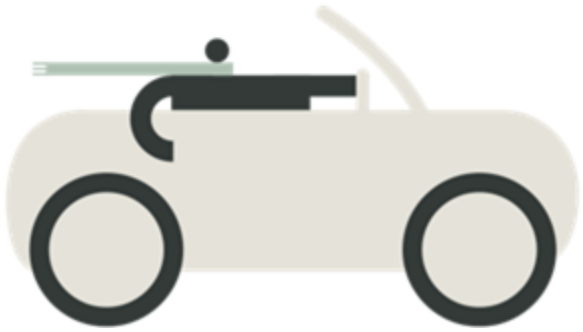
MajesticWineplc

2017/18 Interim Results

Analyst & Investor Presentation
November 2017



Ready to put our foot on the gas and accelerate growth

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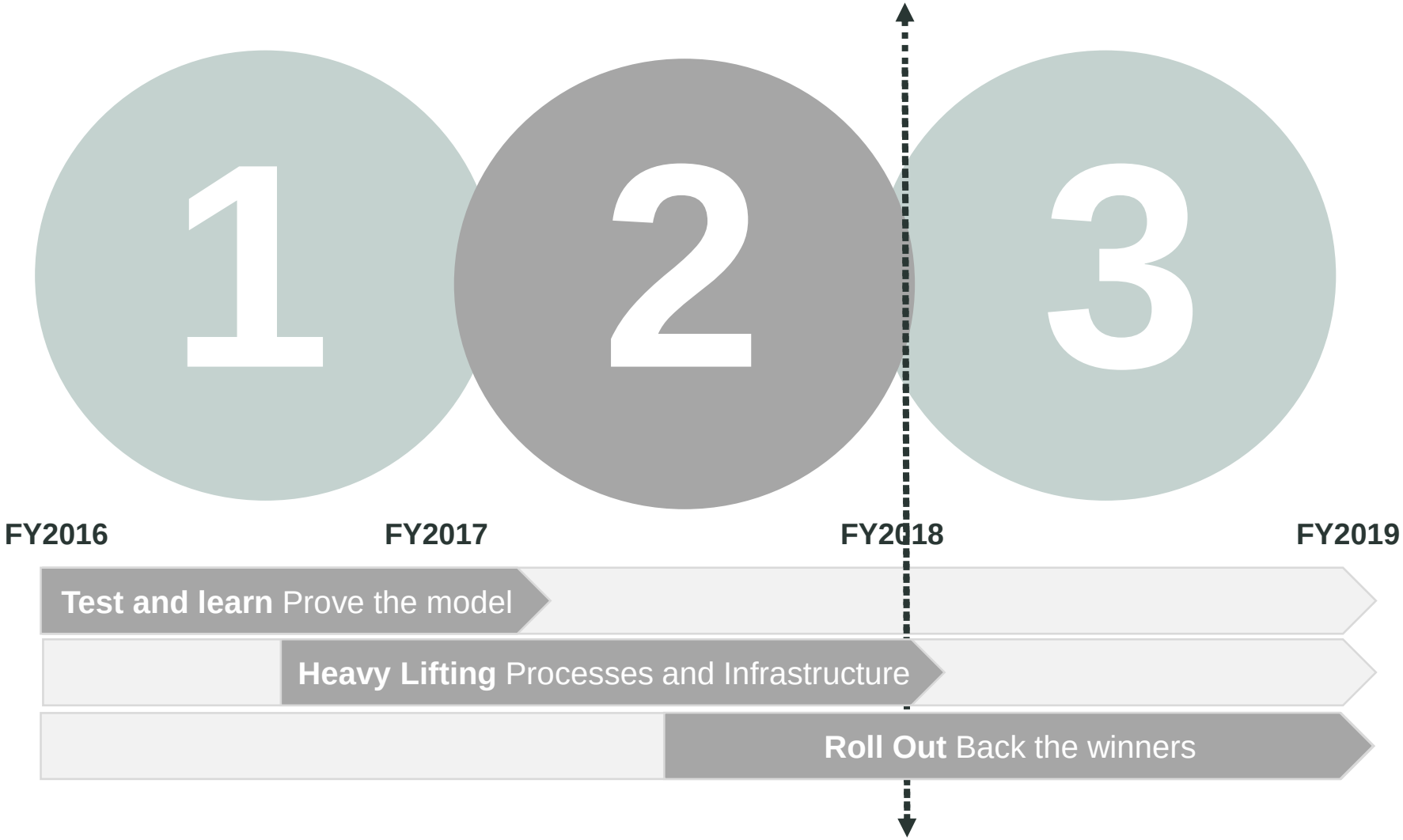
Reminder:
2 years into a 3 year plan and we are on track:



Context: We are operating in a tough market



Expect the short term to be tough

Ready to accelerate growth



1 Profits UP

- *Group Adjusted EBIT up £6.9m because:*
- *Naked profitable AND GROWING in all 3 markets*
- *Retail transformation flowing through to the bottom line*

2 Foundations SOLID

- *Coming to the end of the heavy lifting*
- *Key ongoing projects on budget and on track*
- *Building confidence that the Retail transformation is sustainable long term*

3 We have the investment opportunities to GROW

- *Restored ROIs*
- *Continue to grow our investment in new customer acquisition in Retail and Naked*
- *Ready to grow - on track with our three year plan*

Ready to accelerate growth



1

Profits UP

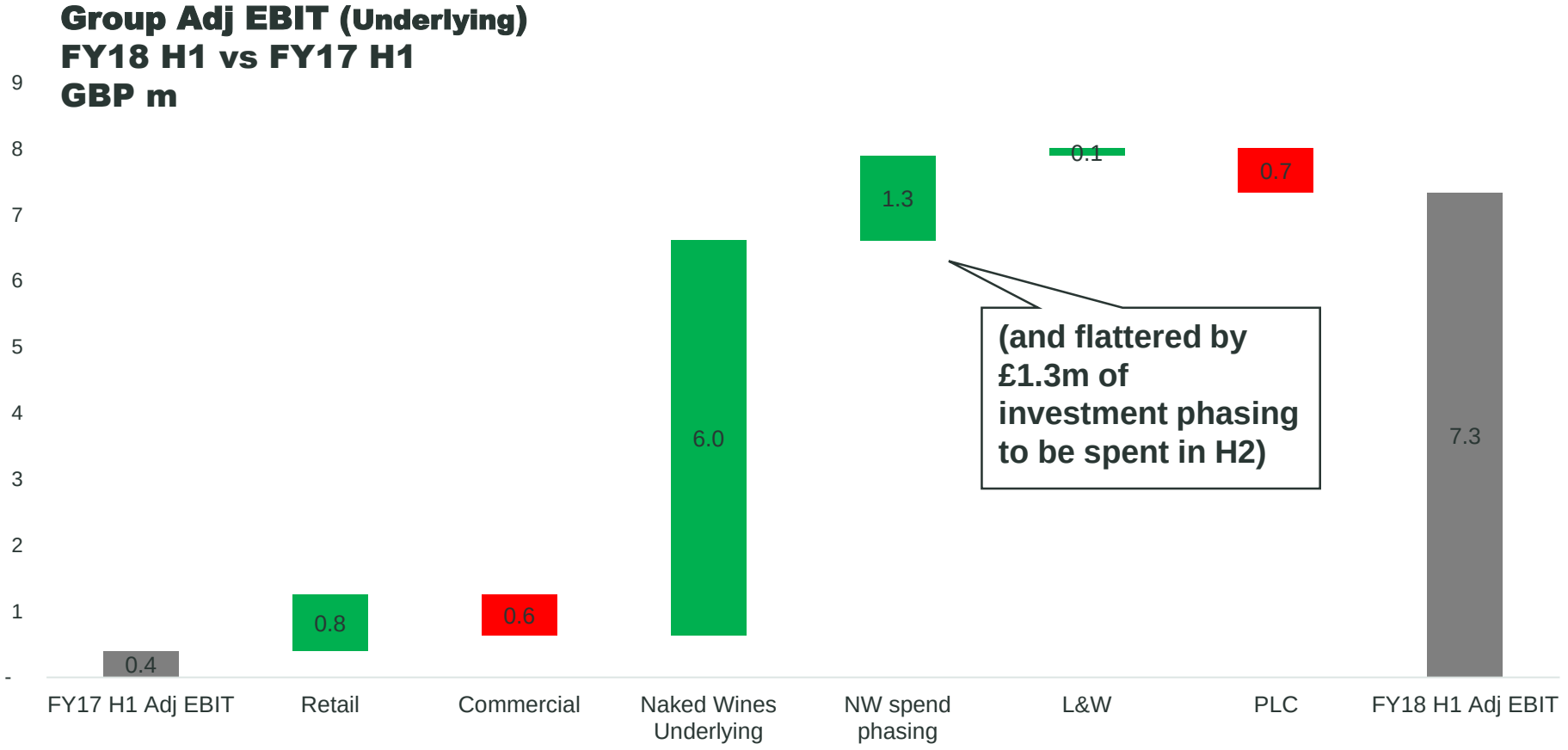
2

Foundations SOLID

3

We have the investment opportunities to GROW

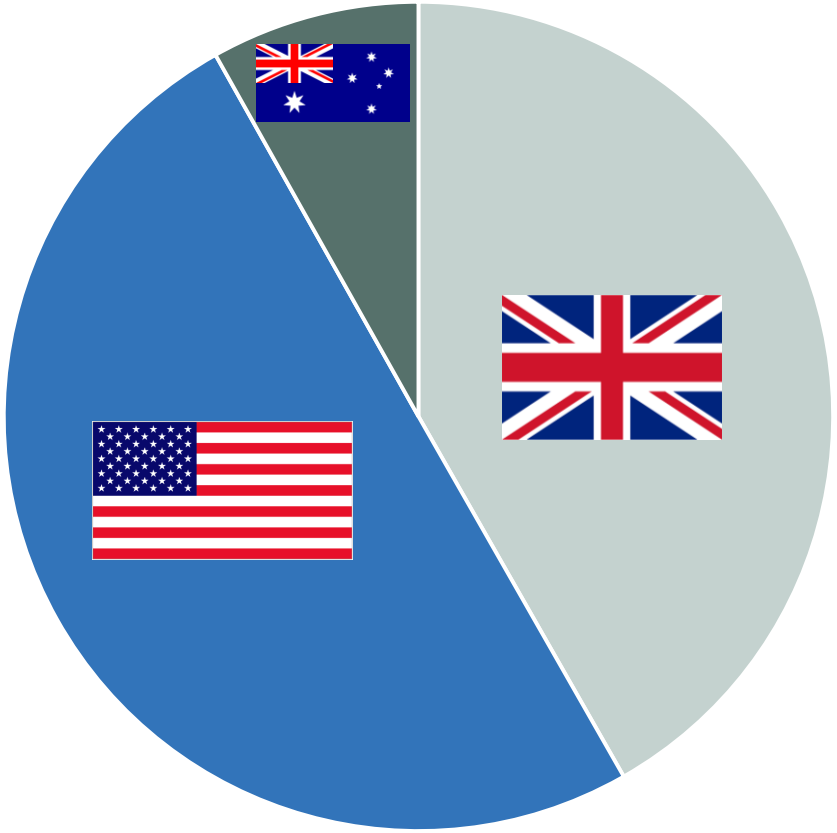
Group profit growth driven by Naked Wines



