MajesticWine plc

Capital Markets Day

17 April 2018

Accelerating growth





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Summary

We are in the fortunate position of having the OPTION to accelerate growth

- ✓ Trading, cash and dividends on track
- ✓ 10 year track record of growing sales by investing in new customer acquisition
- ✓ Investing £12m a year in new customer acquisition – at a payback in excess of 4 to 1

Today, we are sharing new information showing investment opportunity is bigger than thought

- ✓ Potential investment opportunity materially larger than current rate of investment
- ✓ Returns are trending UP
- ✓ Early indications – the same techniques work in Majestic Retail

***This will more than double the value added through new customer acquisition*:**

	Invest	Return	Payback
Current	-£12m	4x	£48m
Potential	-£24m	>4x	£100m+

- **The downside is limited** – the success of our investments can be measured in months, but deliver returns for years
- **We will invest an additional £9m to £12m,** of which £7m to £10m is directed at growth and £2m will ensure we drive growth safely
- ***This will reduce adjusted EBIT in FY19 by £2m to £3m vs FY18, but increase value added from £48m to £80m+ a year***

What we want to show you today is…

1. This is our choice - we are on track
2. WHY we plan to accelerate growth
3. HOW – safely, efficiently & transparently



In a nutshell…

1 This is our choice - we are on track

2 WHY we plan to accelerate growth

3 HOW – safely, efficiently & transparently

- ***We are on track to deliver £500m sales target and 2018 profit expectations***
- *Balance sheet and cash flow in good shape*
- *We expect to pay a dividend in line with expectations*
- *Heavy lifting projects delivered or close to completion*

In a nutshell…

1 This is our choice - we are on track

2 WHY we plan to accelerate growth

3 HOW – safely, efficiently & transparently

We believe we have the potential to double growth because:

1) *Our Investment pipeline is materially bigger than we thought*
2) *Returns are trending up*
3) *We THINK the same techniques that work in Naked also work in Majestic*

In a nutshell...

1. This is our choice - we are on track
2. WHY we plan to accelerate growth
3. **HOW – safely, efficiently & transparently**

We will...

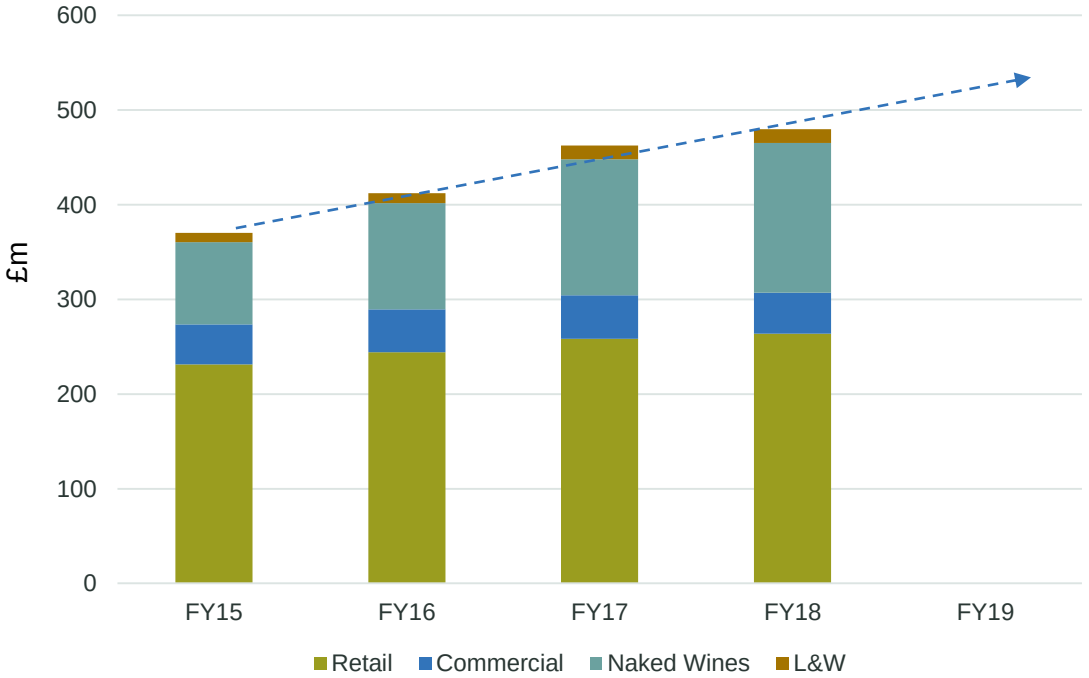
- *Set out transparent guidelines – so you can see how we prioritise investments*
- *Maintain and strengthen investment disciplines*
- *Invest in additional control, compliance and insight resource*
- *Enhance disclosure so you can measure true performance*

