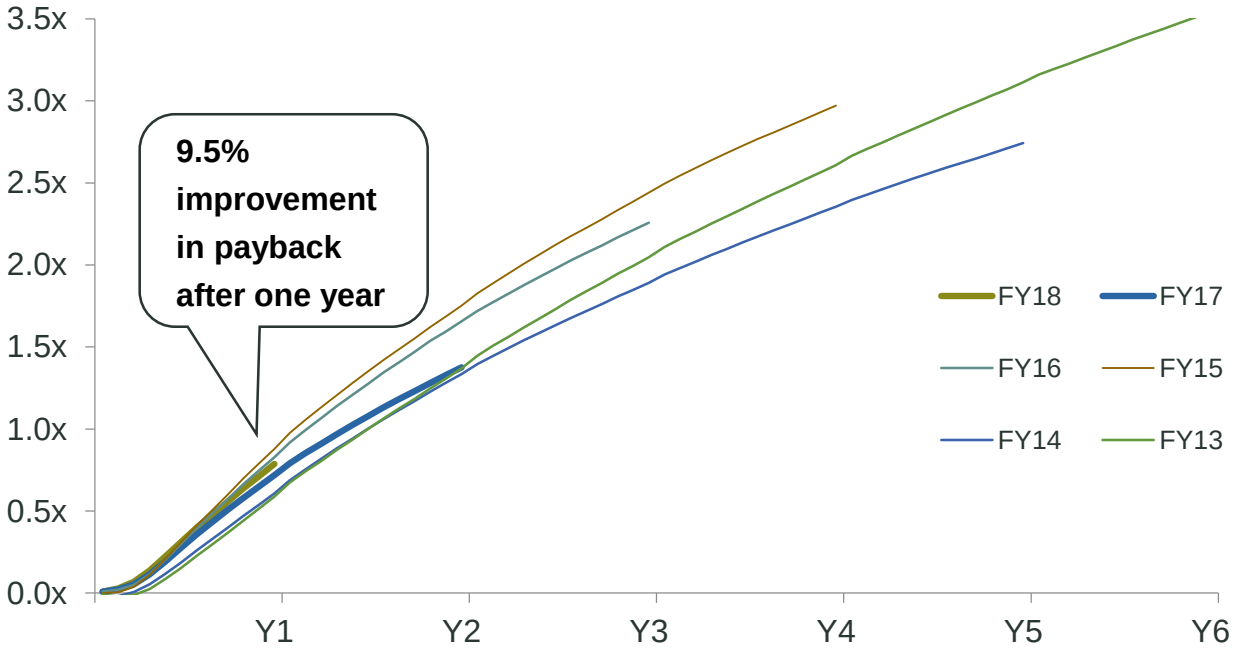
# 2. Naked got one year older..

**Naked Wines**
Repeat Customer Sales FY08-18
GBP m



# 3. Improved efficiency of New Customer Investments

**Naked Wines Payback**
FY17-FY18 by Monthly Cohort
LTV/Acquisition Cost



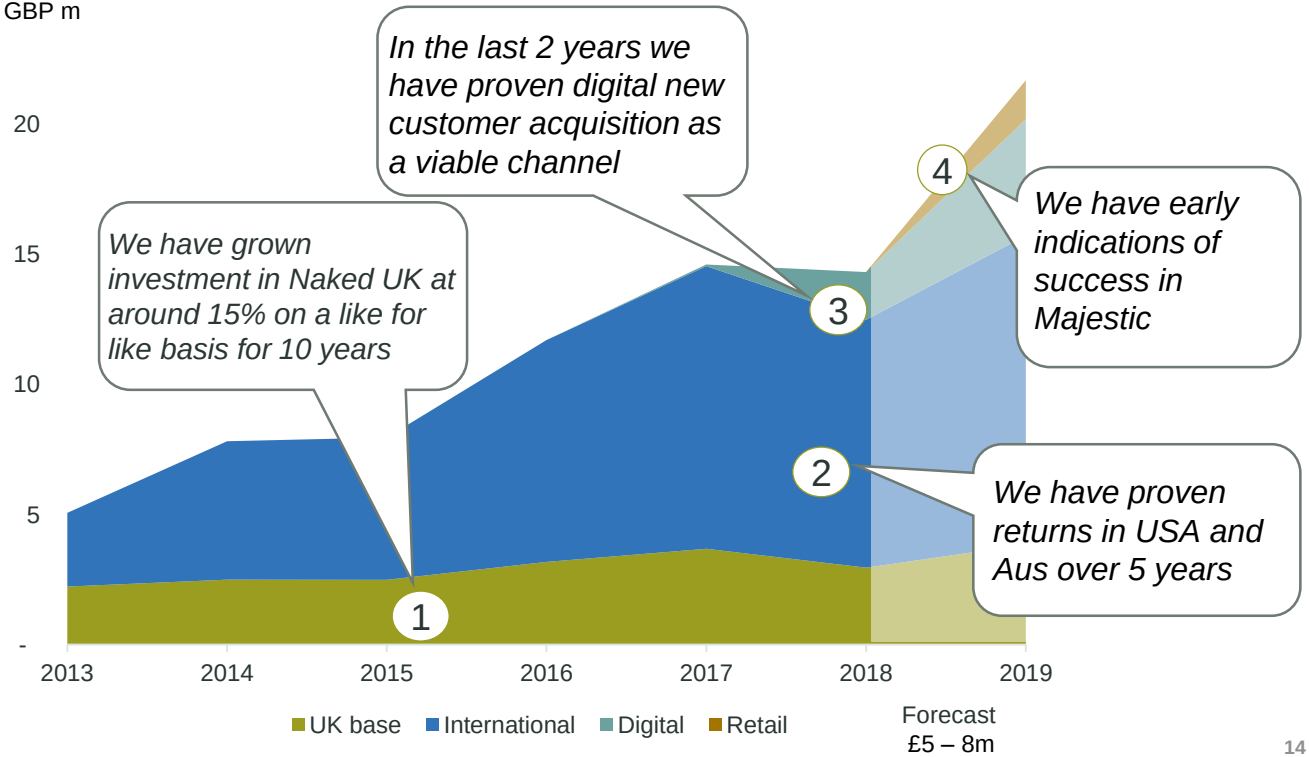
# Making headway:

1. Keep doing what we're doing
2. **Faster**
3. Better



# The investment pool is bigger

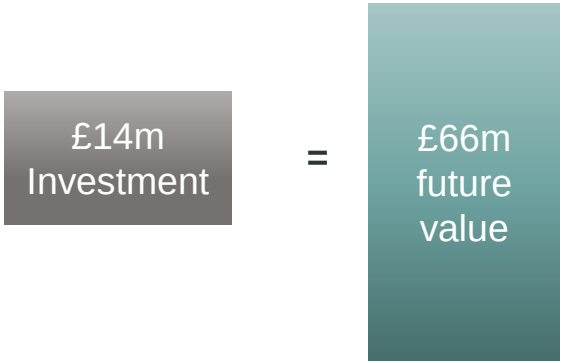
**Group Investment in New Customer Acquisition**
FY2013 – FY2019F
GBP m



# Returns are trending up

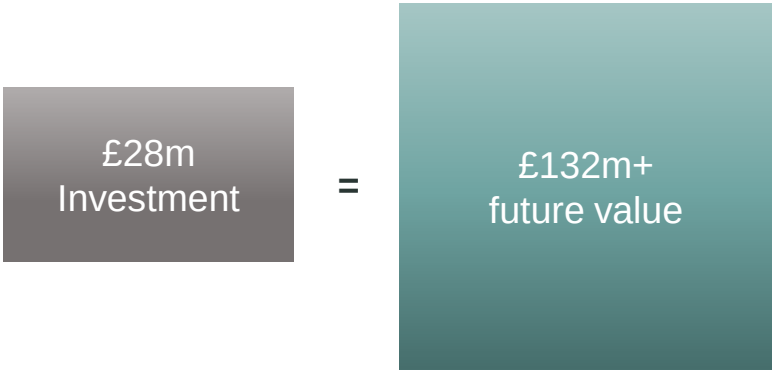
*We invested £14m in FY18 in new customer acquisition*

*We earned a payback of 4.7x - added £66m of future value this year*



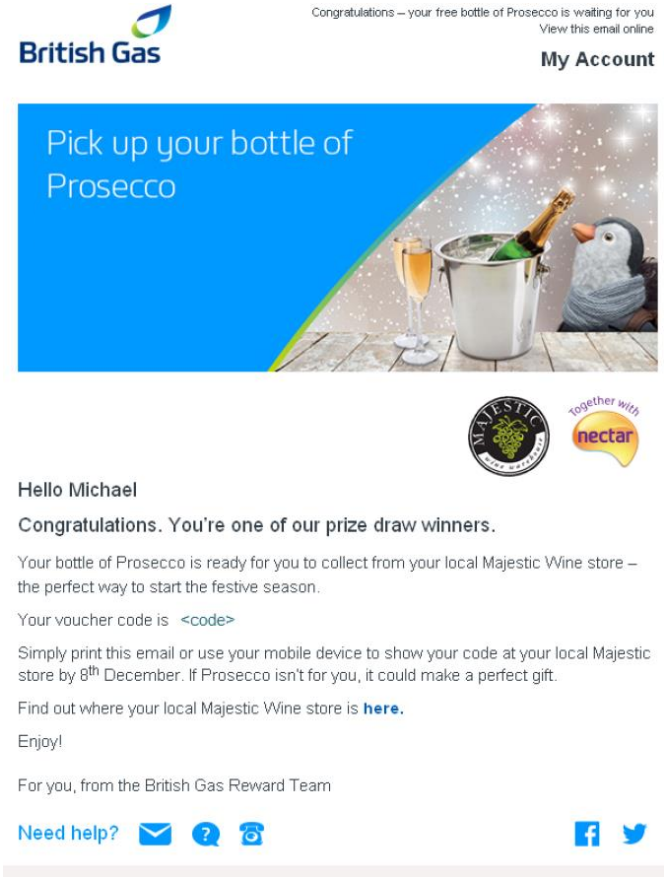

*We believe we can more than double this by:*

- *Doubling the rate of investment*
- *Improving returns*



# Early signs the same tactics work in Majestic Retail

**Over 100,000 new and reactivated customers in Majestic Retail over the past two years**



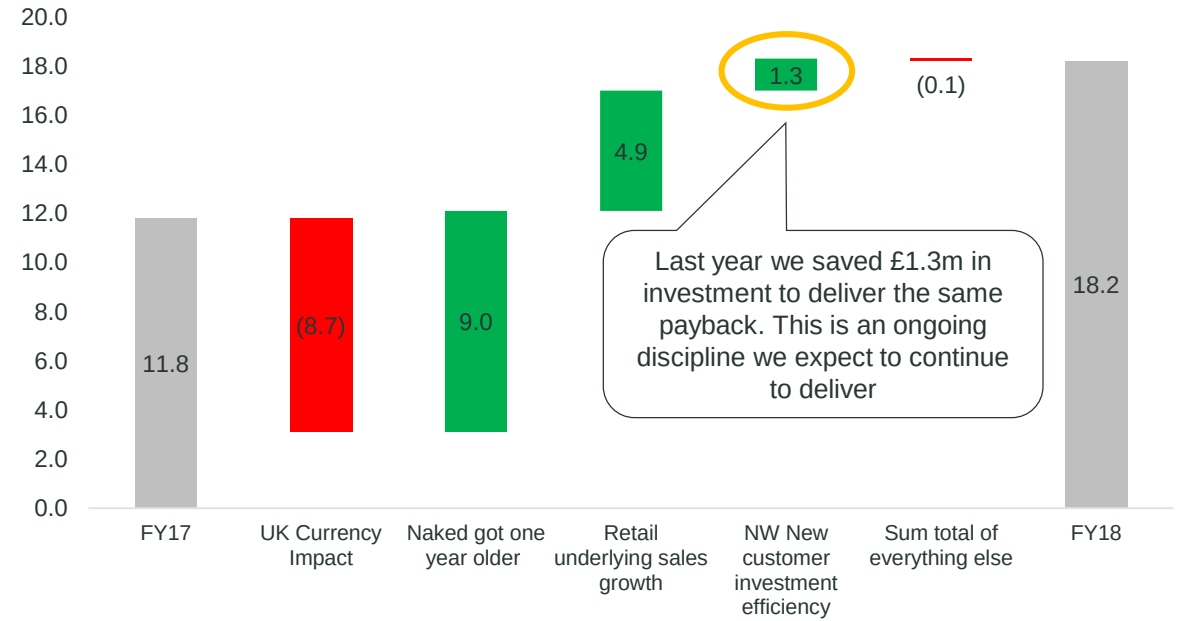
# Making headway:

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# Invest more efficiently

**Group Underlying Adjusted EBIT**
FY18 vs FY17
GBP m




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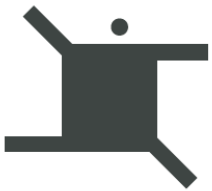
# Removing unproductive work