*Retail and Naked Wines adjusted for IT cost reallocations to PLC

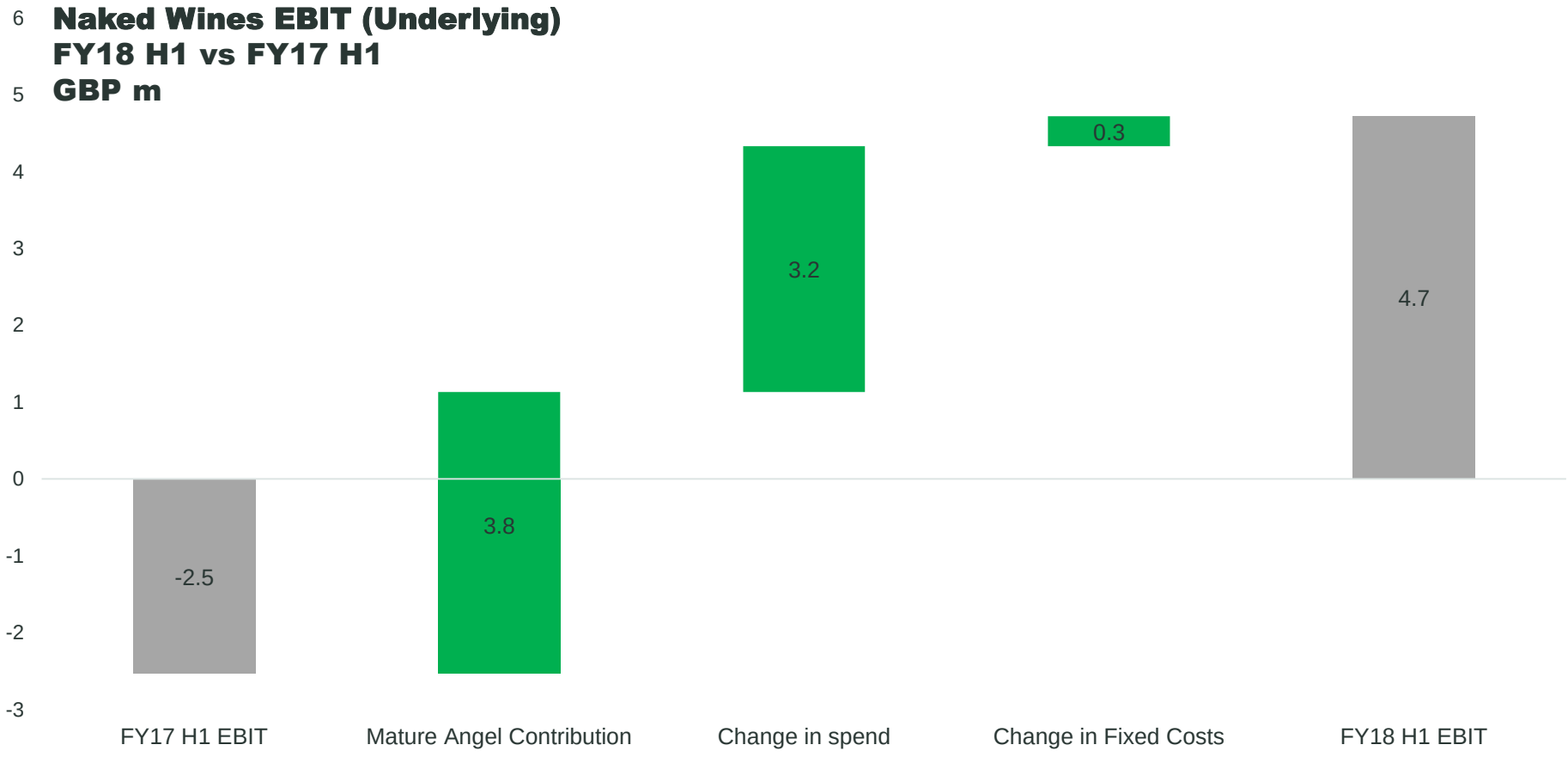
Naked Wines profit driven by the USA

Naked Wines EBIT
FY18 H1
Total: £4.7m

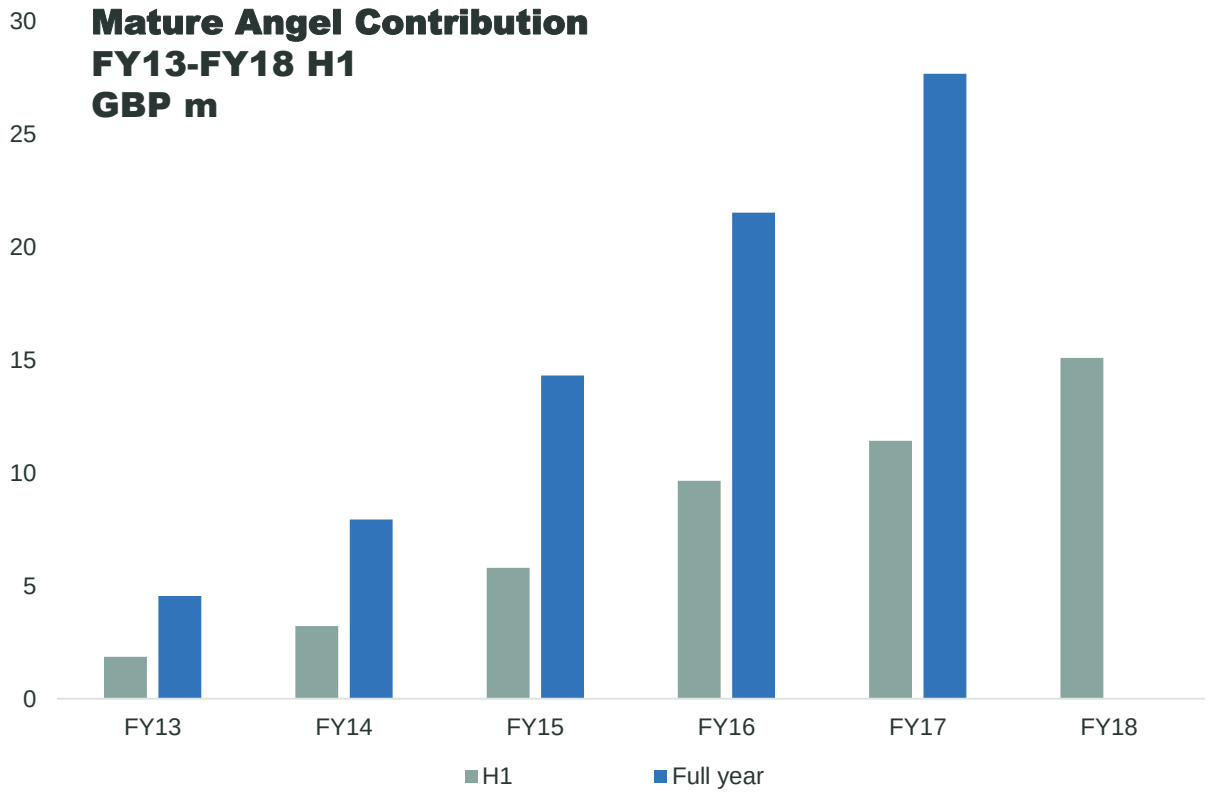


Naked USA now the most profitable part of Naked Wines

That growth has been driven primarily by growth in contribution



We have grown Mature Contribution DESPITE lower investment in marketing

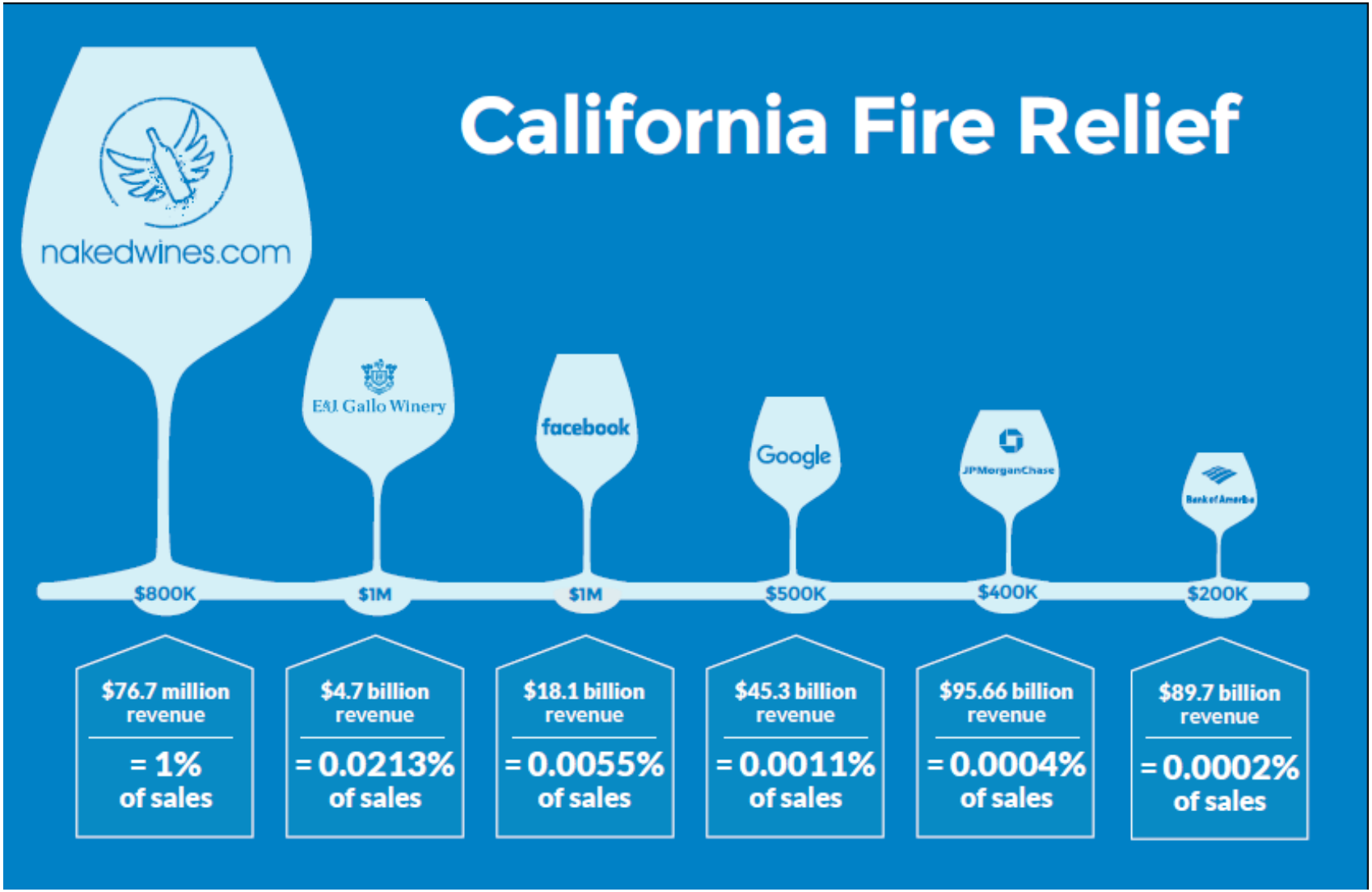


FY18 H1 Mature Angel contribution is 33.3% or £3.8m higher

Contribution hasn't grown because we've cut marketing - it has grown because we:

1. Did not repeat the Direct Marketing mistake in the USA
2. Became more efficient through our test and learn program

.. Because we've built a real community



Ready to accelerate growth



1

Profits
UP

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Foundations
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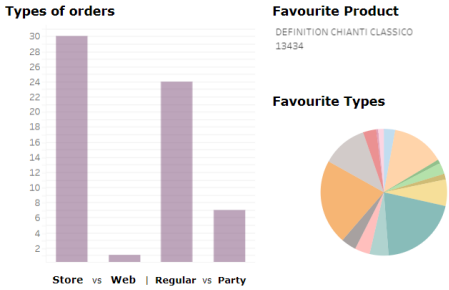
