MajesticWineplc

2018/2019 Interim Results

22nd November 2018



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Steady as she goes

1

We are doing what we said we would

2

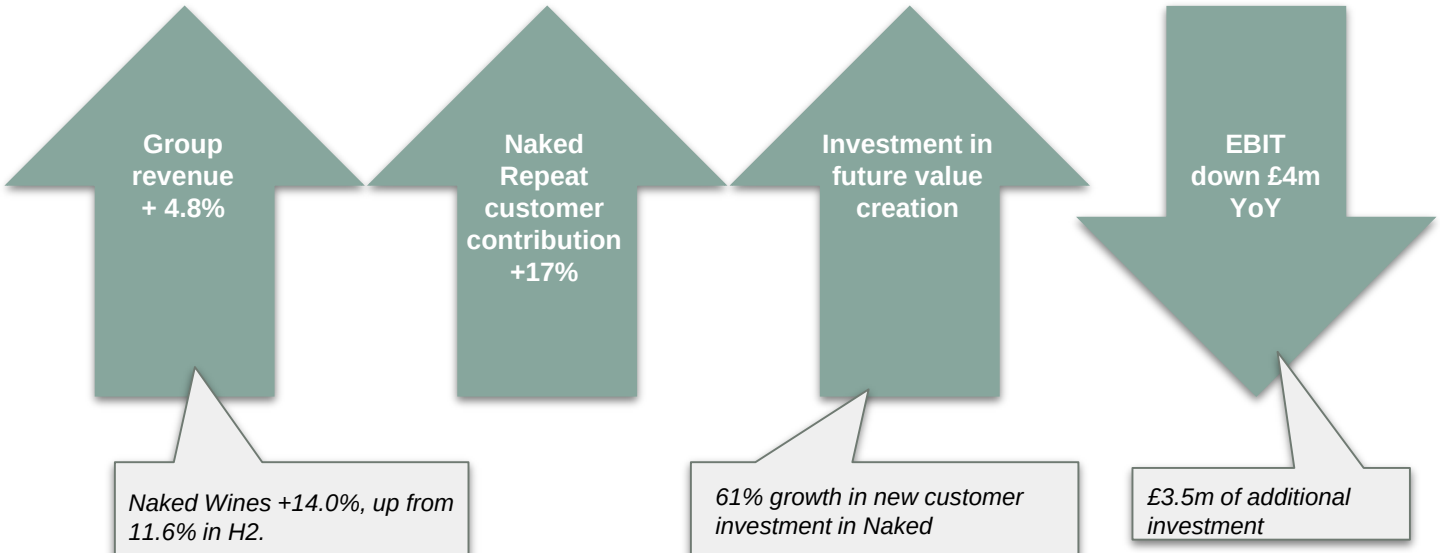
Higher sales, lower profits

3

Looking ahead...



Steady as she goes



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Steady as she goes

1 **We are doing what we said we would**

2 **Higher sales, lower profits**

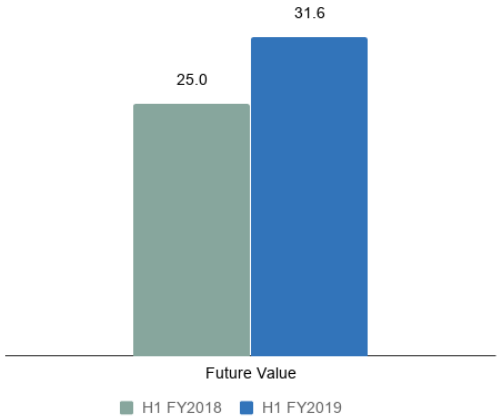
3 **Looking ahead...**

a) Increasing investment in a disciplined way
b) Pulling underperforming capital out
c) Finishing the heavy lifting