**Pick and pack:**

Two warehouses combined to one

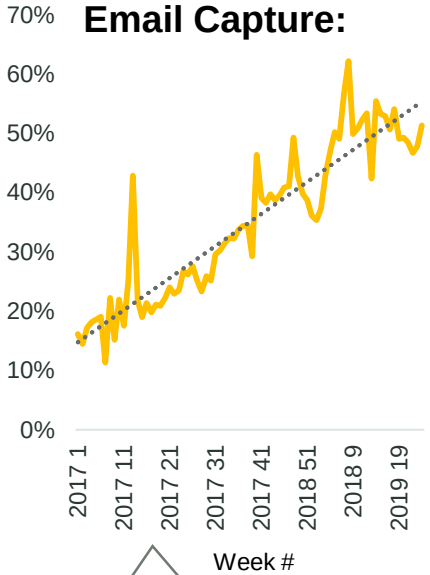
**£1.8m unproductive work removed through:**

- Improved availability
- Automation
- Shelving



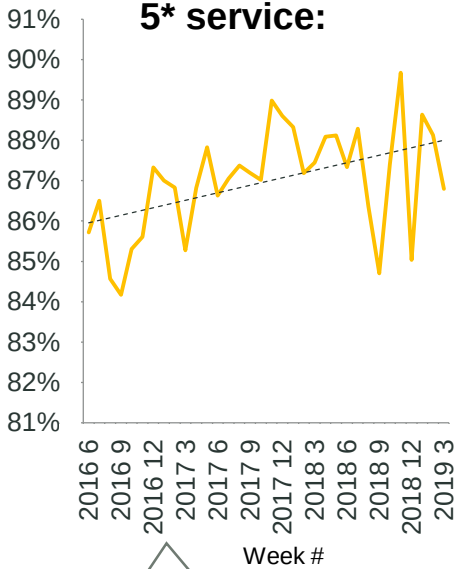
# This has allowed our people to focus on customers

## Email Capture:



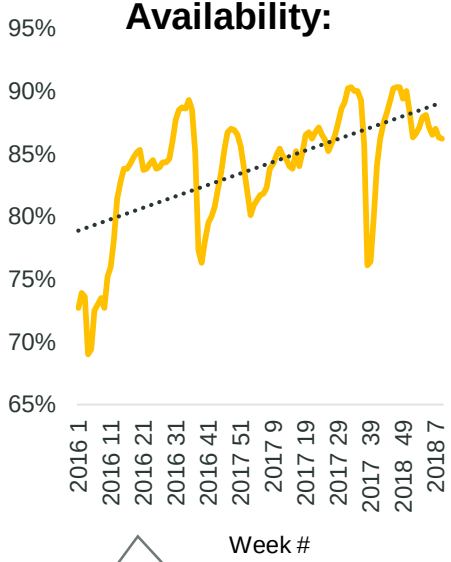

Up from c.18% to c.56% in the past two years

## 5* service:




Average of 89% (FY17: 87%)

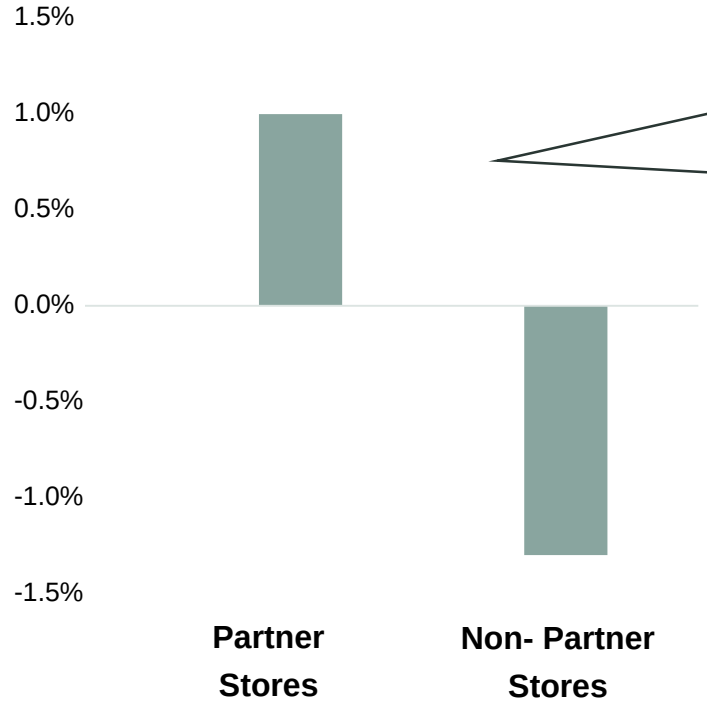
## Availability:




In the past two years stock has reduced by 14% and availability increased by 10%

# Franchise-Lite is working

**Gross Profit Performance Partners vs Total Stores – 39 weeks since launch**
FY2018
% growth




**We now have 43 Stores on the Franchise-Lite Partner scheme who are delivering a stronger performance vs the rest of the store base**

# Majestic Commercial - the time has come

### *The Proposition:*

1. *Targeting independent pubs, restaurants and companies*
2. *With the proposition - we will help you make more money from your wine list*

### Three competitive advantages:

| | | |
|---|---|---|
| Nationwide next day delivery | Data – we know what local people buy | Training – Over 1,000 people who can train our customer's staff to sell wine |

### The Plan:

| New Leadership | Get the basics right: |
|---|---|
| - Olivia Fitzgerald started in April 2018 | - Clear sales proposition<br>- Automation to free up people<br>- Improve sales training and discipline |

# Outlook

**We expect the U.K. market to remain tough, but expect to hit FY19 market expectations because:**

**1.**

**We are investing in growth**

**2.**

**20% of sales are international, 45% online**

**3.**

**We had a head start**

# Financial Review

1

**In a year where we paused for breath, we delivered a big step up in profitability**

2

**We are a strong business with capital to invest…**

3

**…and we choose to invest it, driving future growth**



# Financial Review

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**In a year where we paused for breath, we delivered a big step up in profitability**