We have the investment opportunities to GROW

We are coming to the end of the heavy lifting



New Majestic Website on Naked Platform



Data tools to give single customer view

NFC now shipped 170,000 next day orders



154 of 210 stores now have shelving





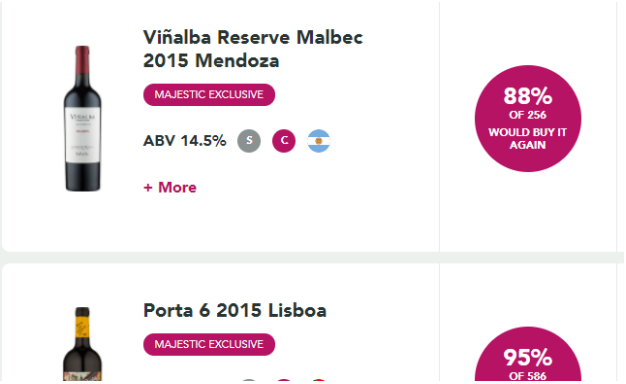
Product Availability now 84%



Launched Franchise - Lite

Ongoing heavy lifting projects are on track







EPOS

New Till systems to be rolled out across the estate in FY2019 giving single customer view

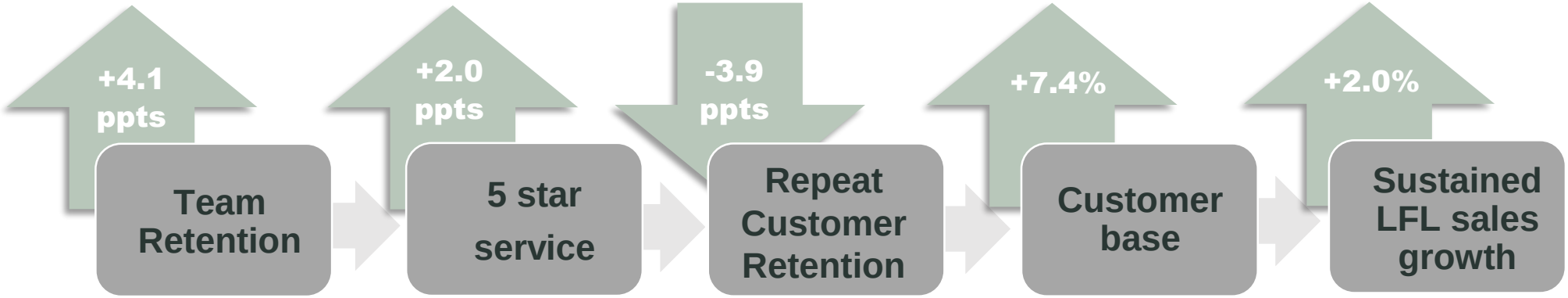
IT update

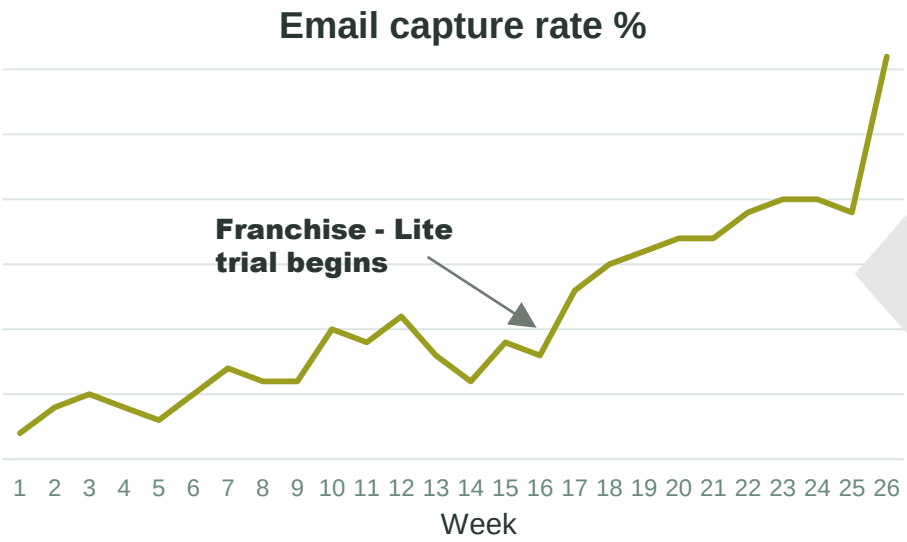
Replacing 20 year old systems with modern resilient systems

Accounting Systems

To be rolled out in FY2019 to get consistency across the Group

Building confidence that the Retail transformation is sustainable

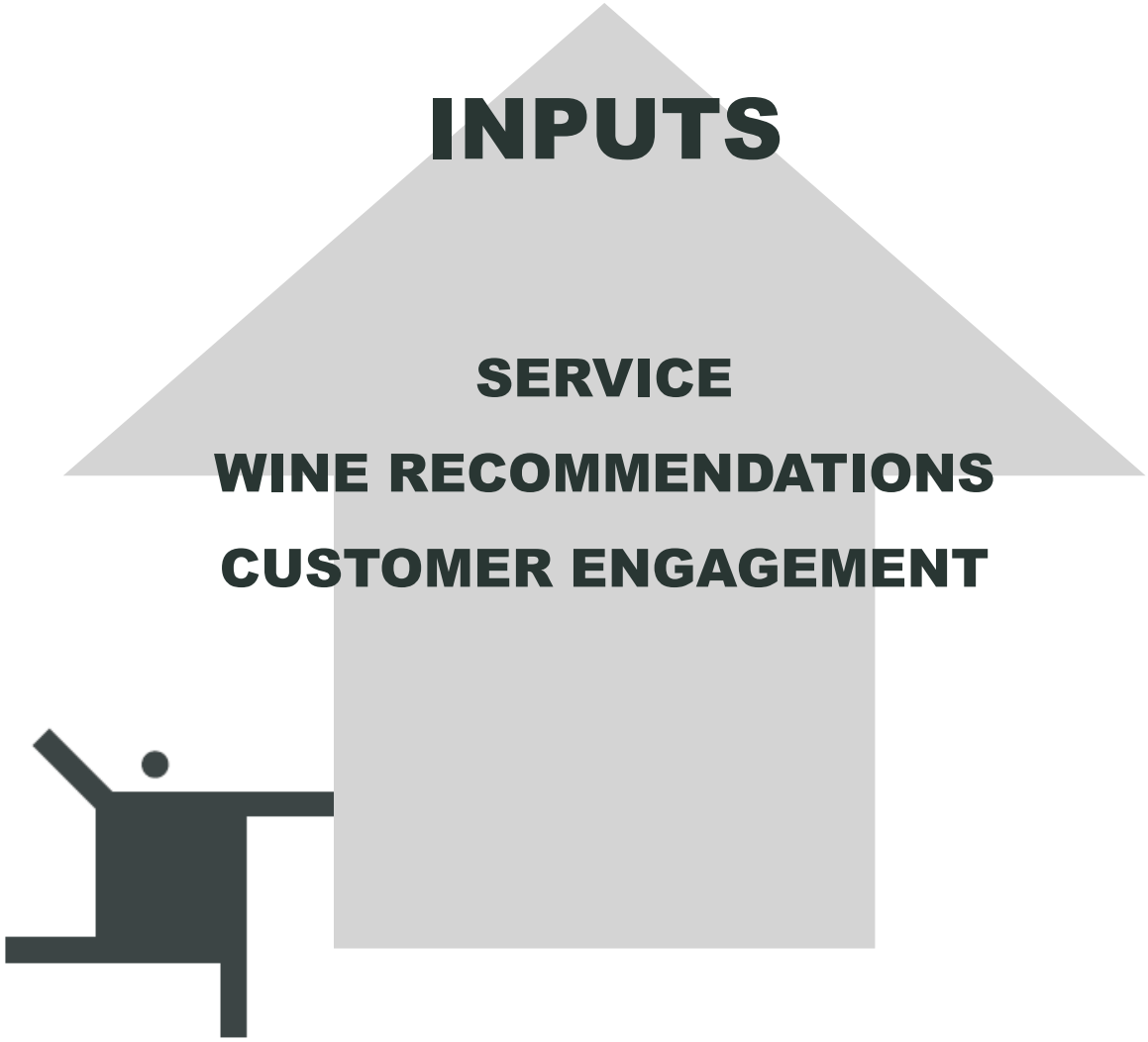




KPIs are improving

Franchise-Lite
"From Command and Control culture to empowering people to be entrepreneurs"