Naked: Increasing investment in a disciplined way

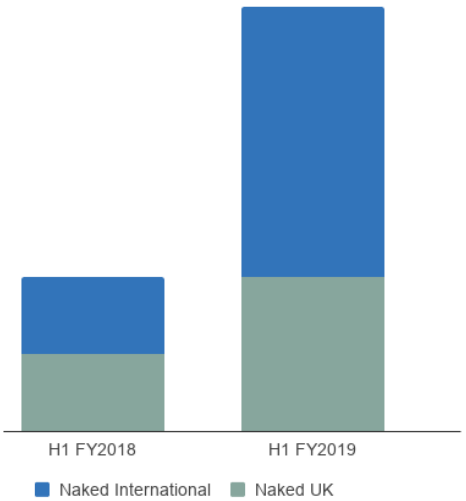
61% increase in spend

Payback 4.0x – on target



Naked investment: Digital continues to grow

Naked Wines: Digital Marketing Investment by Market
H1 FY2019 vs H1 FY2018
£M





Naked Investment: Partnerships





























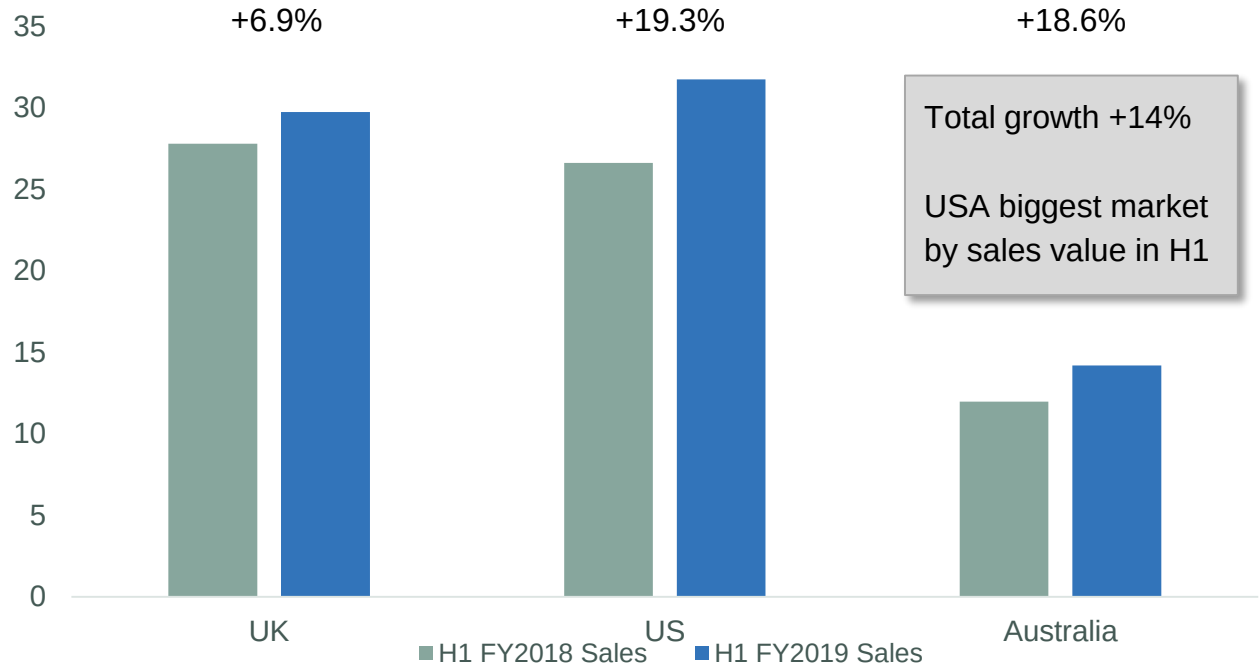






Naked: Investment translating into sales growth

Naked Wines Sales by Market
H1 FY2019 vs H1 FY2018
£M



Total growth +14%

USA biggest market by sales value in H1

As a result we're bringing in high calibre winemakers



Edgard Carter

Made Seña, Chile's most iconic wine (£100 a bottle in the UK)



David Seijas

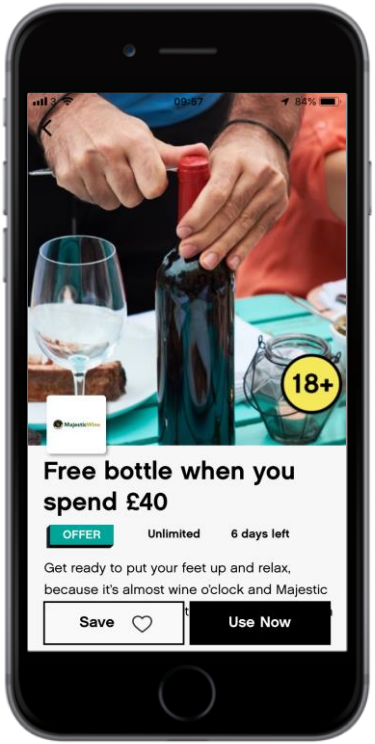
Sommelier at El Bulli for 11 years



Caroline Dunn

Won the IWSC best Shiraz in the world for her Wolf Blass Platinum Label Shiraz

Retail: Investing in new customer acquisition



- Partnerships delivered 45k new customers in H1
- On target to deliver 100k new customers by year end

wuntu™ RFU Majestic Loves... Rugby SAGA National Trust BARCLAYS PREMIER titan travel

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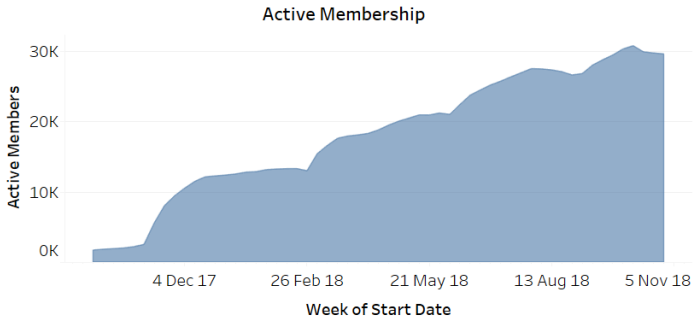
Retail: Investing to build a successful subscription business: Concierge



- Almost 30k subscribers delivering c.£5m sales
- Targeting over 40k members by year end





Pulling out underperforming capital

Naked repeat customer margins	1% improvement in contribution margin through increased scale efficiency e.g. new US warehouse
Naked new customer discounts	Reduced level of discount on first orders
Retail operating costs	£1.3m of store and admin cost eliminated to mitigate inflation and national fulfilment cost drivers