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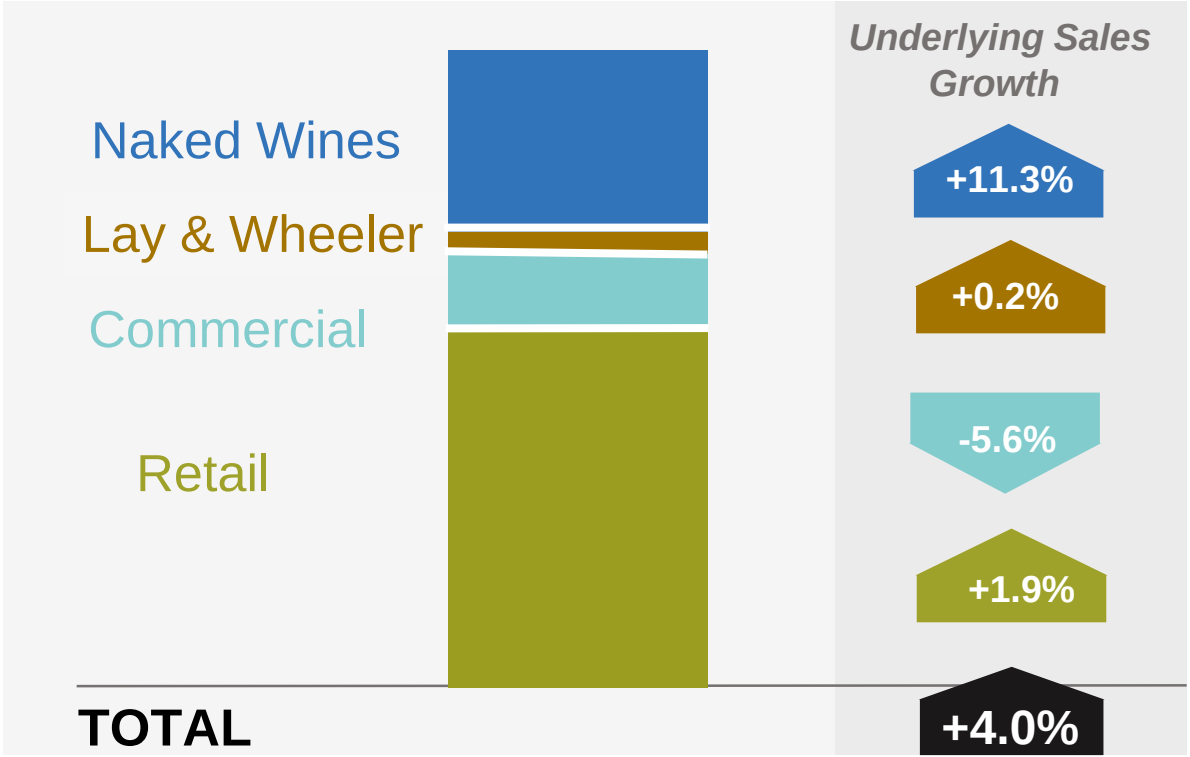
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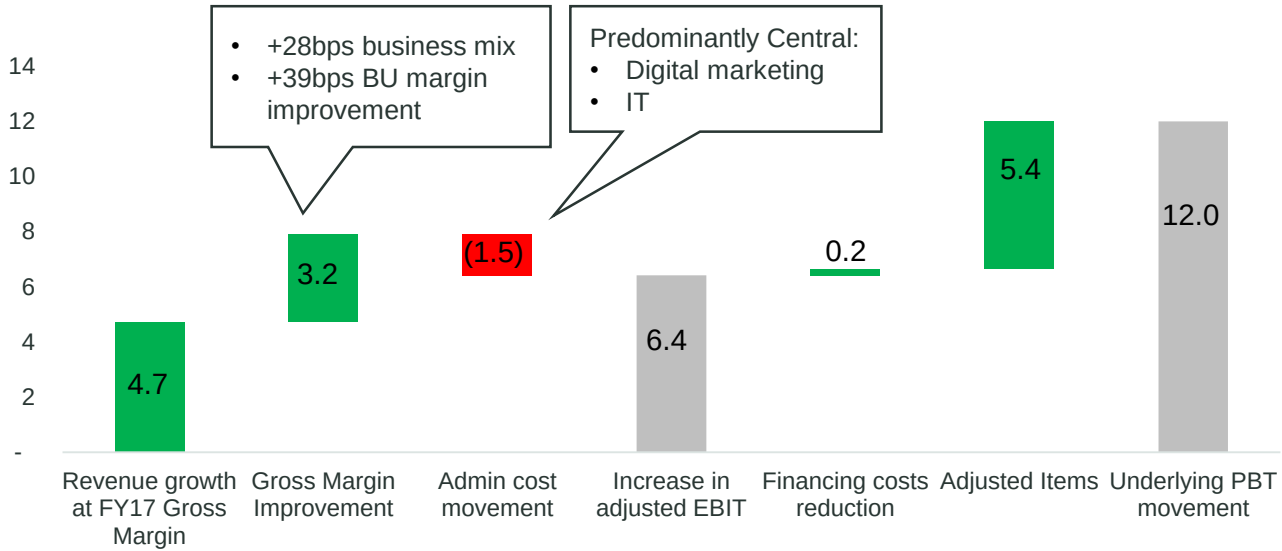