Key to engagement – The Store Meritocracy



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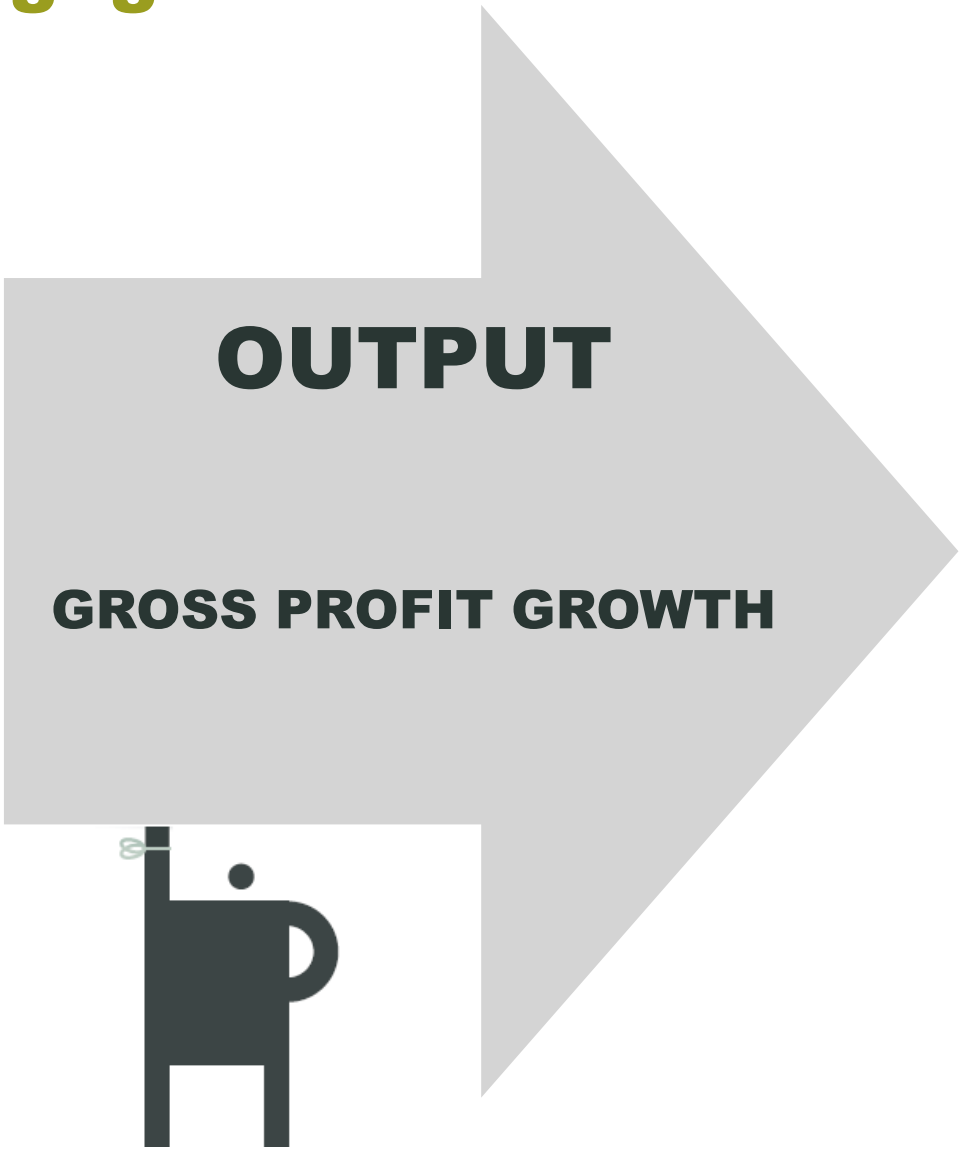

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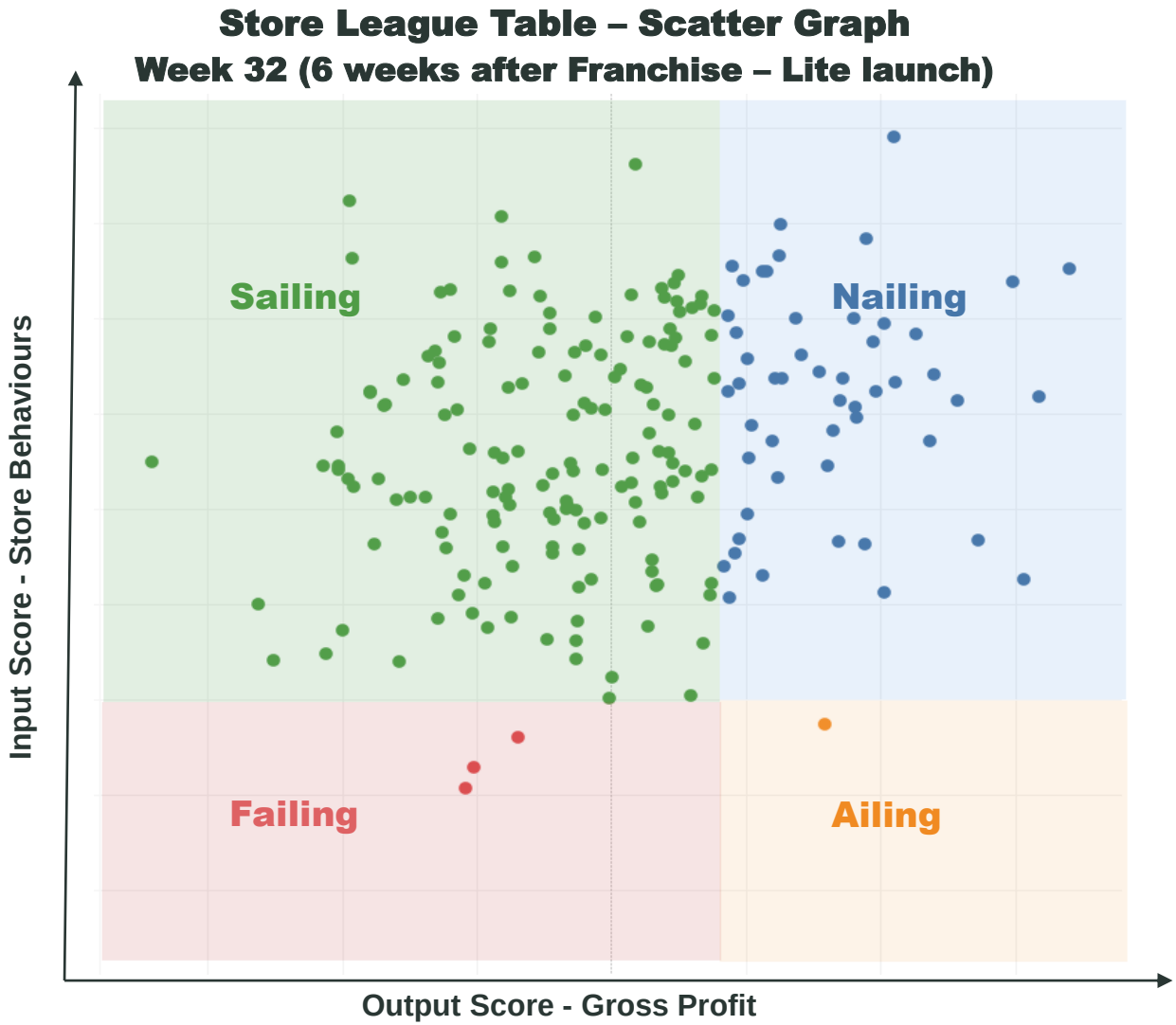

What does this mean in practice?

FROM…	TO…
Stores had to ask for consent	£500 Frugal Fund
Everyone treated the same	Meritocracy - the best managers get more responsibility and opportunity
Focus on sales	Focus on Gross Profit
Focus on Outputs e.g. sales	Focus on Inputs e.g. customer service
Regional Managers - policemen	Coaches – here to support
Paper folders and records	Tableau data tools
Average bonus – £500	Target Bonus – £10k



What has not worked..