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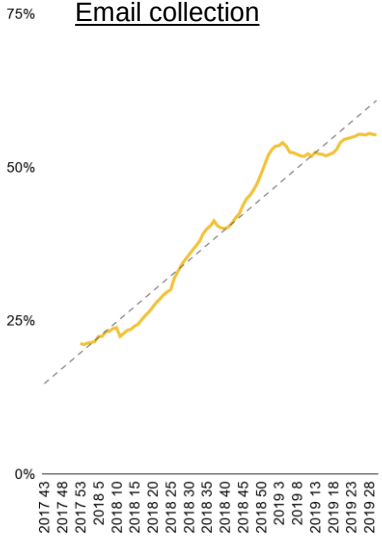
Heavy lifting projects nearing completion with zero revenue disruption

New Website ✓	**Single customer view and Data tools** ✓	**New EPOS FY2019** ✓
Franchise-Lite employee Model ✓	**Next Day Delivery** ✓	**Store revamps and shelving -** Ongoing
Product Availability ✓	**Buy it Again ratings / Wine Quality** ✓	**New IT infrastructure** - FY2019
Employee Engagement ✓	**New compliance, processes and systems** ✓	**New Accounting systems - early FY2020** Ongoing



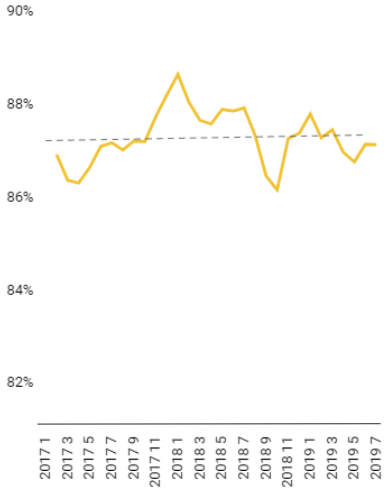
Retail: Heavy lifting has moved the KPIs

Email collection



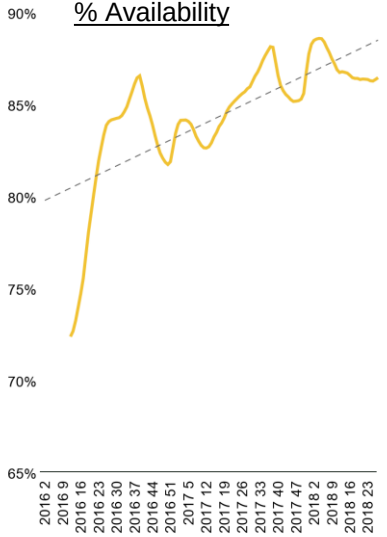
Email Collection starting to reach the maximum possible under GDPR

% Service rated 5*



Service levels remain high. Need to address volatility driven by 3rd party fulfilment

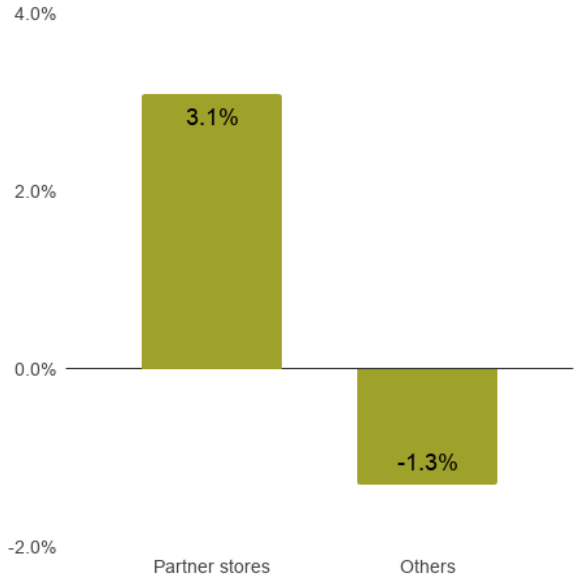
% Availability



Availability continues to improve

Retail: The KPIs plus the meritocracy deliver performance

Gross profit performance by store type
H1 FY2019 vs H1 FY2018
%



- 51 partner stores at end of H1 (c.25% of estate)
- Better inputs driving better outputs
- Using “super-partners” to troubleshoot underperformers