# We maintained sales growth but at a lower rate as we eliminated unproductive activity



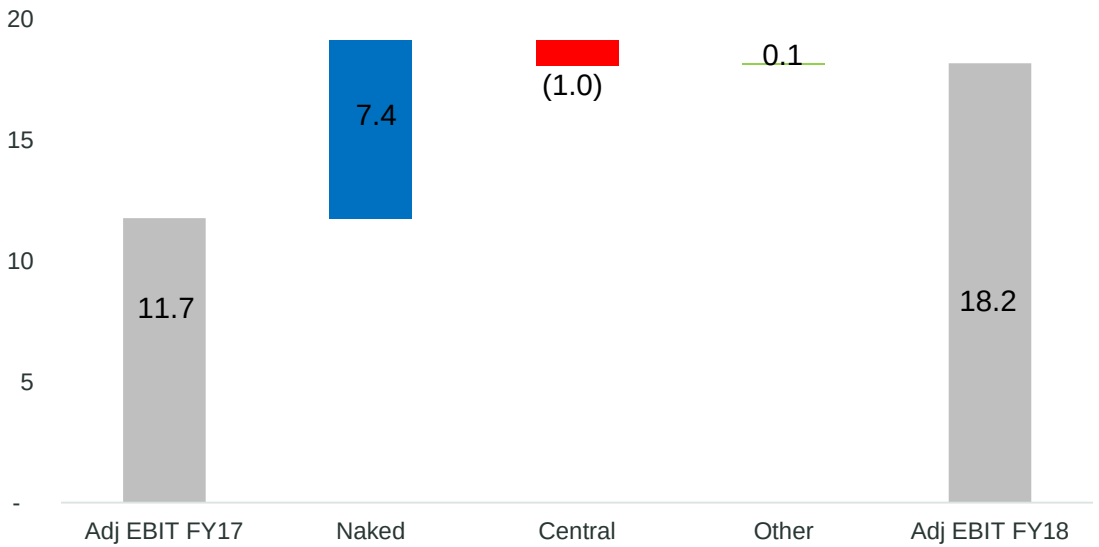
# Hence strong conversion to profits

**Drivers of Group PBT movement**
FY18 vs FY17,
GBP m



# Group profit movement is driven by Naked Wines…

**Group Adjusted EBIT**
**FY18**
GBP m

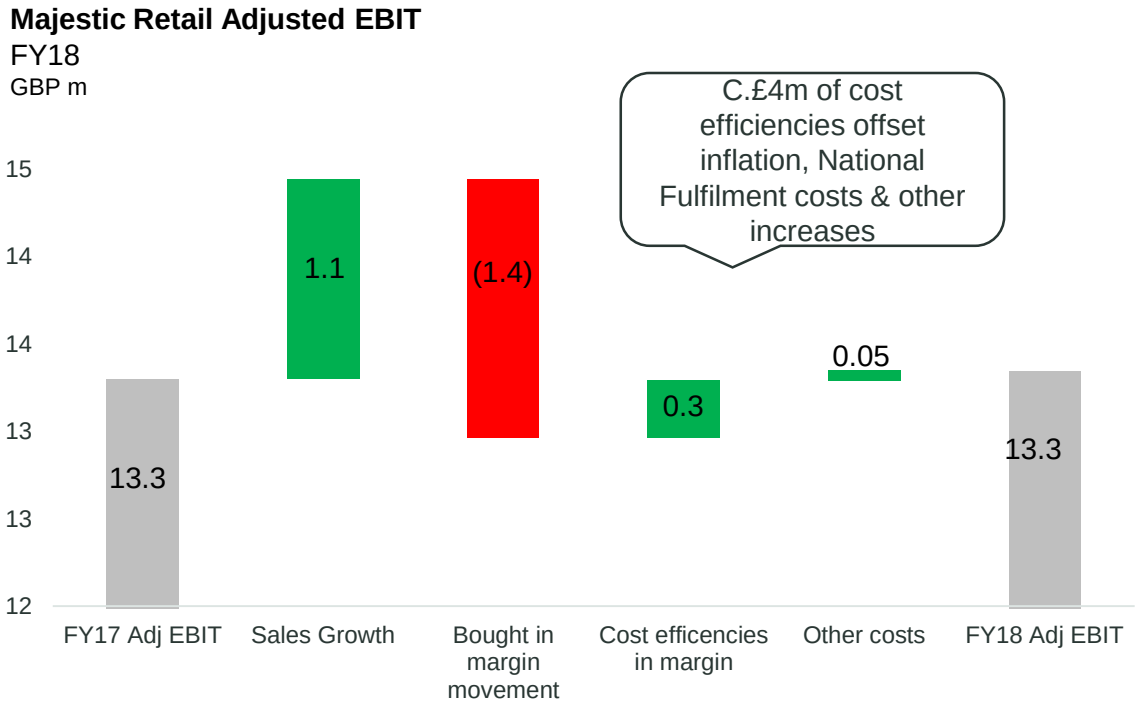


# ...which is a year older and spending less

**Naked Wines Adjusted EBIT**
FY18
GBP m

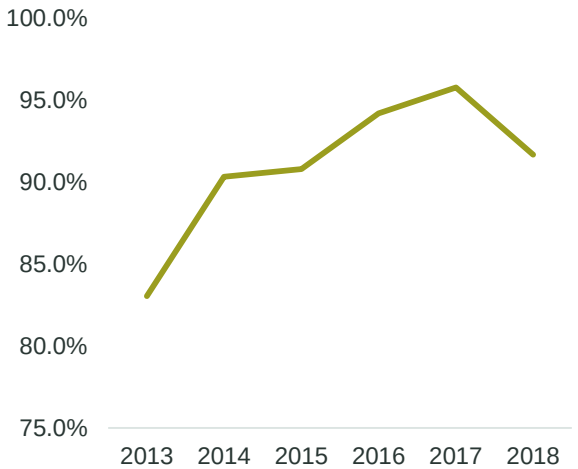


# Retail profit stable due to significant cost elimination

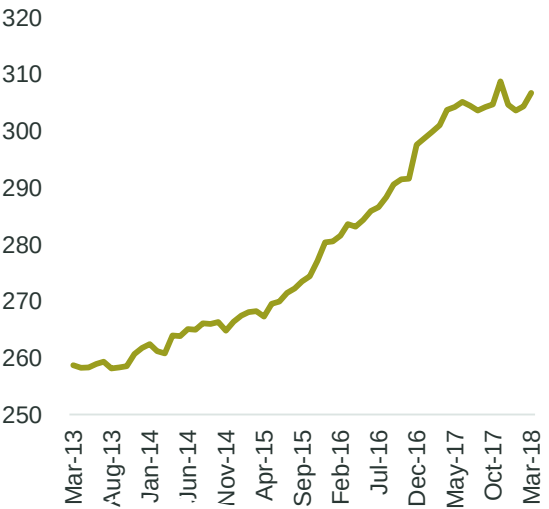


# Retail sales slowed due to lower retention

**Retail Repeat Customer Sales Retention**
FY13-18
%




**Retail Sales growth**
FY13-18
GBP m




**After years of improving sales retention, growth slowed as FX related cost pressures flowed through to selling prices**

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# Strong cash flow, Net Debt below target

| | FY18 | FY17 | YoY |
|---|---|---|---|
| | £m | £m | % |
| Adjusted EBIT | 18.2 | 14.1 | 29.1% |
| Addback D&A* | 6.5 | 6.9 | -2.9% |
| **Adjusted EBITDA** | 24.7 | 21.0 | 18.7% |
| Capital expenditure | (3.8) | (3.5) | 8.5% |
| Working capital movement | 4.0 | (11.3) | NM |
| *- Inventories* | *(2.4)* | *(9.8)* | *-75.5%* |
| *- Deferred Income* | *4.1* | *8.0* | *-48.7%* |
| *- Trade and other receivables* | *(0.1)* | *(4.9)* | *-97.9%* |
| *- Trade and other payables* | *2.4* | *(4.6)* | *NM* |
| **Pre Tax Free Cash Flow** | **24.9** | **6.2** | **301.6%** |
| As % EBIT | 136.8% | 43.9% | |
| **Closing Net Debt** | **8.4** | **25.7** | **-67.3%** |
| *Net Debt:EBITDA* | *0.35x* | *1.1x* | |

**Net debt**
- 0.35x Adj EBITDA
- Below 0.5x target

**Dividend**
- 5.2p Final
- 7.2p Full Year +41.1%
- Growth in FY19 subject to satisfactory performance

**Financing**
- Amended and extended facility
- £60m headline through Dec 2022

*Depreciation and Amortisation excludes amortisation on acquired intangible assets