1. Commercial

No progress until 2018 when we have the systems to support growth

2. Retail Customer Retention

Confident that with Team Retention and engagement moving in right direction, this will come



Ready to accelerate growth



1

Profits
UP

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Foundations
SOLID

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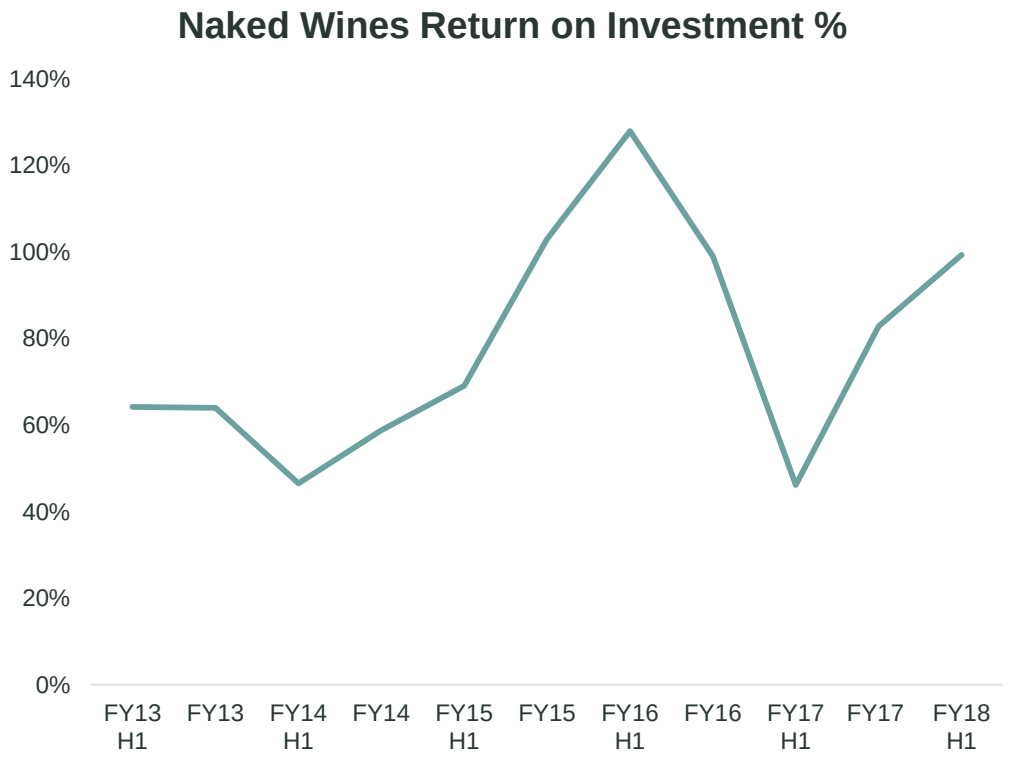
We have the investment opportunities to GROW

ROI has been restored to 98% = 4.5x LTV return



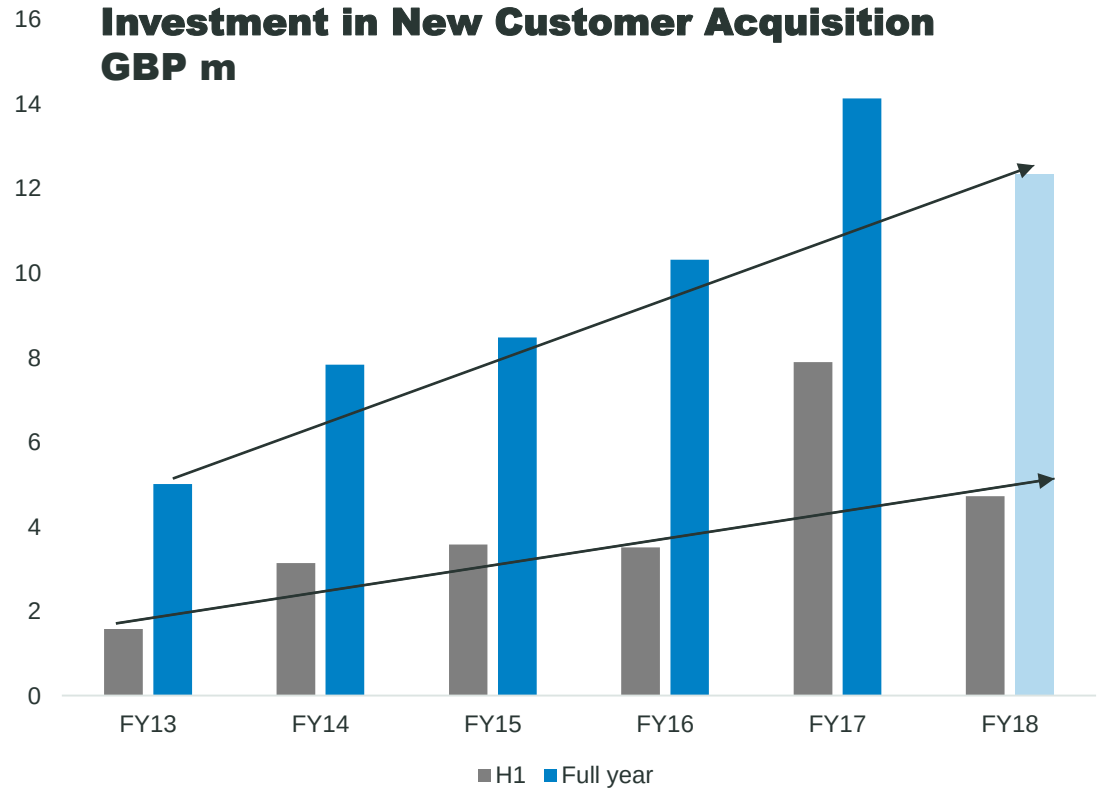
How…

1. We did not repeat the Direct Mail campaign we ran last year
2. Our 3 key disciplines continue to deliver
   a. Test and learn
   b. Continuous improvement
   c. Active capital allocation

Reminder: Our ROI is the recurring annual return divided by the acquisition cost – an annuity. **The Life time value (LTV) return of one of our customers is over 450%**

NB: *We will invest wherever we see the best risk/return ratio, and are agnostic about where we can achieve that.*

The Naked investment pipeline has been growing …and will continue to grow



Ignoring last year's blip, investment has grown at around 20% a year

Note: Investment in new customer acquisition = Marketing costs plus all contribution / loss on orders until maturity

Financial Review

We have continued to do what we said we would do:

"Deliver sustainable sales growth by growing the customer base"

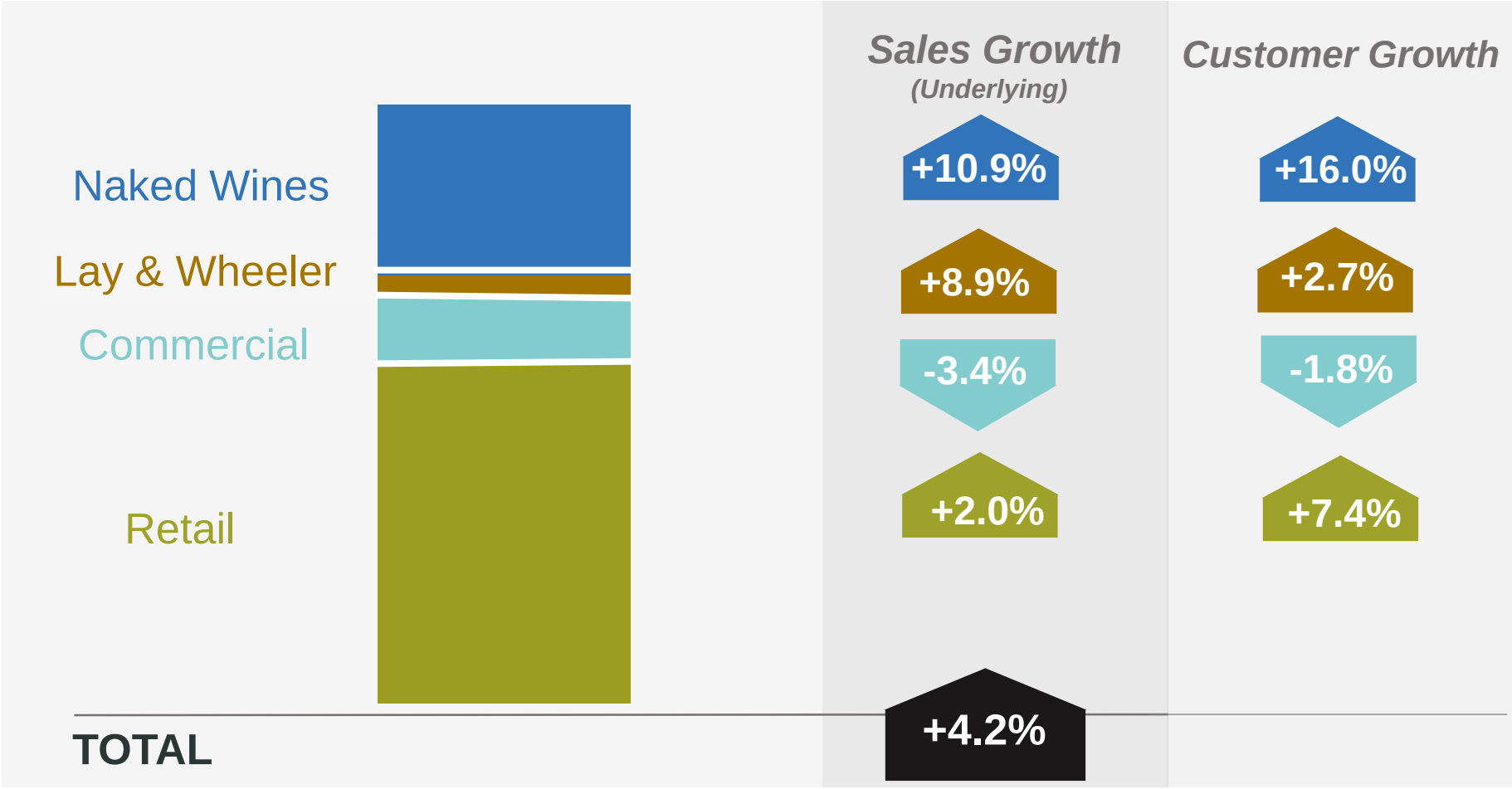
"Translate sales growth to profit growth"

"Reallocate underperforming capital while restoring ROI"

"Return surplus cash to shareholders"