In a nutshell...

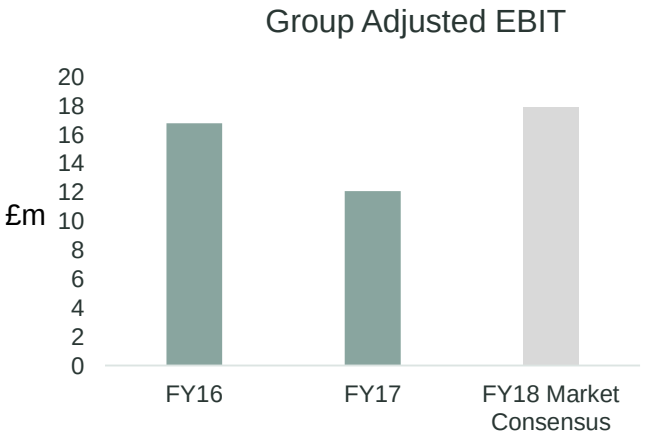
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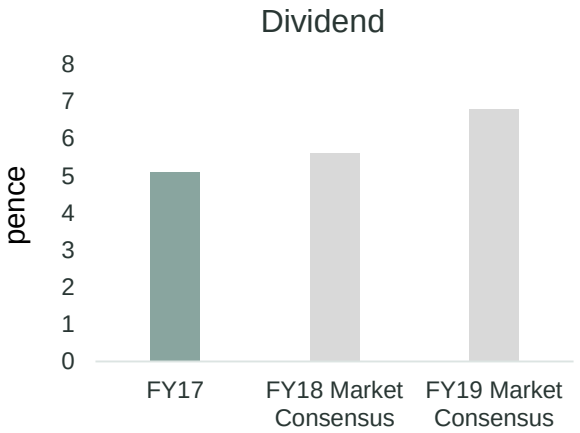


Sales on track to hit our £500m target in 2019



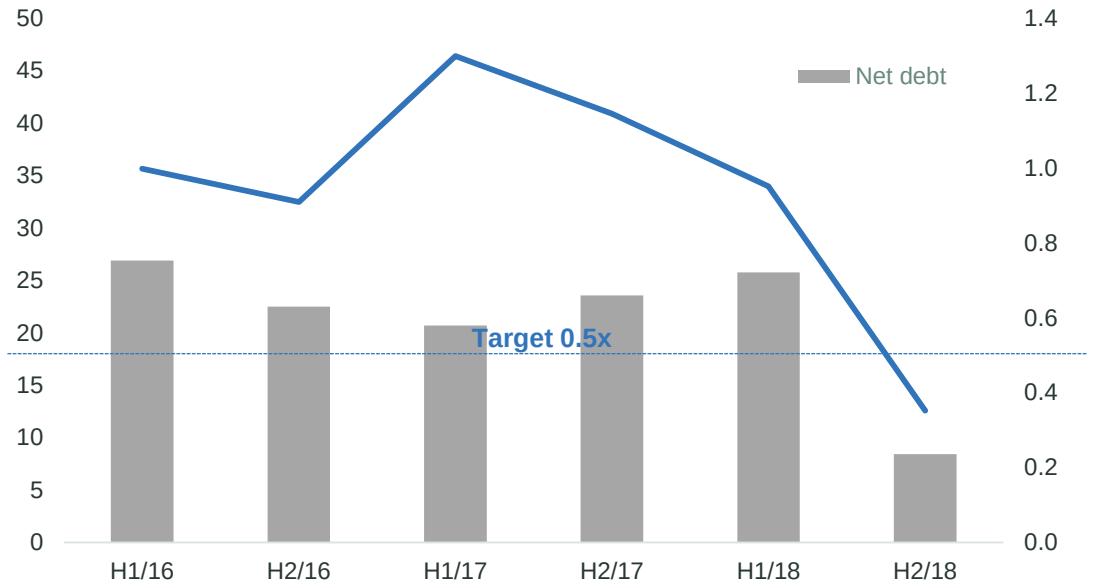
FY18 Adjusted EBIT and FY18 & FY19 dividend expected to be in line with market consensus