Steady as she goes

1 We are doing what we said we would

2 Higher sales, lower profits

3 Looking ahead...

Naked investment driving quality and growth

Retail Concierge proposition

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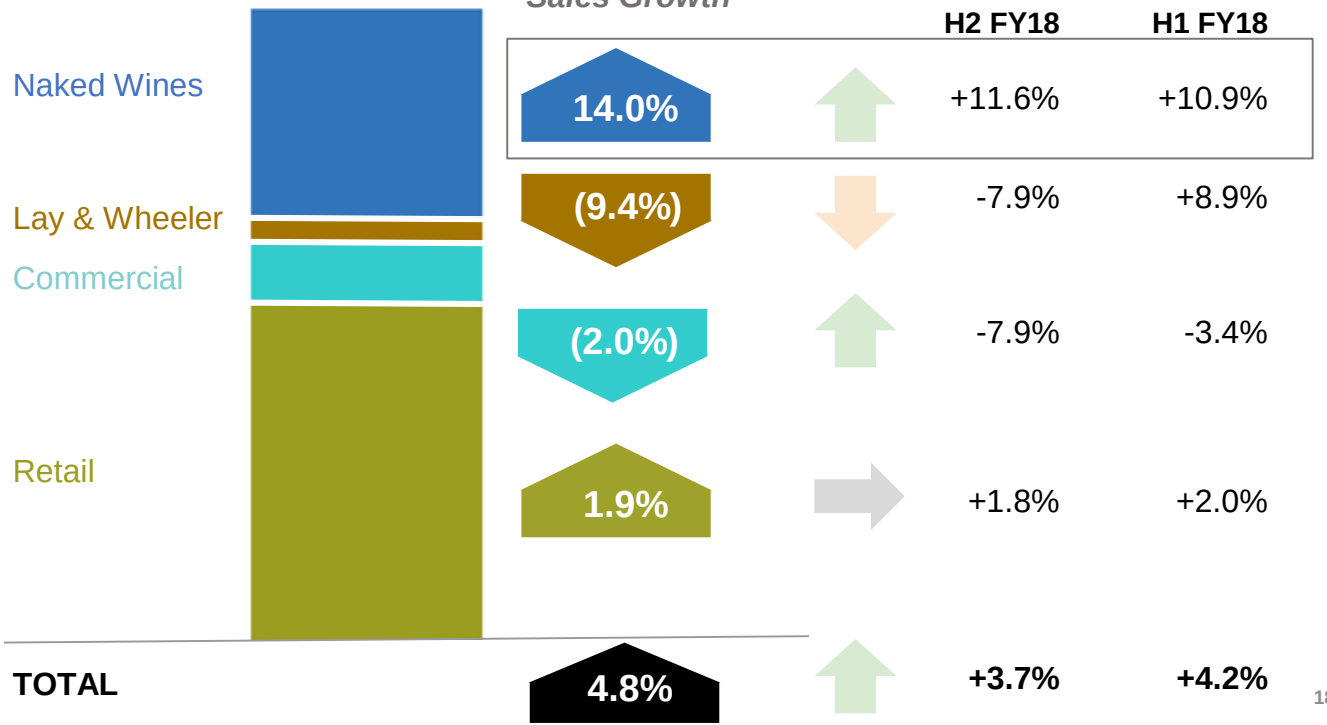
Naked Wines drives growth acceleration



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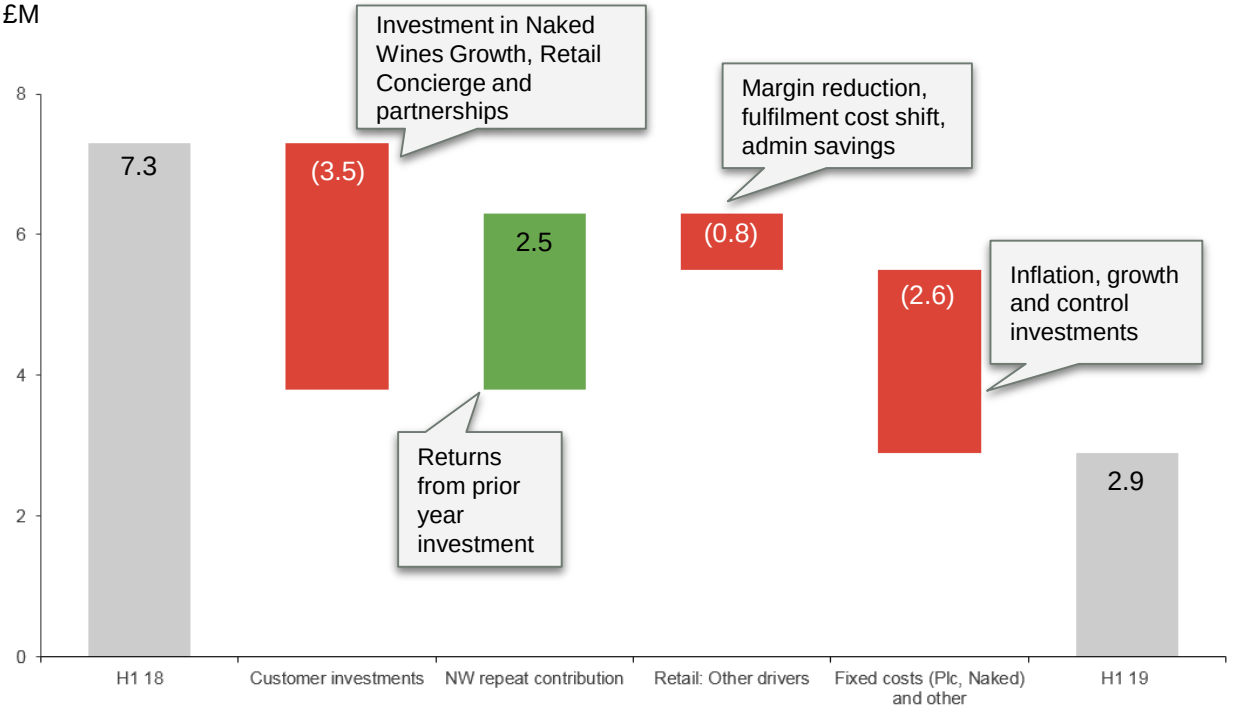
We are investing as planned