# Naked robustly profitable

| | Sales £m | Adj EBIT £m | Adj EBIT % |
|---|---|---|---|
| UK | 66.6 | 5.2 | 7.8% |
| USA | 61.5 | 2.8 | 4.5% |
| Australia | 28.0 | 0.7 | 2.5% |
| **Total Naked Wines** | **156.1** | **8.7** | **5.6%** |
| Addback growth spend | | 3.7 | |
| **Zero growth Adj EBIT** | | **12.4** | **7.9%** |

Note: “Steady State EBITDA”, that we have reported previously, differs from this calculation by projecting from the closing Angel population rather than using a simple addback to the full year P&L. At the end of FY18 we calculate steady state EBITDA of £16.7m

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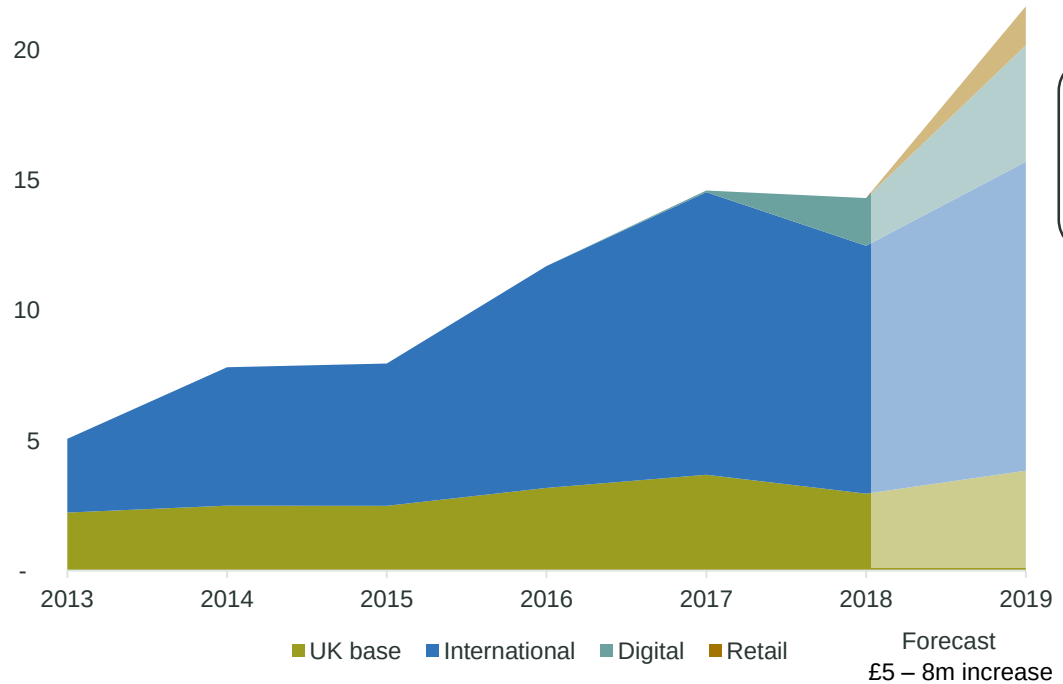
3

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# We are stepping up investment

**Group Investment in New Customer Acquisition**
FY2013 – FY2019F
GBP m

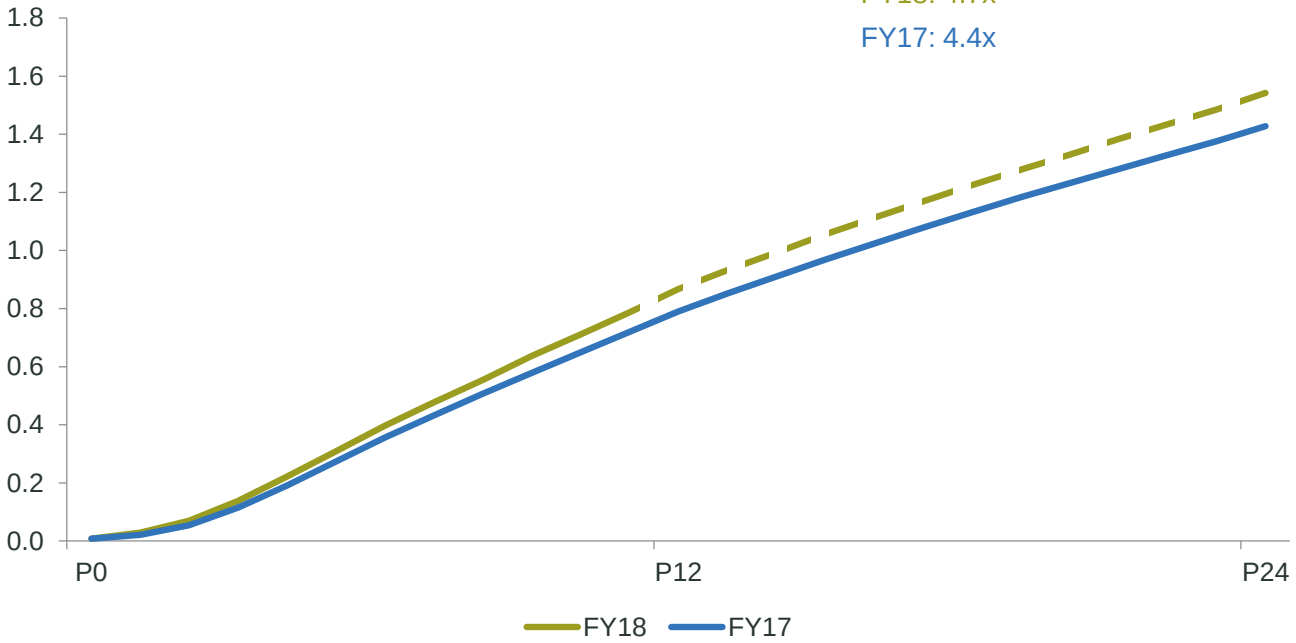



**Targeting FY19 spend of £19m+**

# Customers recruited in FY18 are forecast to deliver a 4.7x payback

**Cumulative Payback (LTV/Acquisition cost)**
FY18 and FY17 cohorts

**Payback Forecast:**
FY18: 4.7x
FY17: 4.4x



# Sales uplift may be muted by headwinds

## UK Market

*"The UK market will be tough, and sales and margins will be under pressure BUT we are on track to achieve FY19 market expectations despite the market"*