Our balance sheet is in good shape

Net Debt & Leverage
FY16-FY18 (preliminary, unaudited)
£m, ratio of Net debt : EBITDA



Heavy lifting projects are completing – so we can focus on growth

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** FY2019



In a nutshell...

1. This is our choice - we are on track
2. **WHY we plan to accelerate growth**
3. HOW – safely, efficiently & transparently



3 years ago, we set out our plan to grow by investing in customers, rather than stores

THIS IS A TRANSFORMATION

FROM…	TO…
Growth through STORE expansion	Growth through acquiring & retaining CUSTOMERS
Short-term SALES	Long-term LOYALTY
SINGLE COUNTRY warehouse operation	INTERNATIONAL business model tuned to market opportunity
INFLEXIBLE bought-in Systems	AGILE, in-house Systems
CAPEX heavy	OPEX heavy



25



3 years on, we are earning a payback in excess of 4x the investment in New Customer Acquisition



This data is robust. We have earned over 4x payback

- *Over 10 years and over a million active customers*
- *In 3 countries*
- *And includes ALL test and learn, mistakes and start up learnings*

We believe we have the potential to more than double future value generation, for three reasons

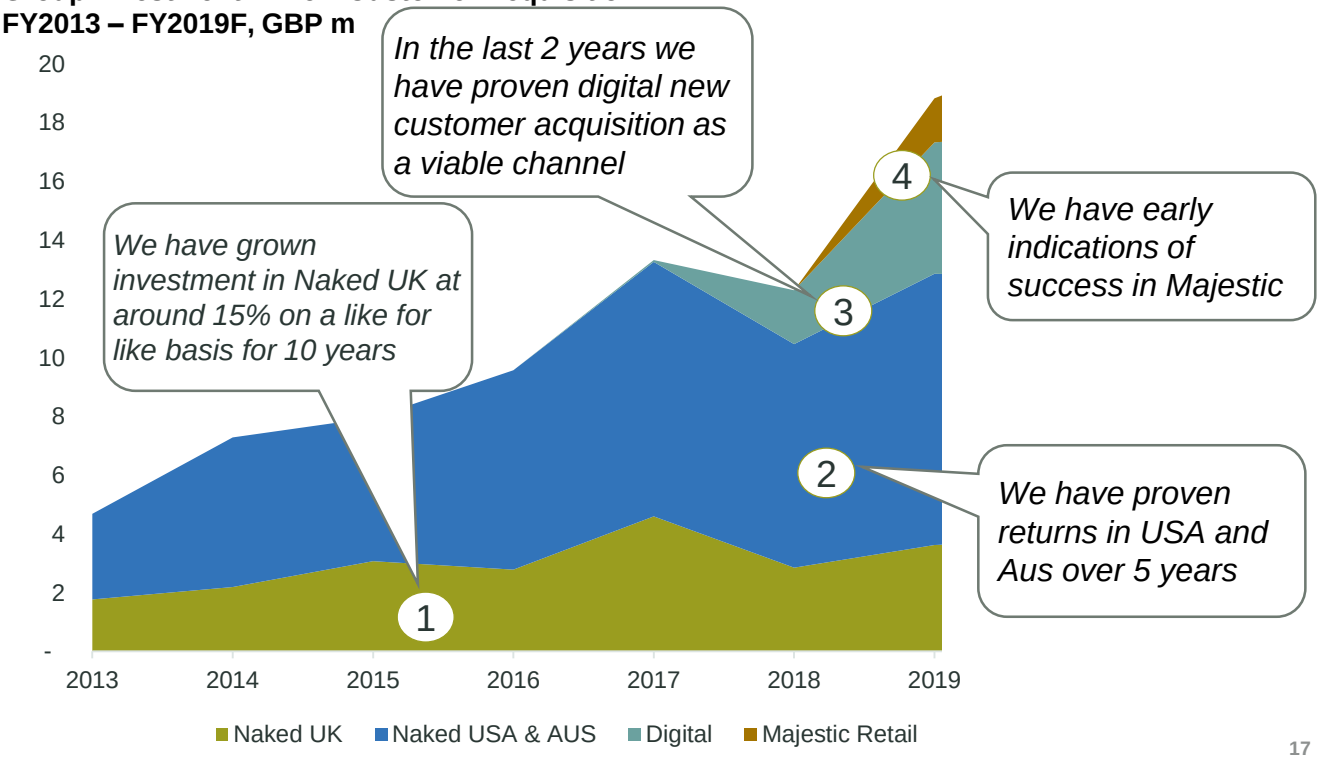
	Invest	Return	Payback
	-£1		£4
Currently	-£12m	4x	£48m
Potential	-£24m	>4x	£100m+