Drivers of Adjusted EBIT movement

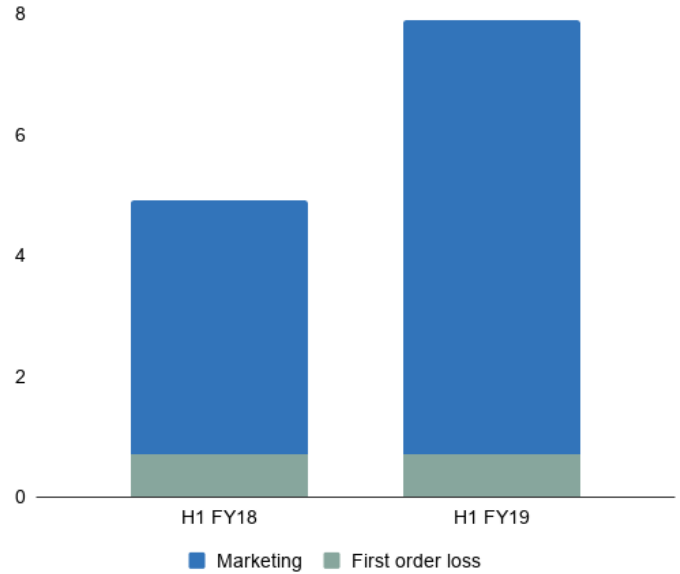
H1 FY2019 vs H1 FY2018

£M



Naked investment increased in £ and quality

Naked Wines New Customer Investment
H1 FY2019 vs H1 FY2018
£M



- First order losses flat on sales +28%
- Investment growth all in marketing
- Higher quality customers

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Naked: FY19 H1 payback likely to increase from a conservative 4.0x

Period of Measurement →

↓ Period of Recruitment	H1 FY17	FY17	H1 FY18	FY18	H1 FY19 (No Easter)
FY17 H1	3.6x	4.2x	4.2x	4.3x	4.2x
FY17		4.5x	4.7x	4.9x	4.8x
FY 18 H1			5.1x	5.8x	5.6x
FY18				4.7x	4.5x
FY 19 H1					4.0x