## FX rates

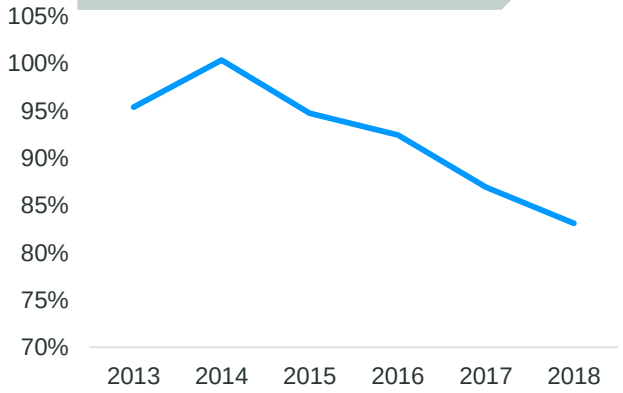
| FY18 Sensitivity | | USD | | |
|---|---|---|---|---|
| | | 1.3318 | 1.3818 | 1.4318 |
| AUD | 1.7173 | 0.0 | -2.3 | -4.4 |
| | 1.7673 | -0.8 | -3.1 | -5.2 |
| | 1.8173 | -1.6 | -3.8 | -5.9 |
| | 1.8673 | -2.3 | -4.5 | -6.7 |

*Recent FX rates could reduce sales growth by 1-2%*

## Fine Wine Vintages

*"Bordeaux and Burgundy Vintages 2017 are not expected to be as popular as recent years. L&W sales may decline"*

## Commercial sales retention



# But…. Potential signs of life in:

| Cost Drivers: | Sales Drivers: |
| --- | --- |
| £1.8m of unproductive work removed through shelving, automation, improved availability | Transformation plan bearing fruit:<br>- Franchise-Lite stores<br>- Product improvements |
| Consolidation of Majestic Retail and Naked UK supply chain | Doubling investment in New Customer Acquisition |
| Ongoing procurement effort | Majestic Commercial – New team and plan |

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# Outlook

**We expect the U.K. market to remain tough, but expect to hit FY19 market expectations because:**

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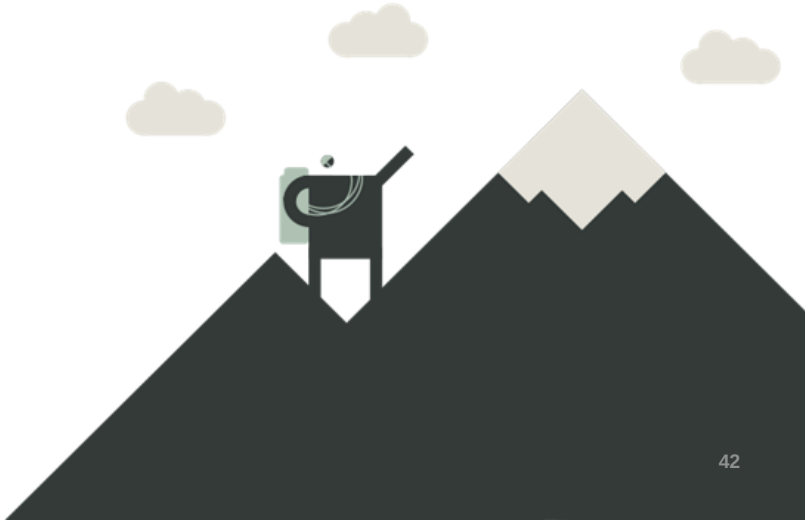
**2.**

**20% of our business is international & 45% online**

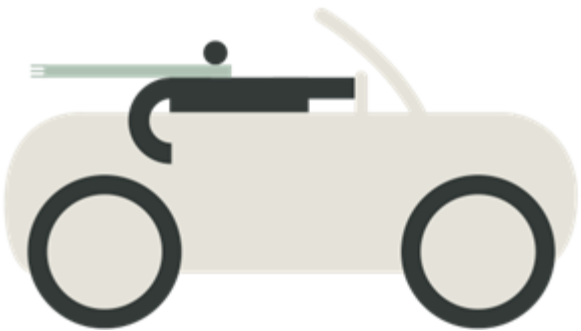
**3.**

**We had a head start**

# QUESTIONS?



# APPENDICES



# 2017/18 Results Summary

| | | Reported | | Underlying[4] | | |
|---|---|---|---|---|---|---|
| | | FY2018 52 weeks | FY2017 53 weeks | FY2018 52 weeks | FY2017 52 weeks | % YoY Underlying |
| **Revenue** | £m | 476.1 | 465.4 | 477.7 | 459.5 | +4.0% |
| **Adjusted EBIT** | £m | 18.2 | 14.1 | 18.2 | 11.8 | +54.5% |
| **Adjusted PBT** | £m | 17.2 | 12.9 | 17.2 | 10.5 | +63.0% |
| **Adjusted EPS** | p | 23.9p | 17.7p | | | |
| **Profit/(Loss) before tax** | £m | 8.3 | (1.5) | | | |
| **Basic EPS** | p | 10.9p | (4.1p) | | | |
| **Final Dividend per share** | p | 5.2p | 3.6p | | | |
| **Free Cash Flow** | £m | 24.9 | 6.1 | | | |
| **Reported net debt** | £m | (8.4) | (25.7) | | | |

# 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 2018** Underlying sales growth | **£263.8m** +1.9% | **£156.1m** +11.3% | **£43.4m** -5.6% | **£14.5m** +0.2% |
| **Adjusted EBIT** | **£13.3m** | **£8.7m** | **£2.4m** | **£0.9m** |
| **Proposition** | We help people find wines they will love | Making luxury wines affordable by supporting winemakers. | We help businesses make more money from their wine lists | We help people discover fine wine risk free |
| **Competitive advantage** | - People – 1,000 helpful, friendly and trained team members (we employ wine lovers, not shelf stackers!)<br>- We control the last mile delivery<br>- We have data on what our customers like and don't like | The model delivers better wine for less money, and customers become friends with the winemakers | The only Company offering local service with national scale and pricing | A highly trained sales team, who know how to make fine wine accessible for everyone |
| **Why invest in us?** | Cash generative retail business transforming into a multichannel business | Subscription business model with direct marketing expertise and multiyear customer retention | 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 | | |
|---|---|---|---|
| | FY 2017/2018 52 weeks £'000 | FY 2016/2017 52 weeks £'000 | YoY % |
| **Revenue** | 263,754 | 258,877 | 1.9% |
| Gross Profit | 60,420 | 60,430 | 0.0% |
| Gross Margin | 22.9% | 23.3% | -0.4% |
| Distribution costs | (30,384) | (28,783) | 5.6% |
| Admin Costs | (16,687) | (18,348) | -9.1% |
| **Adjusted EBIT** | 13,349 | 13,300 | 0.4% |

# Business Unit Detail: Naked Wines

| | Underlying | | |
|---|---|---|---|
| | FY 2017/2018 52 weeks £'000 | FY 2016/2017 52 weeks £'000 | YoY % |
| **Revenue** | 156,059 | 140,220 | 11.3% |
| Gross profit | 55,236 | 47,363 | 16.6% |
| Gross Margin | 35.4% | 33.8% | 1.6% |
| Distribution costs | (24,165) | (22,321) | 8.3% |
| Administrative costs | (22,405) | (23,750) | -5.7% |
| **Adjusted EBIT** | 8,666 | 1,291 | 571.2% |