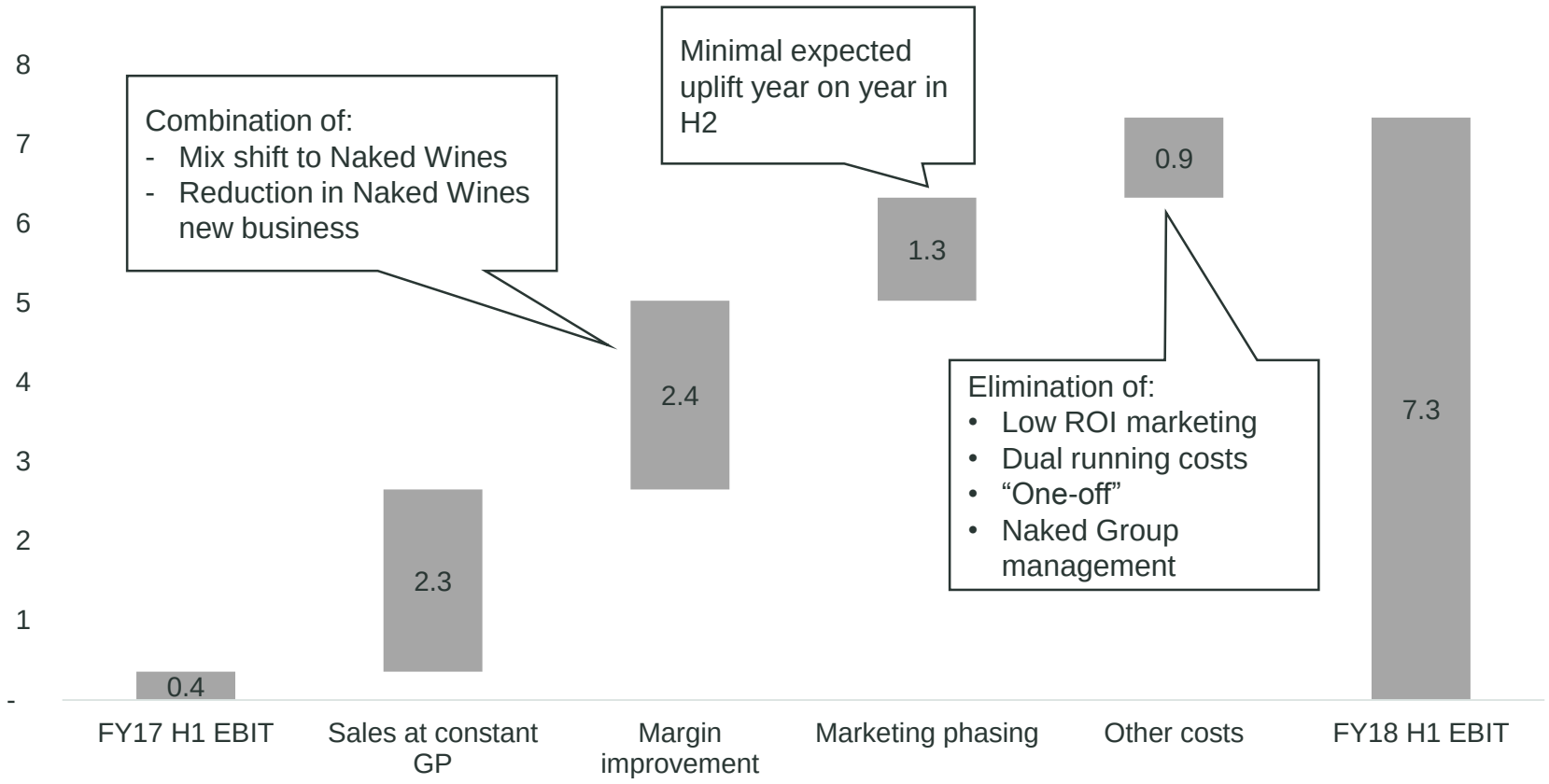


Group Sales driven by growing the customer base



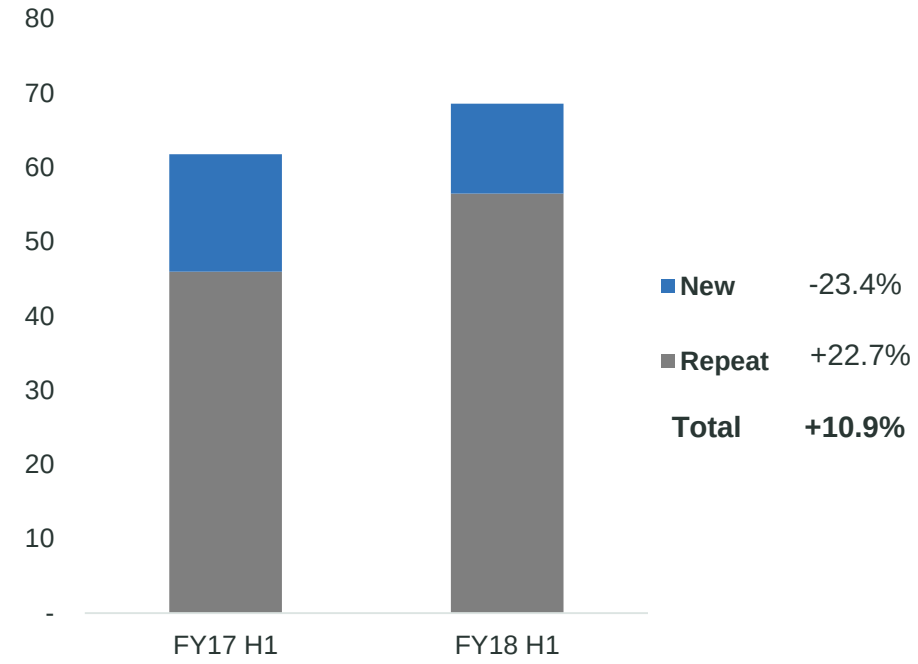
Sales growth translated into profitability

Group EBIT (Underlying)
FY18 H1 vs FY17 H1
GBP m



Naked Wines: Sales growth delivered, despite lower growth in new Angels

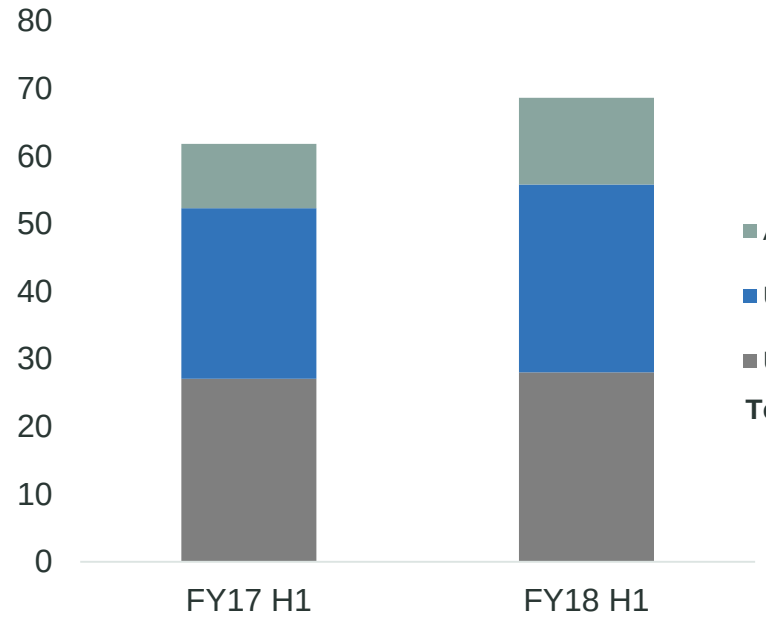
Naked Sales (Underlying)
FY18 H1 vs FY17 H1
GBP m



- Significant reduction in new business sales as we drove efficiency in New Customer Acquisition
- Lower number of new Angels offset by improved retention
- End H1 Mature Angels balance is +15.6% year on year
- Drives improvement in Gross Margins

Naked Wines: All markets now profitable and growing

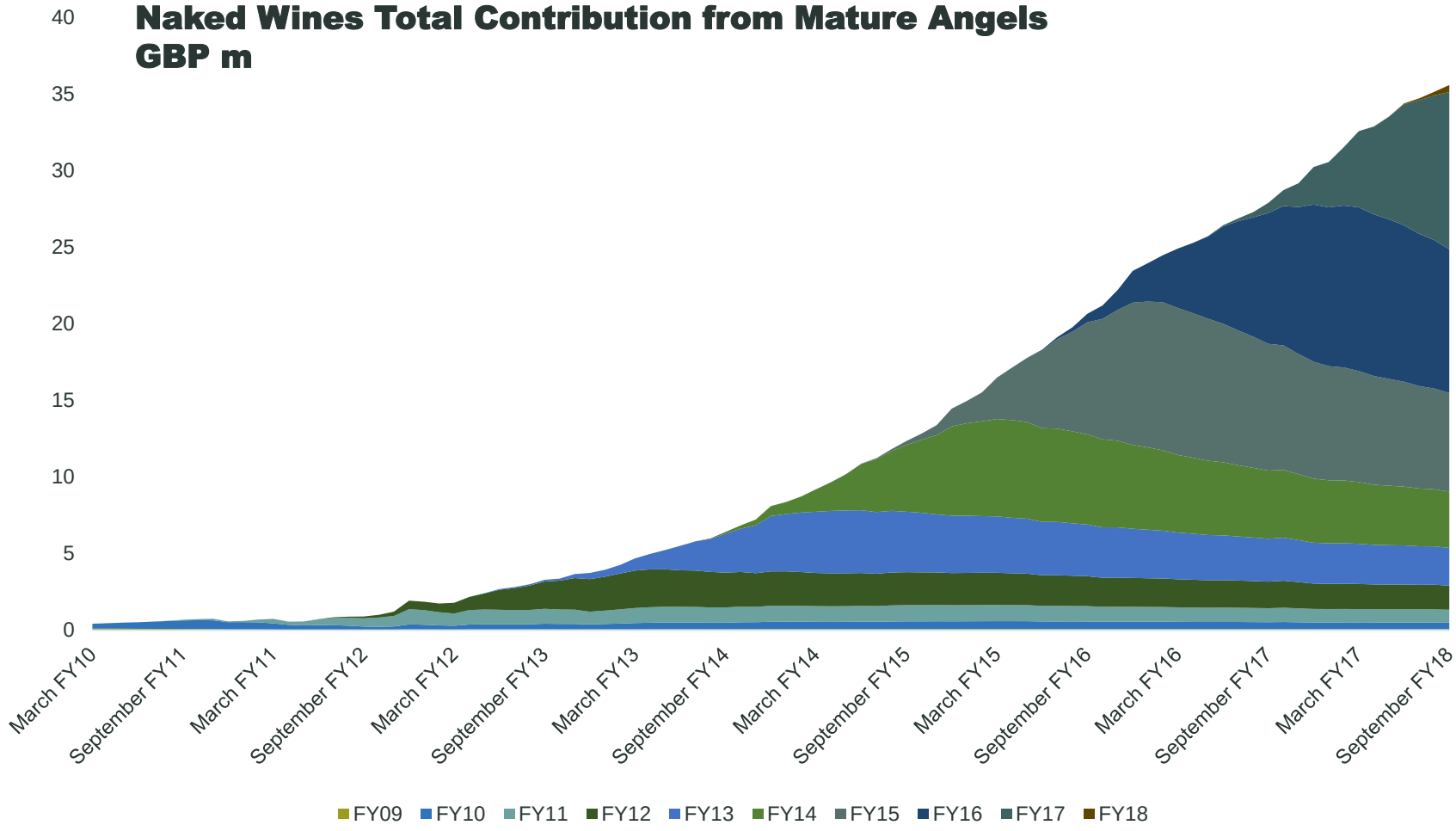
Naked Wines Sales (Underlying)
FY18 H1 vs FY17 H1
GBP m