Three reasons:

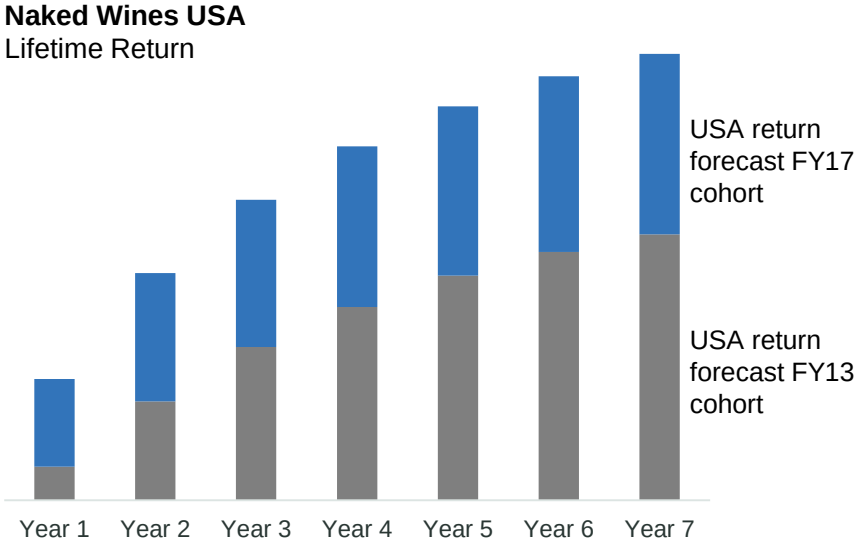
1. The potential investment pipeline is bigger than we thought
2. Returns are trending UP, not down
3. We have early indications that the same techniques work in Majestic as well as Naked