Increasing payback forecasts as more data being seen

Naked: Investments continue to drive growth in repeat customer contribution

Naked Wines Adjusted EBIT
H1 FY2019 vs H1 FY2018
£M

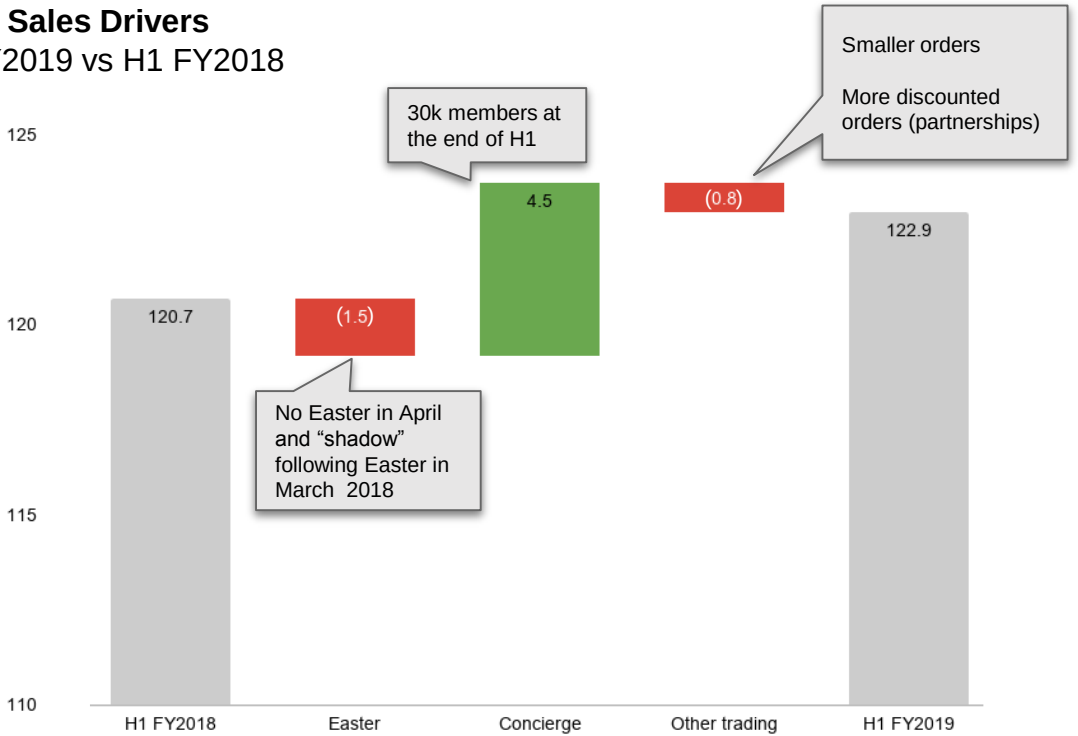


Retail: Concierge Sales drive growth, offseting Easter phasing and other trading

Retail Sales Drivers

H1 FY2019 vs H1 FY2018

£M



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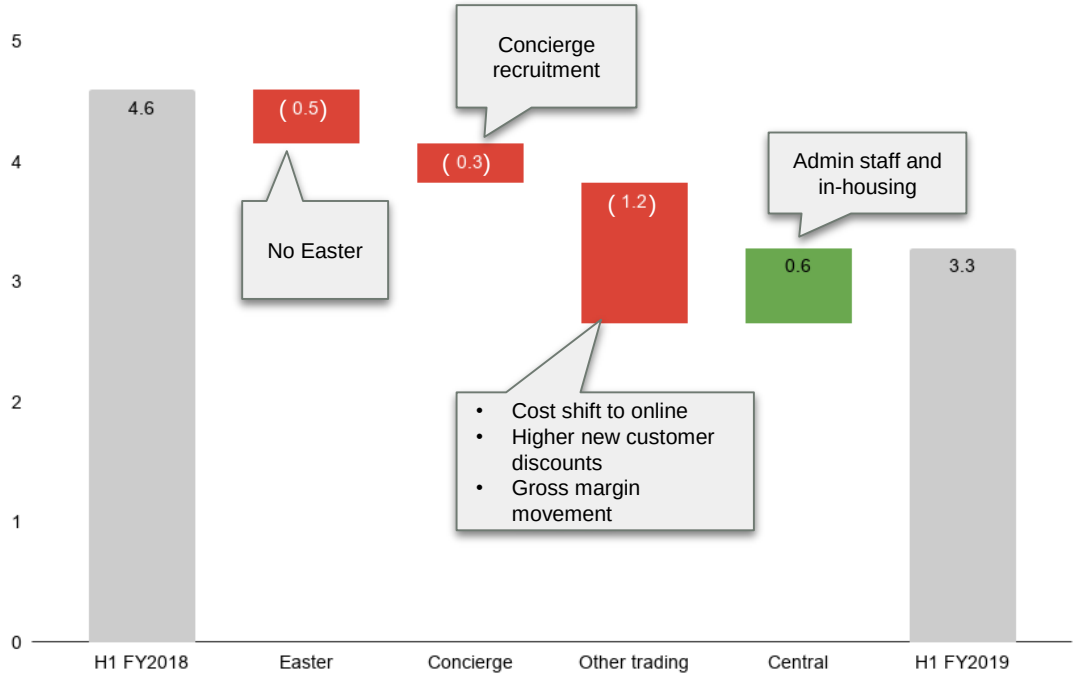
Retail: EBIT declines driven by investment in concierge, fulfilment costs and discounts

Retail EBIT Drivers

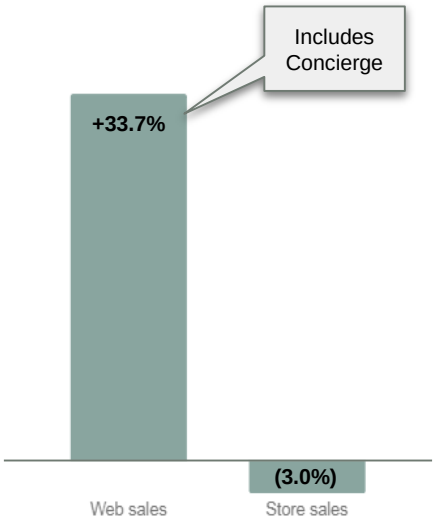
H1 FY2019 vs H1 FY2018

£M

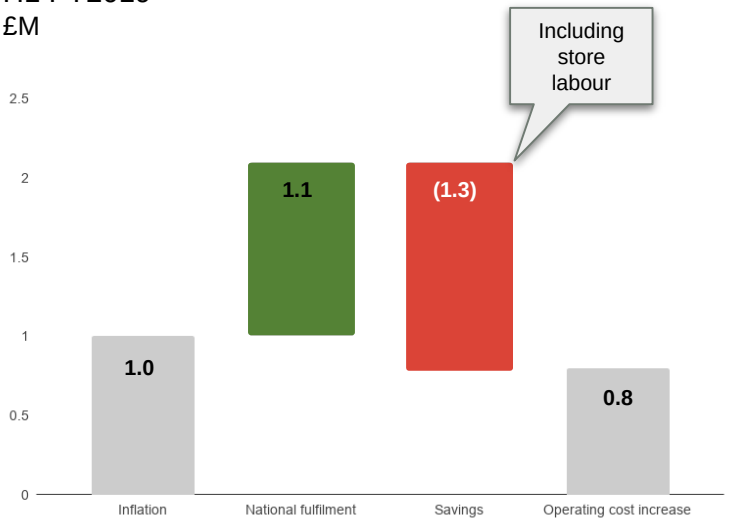


Retail: Channel shift changing cost footprint

Sales growth by order channel H1



Operating cost drivers H1
H1 FY2019
£M



Costs reducing due to:

- Store labour optimisation
- Admin savings, e.g. website in-house

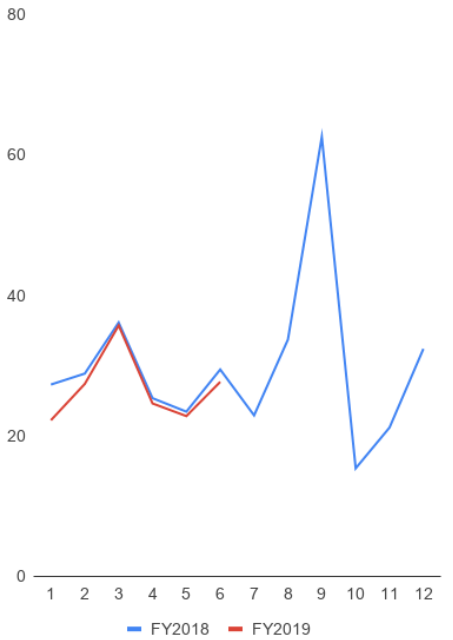
Retail: Positioned for sales growth in H2