	Sales growth	EBIT %	EBIT margin movement YoY
AUS	+34.6%	3.1%	+6.4 ppts
USA	+9.9%	9.0%	+20.2 ppts
UK	+3.5%	7.2%	+2.3 ppts
Total	**+10.9%**	**7.0%**	**+11.1 ppts**

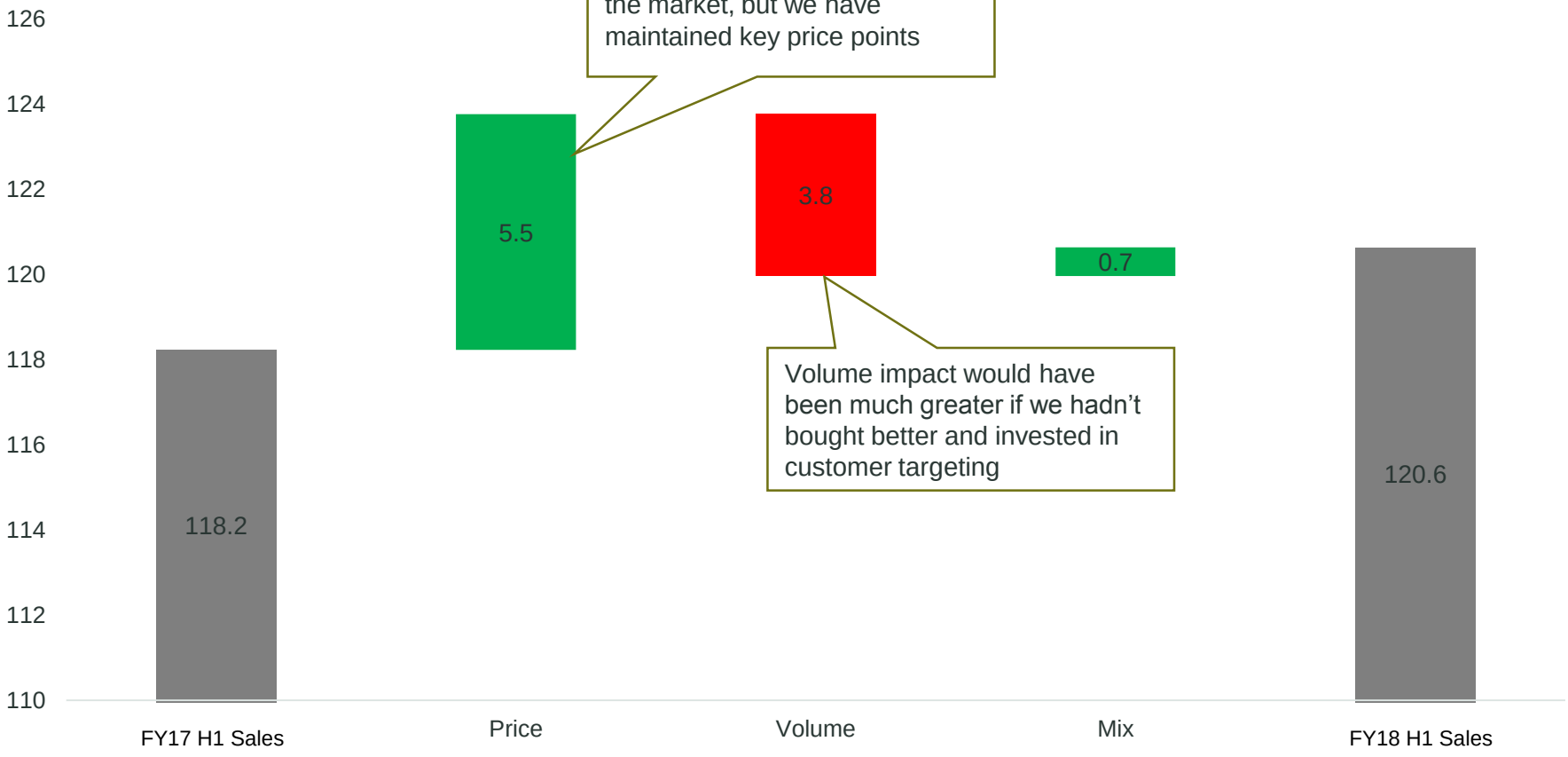
- Despite reduction in recruitment investment we have sustained double digit sales growth
- All markets profitable – these margin levels support continued investment in growth

..due to high retention of customers



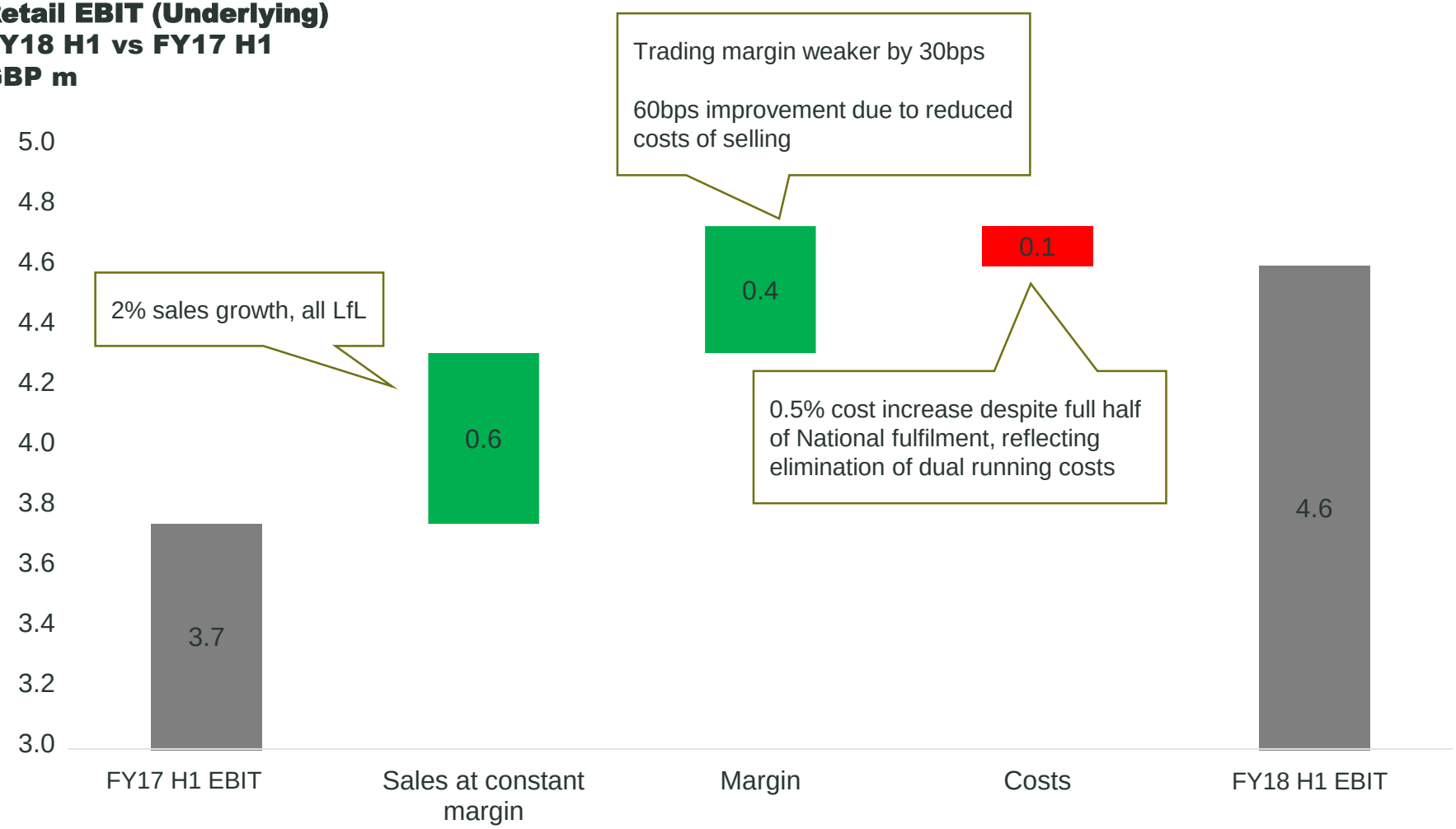
Retail: Price driven sales growth in a tough market

Retail Sales (Underlying)
FY18 H1 vs FY17 H1
GBP m



Retail profits grew despite continued margin pressure

Retail EBIT (Underlying)
FY18 H1 vs FY17 H1
GBP m



Note: FY17 restated for FX and adjustment of IT costs to Plc costs

Returning cash: 33% dividend increase supported by free cash flow improvement

	H1 2018	H1 2017	YoY
	£m	£m	%
Adj EBIT	7.3	0.7	NM
Addback D&A	3.1	3.3	(6.1%)
Adj EBITDA	**10.4**	**4.0**	**160.0%**
CapEx	**(1.6)**	**(1.6)**	**-**
Working Capital Movement	**(5.2)**	**0.4**	**NM**
Free Cashflow	**3.6**	**2.8**	**28.6%**
FCF Excl Working Capital	8.8	2.4	266.6%

29% increase in cash flow driven by improved profitability:

- Retained minimal CapEx level

Leverage <1x EBITDA, target remains 0.5x:

- Financing costs down 12.8% year on year

33.3% increase in Interim Dividend to 2.0p per share

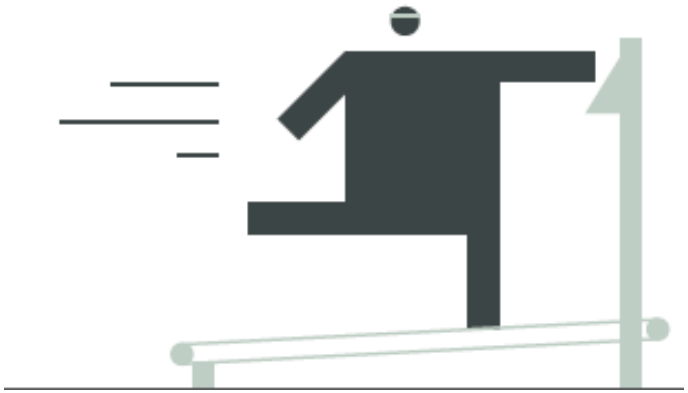
H2 FY18 Financial Guidance

Remain in line with current FY18 market expectations of:

- Mid single-digit Group Sales growth
  - Marketing phasing reversal
- c. £3m increase in Group costs YoY

Consensus Range*:

- **FY2018 Sales: £480.7m - £486.1m**
- **FY2018 EBIT: £16.1m - £18.1m**



* As of 22 November 2017

Conclusion - this is what we have been waiting for

Two years ago, we said that we thought we could create a business that could grow profits sustainably, even in tough markets, because:

- Naked Wines is already there
- We could do the same for Retail, because we know how to attract new customers without opening stores

Naked has done what we said it would do. And after years of building the foundations in Retail, we are ready to do the same

So we are now ready to start the growth phase of the plan that we love - and we are good at.