1. The investment pipeline is bigger than we thought

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



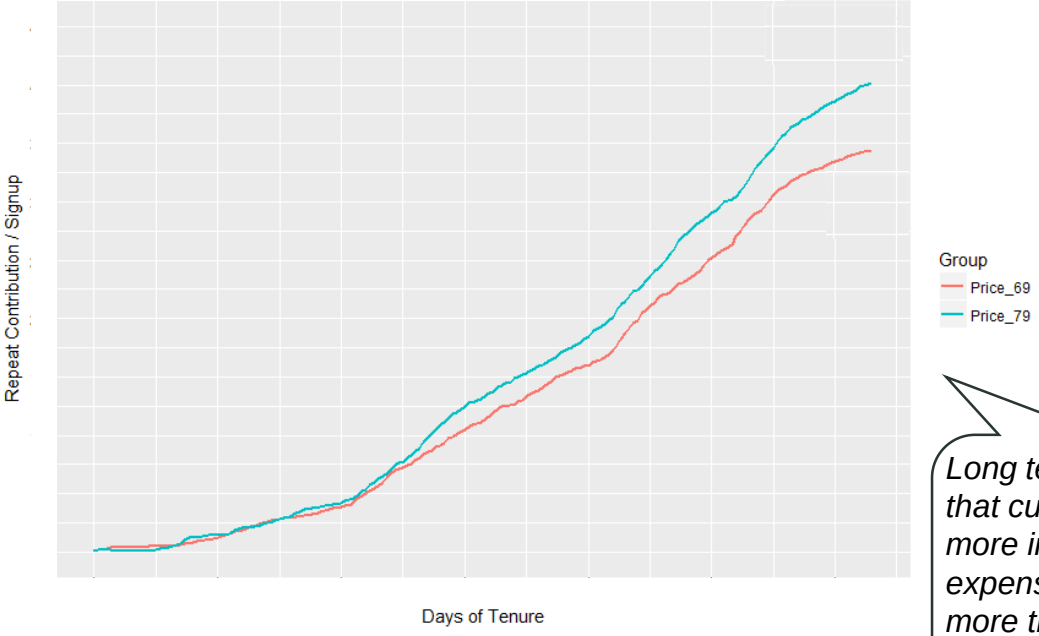
2. Returns are trending up – we are getting better at finding the right customers



- *Our average 4x payback includes a lot of learning and some mistakes – we are good at not repeating those*
- *We have got smarter - now that we have long term data on over 400,000 customers, we are much better at finding the acquisition routes that pay back best*
- **Sales retention is 10% higher than customer retention – and higher than we have previously reported – see p41 for more info**

For example… customers that cost more to acquire pay back better

Repeat Contribution per Angel- $69 vs $79, Naked Wines USA



Long term data shows that customers who spend more initially are more expensive to acquire…but more than payback over time

3. We believe the same techniques work in Majestic – we need to prove scale



Barclays Premier Partnership with Majestic:

- Rewards Barclays best customers
- Drives footfall in Majestic stores

As an exclusive offer for Barclays Premier customers we'd like to offer you a **FREE bottle of wine*** when you spend £40 or more so you can take home a new favourite.

MAJESTIC wine warehouses

In partnership with BARCLAYS

*Any bottle of your choosing up to the value of £10, single bottle pricing applies. This voucher holds no cash value, is non-transferable and is not for sale. Single use only. One voucher redeemable per transaction, per household on a minimum spend of £40 or more on any wine, beer or spirit. This voucher is not valid in our Calais or Scotland stores and cannot be used in conjunction with other offers. For UK residents aged 18 or over only. Voucher expires 31/03/2018. For full terms and conditions visit www.majestic.co.uk/information/terms-and-conditions.

2 217760 000005 >

Partner offers:

Free bottle to collect in store
£10 off £50 vouchers
Free Tastings

In a nutshell...

1. This is our choice - we are on track
2. WHY we plan to accelerate growth
3. **HOW – safely, efficiently & transparently**



Transparent – clear investment guidelines

We intend to **maximise** investment in new customer acquisition...

- At the rate at which we can prove new investment opportunities that meet our return criteria
- Prioritising long term value creation over short term EBIT
- Provided we can finance internally

Important points to note:

1. **Risk weighted approach** - we will go hard on proven opportunities and gently on evolving opportunities.

2. **Only two constraints** - availability of proven opportunities and ability to finance internally