# Business Unit Detail: Majestic Commercial

| | Underlying | | |
|---|---|---|---|
| | FY 2017/2018 52 weeks £'000 | FY 2016/2017 52 weeks £'000 | YoY % |
| **Revenue** | 43,360 | 45,933 | -5.6% |
| Gross profit | 7,694 | 7,841 | -1.9% |
| Gross Margin | 17.7% | 17.1% | 0.7% |
| Distribution Costs | (3,059) | (3,155) | -3.0% |
| Admin Costs | (2,200) | (2,292) | -4.0% |
| **Adjusted EBIT** | 2,435 | 2,394 | 1.7% |

# Business Unit Detail: Lay & Wheeler

| | Underlying | | |
|---|---|---|---|
| | FY 2017/2018 52 weeks £'000 | FY 2016/2017 52 weeks £'000 | YoY % |
| **Revenue** | 14,549 | 14,521 | 0.2% |
| Gross Profit | 4,042 | 3,847 | 5.1% |
| Gross Margin | 31.2% | 31.8% | -0.7% |
| Distribution Costs | (1,198) | (1,059) | 13.0% |
| Admin Costs | (1,907) | (1,841) | 3.6% |
| **Adjusted EBIT** | 937 | 946 | -1.0% |

# Central costs & Group

| | Underlying | | |
|---|---|---|---|
| | FY 2017/2018 52 weeks £'000 | FY 2016/2017 52 weeks £'000 | YoY % |
| **Central costs** | | | |
| Administrative costs | (7,208) | (6,166) | 16.9% |
| **Adjusted EBIT** | (7,208) | (6,166) | 16.9% |

| **Group** | | | |
|---|---|---|---|
| **Revenue** | 477,721 | 459,551 | 4.0% |
| Gross profit | 127,391 | 119,481 | 6.6% |
| Gross Margin | 26.7% | 26.0% | 0.7% |
| Distribution costs | (58,806) | (55,318) | 6.3% |
| Administrative costs | (50,407) | (52,397) | -3.8% |
| **Adjusted EBIT** | 18,178 | 11,765 | 54.5% |
| Net Finance Charges | (994) | (1,221) | -18.6% |
| **Adjusted PBT** | 17,184 | 10,545 | 63.0% |

# Glossary

**Definitions**

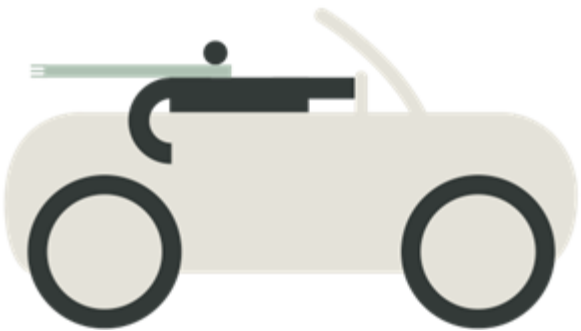
| | |
|---|---|
| Contribution | A profit measure between Gross Profit and EBIT, calculated as Gross Profit less the costs of fulfilling and servicing (e.g. credit card fees, delivery costs, customer facing staff costs) and marketing expenses. We often split Contribution into that from New and Repeat customers as they can have different levels of profitability. |
| Repeat customer | A customer that has bought from one of our businesses more than once, recently. For Naked Wines these are "Angels" who have subscribed. For Majestic they are people who have shopped with us at least once within the last 12 months, with that shop not being their first time. |
| 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 shopping with us at some point or cannot be identified. |
| Contribution per New Mature Angel | Contribution after subtracting all direct costs that are associated with maintaining that Angel (E.g Fulfilment, Customer Service, Cost of Sales, Returns etc) |
| Cohort | Group of Mature Angels recruited in the same Financial year |
| 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 |

# Glossary (cont.)

**Alternative Performance Measures**

| | |
|---|---|
| Underlying | a) includes En primeur revenues in year of order not year of fulfilment; (b) is calculated using constant FX rates for translation (c) restates the prior year to a 52 week period comparable to the current year. |
| Adjusted EBIT | Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, share based payment charges, impairment of goodwill, restructuring costs, 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 EBIT less net finance charges. |
| Free Cash Flow | Cash generated by operating activities less capital expenditure and before adjusting items and taxation. |
| Adjusted Effective Tax Rate | Defined as the current years tax change divided by the adjusted profit before tax. |
| Lifetime Return | The ratio of the future contribution we expect to earn from the customers recruited this year to the investment we made recruiting them. We calculate this by reviewing the level of sales and contribution generated in the current year from new customers and compare this to a reference level based on historic behaviour of all new customers, then projecting forwards to a 20 year lifetime to estimate the payback ratio. |
| New Customer Contribution / Investment in New Customers | The sum of all investments in new customers in the period: Marketing and profit/loss / The Contribution earned from Sales to New Customers |
| Repeat customer contribution | The profit attributable to those sales 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 year from the same customers. Using our till and website data the population who were active 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. |

# Revised Naked Wines measurement and forecasting



# Naked Wines Business Split Reconciliation

| | As presented April 17th CMD | Move immature | As presented at final results |
|---|---|---|---|
| New Customers | | | |
| Sales | 31.9 | (10.3) | 21.6 |
| Contribution | (13.0) | (1.0) | (14.0) |
| | | | |
| Repeat Customers | | | |
| Sales | 124.2 | 10.3 | 134.5 |
| Contribution | 32.8 | 1.0 | 33.8 |
| | | | |
| Fixed Costs | (11.1) | | (11.1) |
| Adj EBIT | 8.7 | | 8.7 |

# Five year Naked Wines history

| | New Customers (First and "other" transactions) | | | Repeat Customers (Sales since sign-up) | | | |
|---|---|---|---|---|---|---|---|
| | Sales | Contrib. | Margin % | Sales | Contrib. | Margin % | Fixed Costs |
| FY14 | 15 | (7) | -48% | 45 | 7 | 16% | (8) |
| FY15 | 21 | (8) | -39% | 66 | 14 | 21% | (10) |
| FY16 | 22 | (10) | -48% | 90 | 21 | 24% | (11) |
| FY17 | 26 | (15) | -57% | 114 | 27 | 24% | (11) |
| FY18 | 22 | (14) | -65% | 134 | 34 | 25% | (11) |

Note: Prior to FY17 fixed costs include IT costs that are now included within Central costs. FY 17 numbers have been restated to be on a consistent basis with FY18

# Forecasting Example