+4.5% Repeat Customers

+93% Concierge customers

+55% New partnership customers

Spend Per Month per Repeat Customer
FY2019 vs FY2018
£



Net debt lower despite investment reducing cash flow in the period

	H1 FY2019 £m	H1 FY2018 £m	YoY %
Adjusted EBIT	2.9	7.3	(60%)
Add back D&A*	3.1	3.0	+3%
Adjusted EBITDA	**6.0**	**10.3**	**(42%)**
Capital expenditure	(4.1)	(1.6)	+156%
Working capital movement	(9.2)	(5.1)	+80%
Pre Tax Free cash flow	**(7.3)**	**3.6**	**(303%)**
Closing Net Debt	**20.1**	**25.6**	**(21%)**
Net Debt / L12M EBITDA	1.0x	1.0x	

Financing charges
- £0.4m
- 30% lower YoY

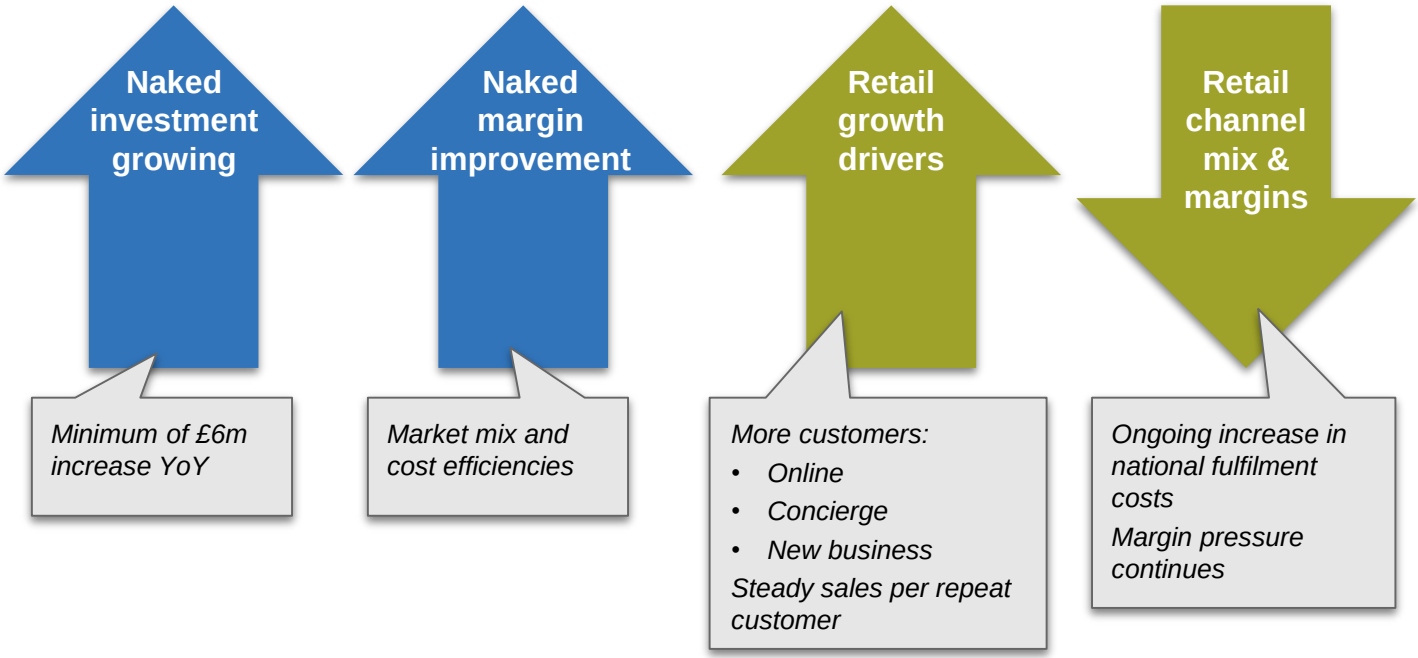
Fixed charge cover: 2.8x

Dividend: 2.0p interim



** Depreciation and amortisation excludes amortisation on acquired intangibles*

Financial outlook for FY2019



Additionally we expect to bring forward £5-8m of inventory at year end to protect against Brexit disruption

Steady as she goes:

1. We are doing what we said we would
2. Higher sales, lower profits
3. **Looking ahead...**

Naked: Plan announced in April: No change

Retail: Coming to end of three year plan... What next?

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We will reorient around US and growth