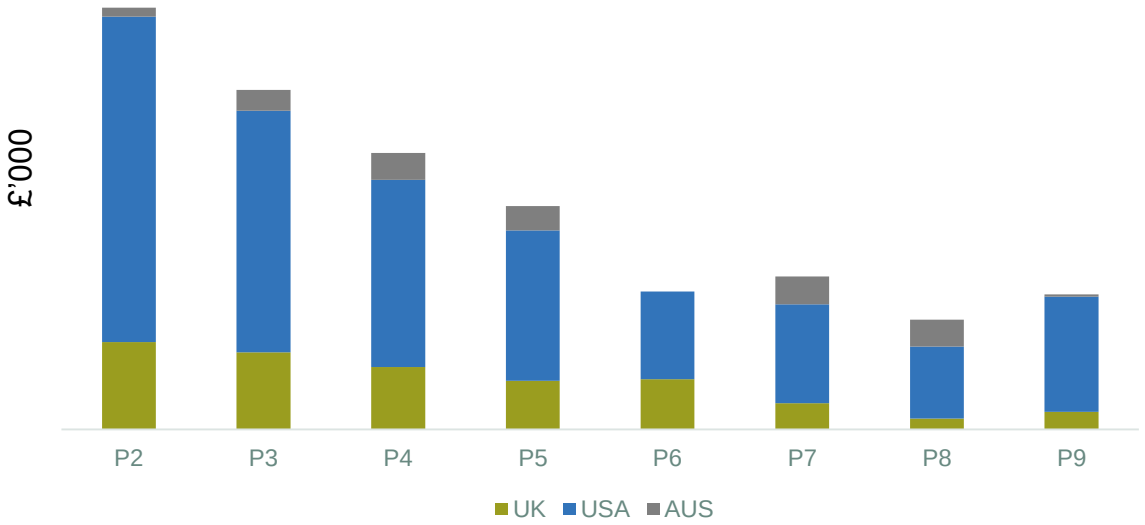
3. **We are not going to grow investment in a straight line**, we are not committing to a ceiling or a floor

4. **We are not going to cut investment to offset under-performance in trading**. We will continue to invest subject criteria 1 and 2 above

SAFELY: We will maintain and strengthen our existing investment disciplines

	Test and learn	Capital allocation	Continuous improvement
What is it?	Before we commit to a new partner or acquisition strategy we test it on a small scale	Actively pull out under-performing capital and reallocate to high performing areas	Every quarter, we double up on the best and drop the worst
It matters because...	We only invest hard when we have proof that it works	Driven by returns, not growth for own sake We stop investing if we can't find returns Are incentivised to optimise - more of this later	We are maintaining ROIs despite the growth

These disciplines work – we have eliminated £2m per year of our lowest performing spend



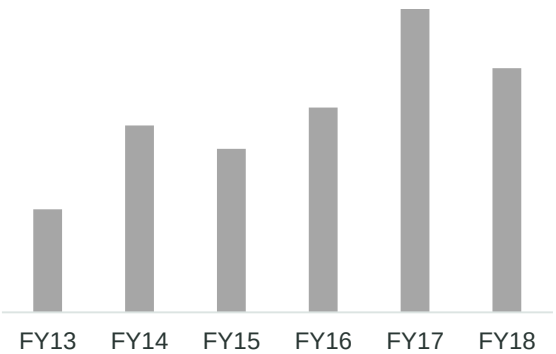
EFFICIENTLY: additional investments not just faster, but smarter

Goal	Where we are investing	£m
Growth	New customer acquisition	£5 – 8m
Efficiency	Optimisation, IT capacity, creating future growth opportunities	£2 – 2.5m
Safety	Controls and compliance ahead of growth, rather than after	£1.5 – 2m

TRANSPARENCY: We will report investment in new customers separately

...so you can evaluate discretionary investment decisions separately from trading performance

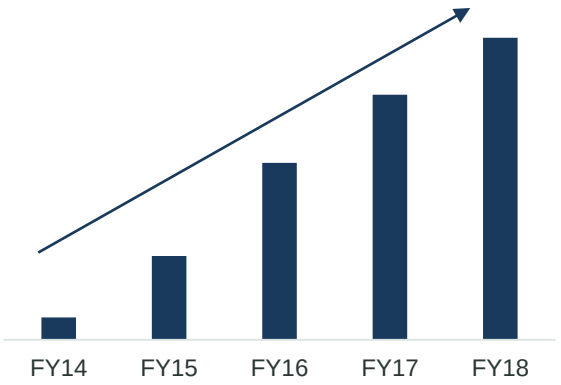
Investment: Fluctuating



Naked Wines

GBP m

Trading: Repeat Customer Profitability



Naked Wines

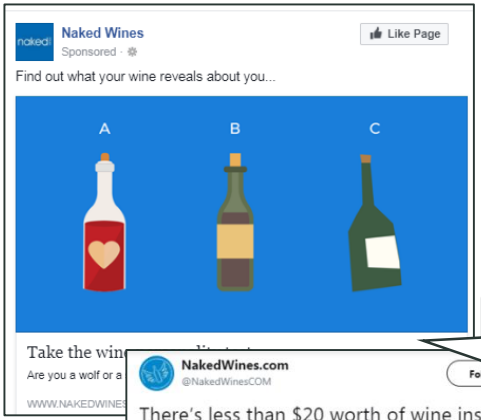
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Questions