Over the next 6 months we will be starting to increase our investment in growth. And it's funded in the current forecasts.

So if I look excited, I am. And that's why.

Appendices



Naked Wines Detail

		26 weeks ended 2 Oct 2017 £'000	26 weeks ended 26 Sept 2016 £'000	YoY £'000	% variance
P&L Breakout	**New customers (to maturity)**				
	Sales	11,971	15,637	(3,666)	-23.4%
	Contribution exc Marketing	(477)	(6)	(471)	NM
	Marketing	(4,243)	(7,905)	3,662	-46.3%
	New customer Contribution	(4,720)	(7,911)	3,191	-40.3%
	Mature Angels				
	Sales	55,823	45,494	10,329	22.7%
	Repeat Customer Contribution	15,096	11,322	3,774	33.3%
	Fixed costs	(5,656)	(5,947)	291	-5%
	EBIT	**4,720**	**(2,536)**	**7,256**	**286.1%**
Customer Numbers	Opening Mature Angels	363,389	299,717	63,672	21.2%
	New Mature Angels	71,960	80,459	(8,499)	-10.6%
	Attrition	(64,132)	(58,968)	(5,164)	8.8%
	Closing Mature Angels	371,217	321,208	50,009	15.6%

Return on Investment and Lifetime Value calculations

Reminder:

ROI (Return on Investment) is the recurring additional contribution (net of replenishment costs) per year, generated by this period's acquisition cost

LTV return (Lifetime Value) is the sum of lifetime contribution from a customer divided by the cost of the customer

To illustrate that:

- If a customer:
  - Cost £100 to acquire
  - Buys 5 x a year
  - Makes £20 contribution per order
  - And has a 25% probability of lapsing

Then the ROI is:

[(5x20)-(25%x100)]/100 = 75%

Then the LTV is:

((1/25%)*100)/100 = 400%

H1 2018 Results Summary

	H1 2018 £'000	H1 2017 £'000	Reported % YoY	Underlying % YoY
Revenue	217,361	205,640	+5.7%	+4.2%
Adjusted EBIT	7,337	700	NM	NM
Adjusted PBT	6,771	51	NM	
Profit before tax	3,079	(4,404)		
Basic EPS	2.4p	(6.1p)		
Adjusted EPS	7.9p	0.7p	NM	
Dividend per share	2.0p	1.5p	+33.3%	
Free Cash Flow	3,565	2,832	+25.9%	
Reported net (debt)	(25,640)	(25,090)	+2.2%	

Group Strategy

MajesticWineplc

Our Goal is medium term growth in shareholder value,
…by delivering sustainable volume led sales growth,
…by growing our customer base,
…by…
1. Investing in acquiring new customers, which we can afford to do because we …
2. Retain existing customers, by generating extreme customer loyalty

The three disciplines that make this happen are:

1. Test and learn. We don't debate, we test and let the data do the talking

2. Active capital allocation. We don't ration capital. We actively pull underperforming capital out and aggressively increase high performing capital

3. Continuous improvement. Constantly improving the average by losing the bottom 10% of customers, products, suppliers, people

How we deliver that loyalty in …

MajesticWine

- Helping people find wines they will love…
- by employing highly engaged well trained people…
- equipped with state of the art tools…
- and unique wines

nakedwines.com

- Customers get exclusive wines at preferential prices by…
- Crowd-funding winemakers…
- and using their 7 million reviews to customise our recommendations

Majestic Wine Specialists Commercial

- We help our customers make more money from their wine list by…
- offering national pricing and scale but local delivery and training, and …
- using our retail insight to tailor wine lists to local tastes

LAY & WHEELER FINE WINE MERCHANTS SINCE 1854

- We help customers to discover fine wine safely…
- by helping people find fine wines they will love…
- by employing highly engaged and well trained sales people…
- who make fine wine accessible for normal people

Group Overview

MajesticWineplc

A Company that can grow, even in tough markets:

	MajesticWine	nakedwines.com	Commercial	LAY & WHEELER
			Wine Specialists	FINE WINE MERCHANTS SINCE 1854
Market size	£2.2bn (UK)	£17bn (Global)	£2.0bn	£0.7bn
Sales for the year to 3 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%
Adjusted EBIT	£13.3m	£1.4m	£2.5m	£1.0m
Description	The UK's largest specialist wine retailer	Naked Wines funds independent winemakers to make exclusive wines at preferential prices	Specialist on-trade supplier targeting independent pubs and restaurants	Specialist fine wine merchant
Competitive advantage?	People – only national chain that employs wine specialists and offers free tastings before you buy	The model delivers a better wine for less money, and customers become friends with the winemakers	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 customer focused multichannel retailer	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: Naked Wines

	Underlying		
	H1 2018 £'000	H1 2017 £'000	YoY %
Revenue	**67,794**	**61,131**	**10.9%**
Gross profit	25,100	21,087	19.0%
Gross Margin	37.0%	34.5%	2.5ppts
Distribution costs	(10,482)	(9,771)	7.3%
Administrative costs	(9,898)	(13,852)	-28.5%
Adjusted EBIT	**4,720**	**(2,536)**	**286.1%**

Business Unit Detail: Naked Wines by geography

	Underlying		
	H1 2018 £'000	H1 2017 £'000	YoY %
Sales			
UK	27,798	26,864	3.5%
US	27,267	24,807	9.9%
Aus	12,729	9,460	34.6%
Total sales	**67,794**	**61,131**	**10.9%**
Adjusted EBIT			
UK	2,014	1,327	51.8%
US	2,447	(2,787)	187.8%
Aus	390	(316)	223.4%
Central Costs	(131)	(760)	82.8%
Adjusted EBIT	**4,720**	**(2,536)**	**286.1%**

Business Unit Detail: Majestic Retail

	Underlying		
	H1 2018 £'000	H1 2017 £'000	YoY %
Revenue	**120,640**	**118,230**	**2.0%**
Gross Profit	28,561	27,582	3.5%
Gross Margin	23.7%	23.3%	0.4ppts
Distribution costs	(14,963)	(13,661)	9.5%
Admin Costs	(9,006)	(10,178)	-11.5%
Adjusted EBIT	**4,592**	**3,743**	**22.7%**

Business Unit Detail: Majestic Commercial

	Underlying		
	H1 2018 £'000	H1 2017 £'000	YoY %
Revenue	**22,636**	**23,430**	**-3.4%**
Gross profit	3,331	3,793	-12.2%
Gross Margin	14.7%	16.2%	-1.5ppts
Distribution Costs	(1,295)	(1,598)	-19.0%
Admin Costs	(1,003)	(546)	83.7%
Adjusted EBIT	**1,033**	**1,649**	**-37.4%**

Business Unit Detail: Lay & Wheeler

	Underlying		
	H1 2018 £'000	H1 2017 £'000	YoY %
Revenue	**6,291**	**5,350**	**17.6%**
Gross Profit	1,856	1,713	8.3%
Gross Margin	24.4%	24.5%	-0.1ppts
Distribution Costs	(548)	(509)	7.7%
Admin Costs	(916)	(928)	-1.3%
Adjusted EBIT	**392**	**276**	**42.0%**

Central PLC costs & Group

	Underlying		
	H1 2018 £'000	H1 2017 £'000	YoY %
Central costs			
Administrative costs	(3,400)	(2,733)	24.4%
Adjusted EBIT	**(3,400)**	**(2,733)**	**24.4%**

Group			
Revenue	**218,684**	**209,783**	**4.2%**
Gross profit	58,848	54,175	8.6%
Gross Margin	26.9%	25.8%	1.1ppts
Distribution costs	(27,288)	(25,539)	6.8%
Administrative costs	(24,223)	(28,237)	-14.2%
Adjusted EBIT	**7,337**	**399**	**NM**
Net finance charge	(566)	(649)	-12.8%
Adjusted PBT	**6,771**	**(250)**	**NM**

Glossary

Group and KPI definitions

Repeat 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	The recurring annual contribution, (net of replenishment costs) per year, generated by this periods acquisition cost
Contribution	Sales less product costs, 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, includes Calais and excludes the impact of new stores and store closures during the year
Underlying Results	Underlying movement (a) includes en primeur revenues in year of order not year of fulfilment (b) is calculated using constant FX rates for translation of the comparative period and (c) IT costs reallocated to PLC
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 which services around half of Majestic Retail online orders direct to the customer

Naked Wines

Growth Spend	The proportion of total investment which is spent on growing the total Angel base
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)
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
Naked Wines ROI	The recurring contribution per Mature Angel divided by the cost of acquiring each Mature Angel [C-(AxN)]/N where C = Annual Contribution, A = Attrition rate, N = Cost per New Angel
Lifetime Value	LTV return: The sum of lifetime contribution from a customer divided by the cost of the customer
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	Group of Mature Angels recruited in the same Financial year
Repeat Customer Attrition	(1 – Repeat Customer Retention %)