Large market



Growing quickly



2x price advantage



US is now the largest Naked Wines business by sales value

There is a role for experiential retail

1. Face to face retail has to create more value than an online shop



2. Wine is well suited to a face to face customer experience

3. We're well equipped to deliver: people, data, capability & spirit.

Conclusion

naked wines

- The plan is working
- Investment accelerating

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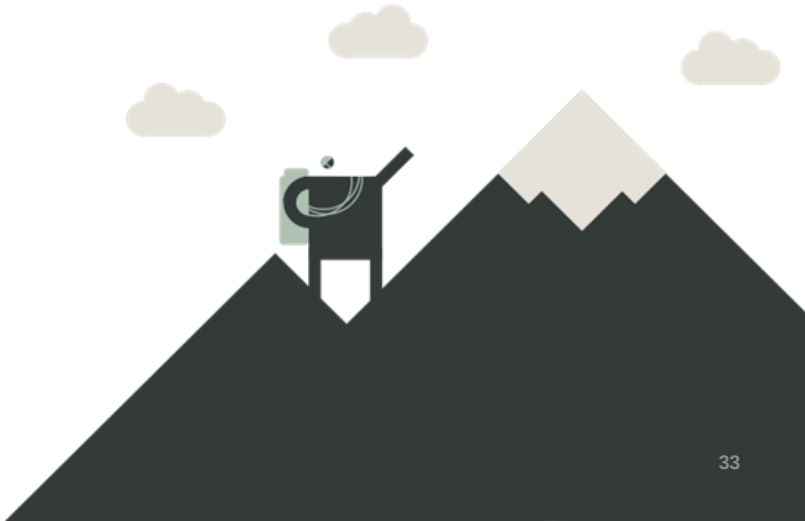
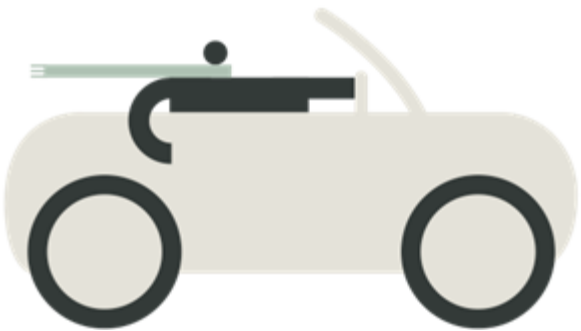
- Initiatives are working
- Running hard to stand still

The seismic shifts in retail will create winners and losers – we intend to be one of the winners

QUESTIONS?



APPENDICES



Business Unit Detail: Naked Wines

	Underlying		
	H1 FY2019 £'000	H1 FY2018 £'000	YoY %
Revenue	**75,663**	**66,377**	**14.0%**
Gross profit	29,617	24,538	20.7%
Gross margin	39.1%	37.0%	+2.1pp
Distribution costs	(12,765)	(10,228)	24.8%
Administrative costs	(13,580)	(9,694)	40.1%
Adjusted EBIT	**3,272**	**4,616**	**(29.1%)**

Business Unit Detail: Naked sales by geography and Customer Group

	Underlying		
	H1 FY19 £'000	H1 FY18 £'000	YoY %
Sales			
UK	29,725	27,798	6.9%
USA	31,744	26,615	19.3%
Aus	14,194	11,964	18.6%
Total sales	**75,663**	**66,377**	**14.0%**
Revenue by Customer Group			
New customers	10,282	8,010	28.4%
Repeat customers	65,381	58,367	12.0%

Business Unit Detail: Majestic Retail

	Underlying		
	H1 FY2019 £'000	H1 FY2018 £'000	YoY %
Revenue	**122,949**	**120,669**	**1.9%**
Gross profit	27,822	28,358	(1.9%)
Gross margin	22.6%	23.5%	-0.9pp
Distribution costs	(15,940)	(14,752)	8.0%
Administrative costs	(8,604)	(9,009)	(4.5%)
Adjusted EBIT	**3,278**	**4,597**	**(28.7%)**
Revenue by Customer Group			
New customers	23,001	23,458	(1.9%)
Repeat customers	99,948	97,211	2.8%

Business Unit Detail: Majestic Commercial

	Underlying		
	H1 FY2019 £'000	H1 FY2018 £'000	YoY %
Revenue	**22,190**	**22,636**	**(2.0%)**
Gross profit	3,572	3,544	0.8%
Gross margin	16.1%	15.7%	+0.4pp
Distribution costs	(1,618)	(1,508)	7.3%
Administrative costs	(854)	(1,003)	(14.8%)
Adjusted EBIT	**1,100**	**1,033**	**6.4%**

Business Unit Detail: Lay & Wheeler

	Underlying		
	H1 FY2019 £'000	H1 FY2018 £'000	YoY %
Revenue	**6,897**	**7,614**	**(9.4%)**
Gross profit	1,894	1,856	2.0%
Gross margin	27.5%	24.4%	+3.1pp
Distribution costs	(616)	(548)	12.5%
Administrative costs	(976)	(916)	6.4%
Adjusted EBIT	**302**	**392**	**(22.9%)**

Central PLC costs & Group

	Underlying		
	H1 FY2019 £'000	H1 FY2018 £'000	YoY %
Central costs			
Administrative costs	(5,020)	(3,400)	47.6%
Adjusted EBIT	**(5,020)**	**(3,400)**	47.6%
Group			
Revenue	**227,699**	**217,296**	**4.8%**
Gross profit	62,905	58,296	7.9%
Gross margin	27.6%	26.8%	+0.8pp
Distribution costs	(30,939)	(27,036)	14.4%
Administrative costs	(29,034)	(24,022)	20.9%
Adjusted EBIT	**2,932**	**7,238**	**(59.5%)**
Net finance charge	(398)	(566)	(29.7%)
Adjusted PBT	**2,534**	**6,672**	**(62.0%)**

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.
EBIT	Operating profit as disclosed in the Group income statement.
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 EBITDA	Adjusted EBIT plus depreciation and amortisation, but excluding any costs included in our adjusted items e.g. amortisation of acquired intangibles.
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.
Net debt	Borrowings less cash and debt issuance cost
Adjusted effective tax rate	Defined as the current years tax change divided by the adjusted profit before tax.
Lifetime payback	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 contribution earned from sales to new customers
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. This APM replaces customer retention as it gives a better indicator of our retention rates.
Repeat customer contribution	The profit attributable to those sales after fulfilment and service costs.