1. *How do you acquire new customers?*
2. *What are you actually investing in?*
3. *How is investing in new customer acquisition different from marketing?*
4. *Are you going to have a repeat of the direct mail mistake you had two years ago?*
5. *Will profits fall in the short term?*
6. *What are you going to do IF investment potential shrinks?*
7. *What if you're wrong, and the returns don't come through?*

1. How do you acquire new customers?

We acquire most of our customers by partnering with companies that have customers like ours, & strong growth in digital:





Digital



Vouchers

Example Partners

CHARLES TYRWHITT
JERMYN STREET LONDON

Clintons

HOTEL Chocolat.

Saks Fifth Avenue

NORDSTROM

2. What are you actually investing in?

We are not investing in hard assets – shops, vineyards or wineries – because the returns are low and the commitments are long

Instead, we invest in:

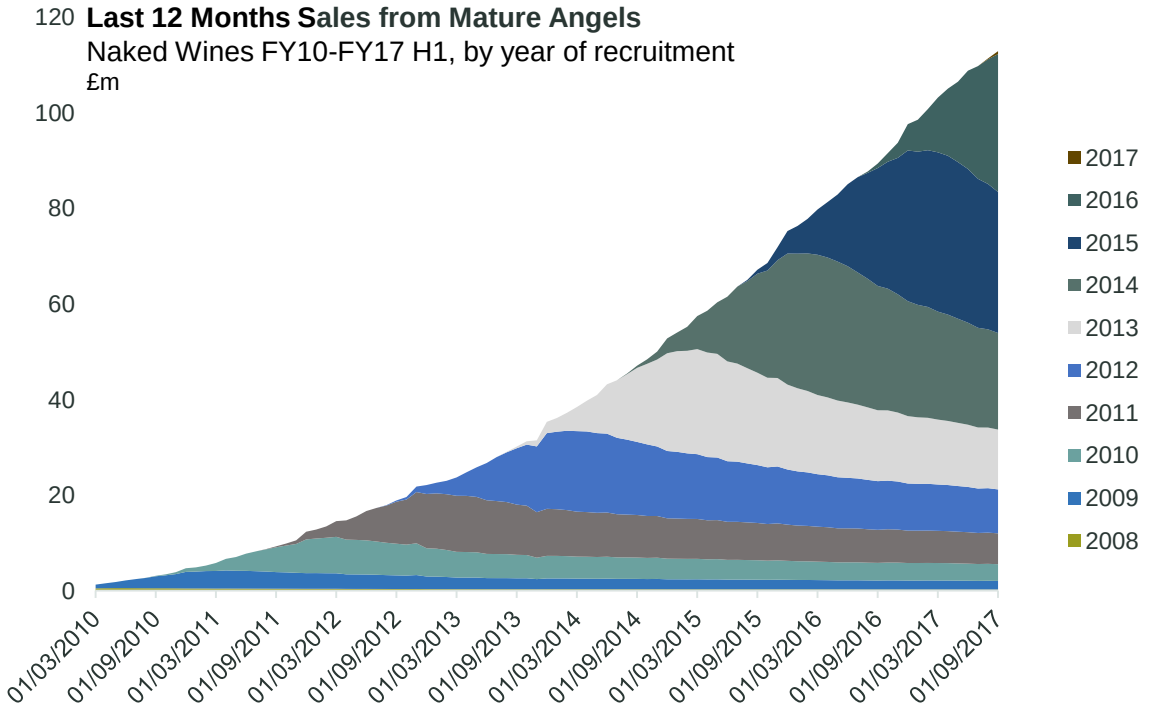
- *Payments to partners for access to their customers*
- *Any profit or loss sustained on discounted first orders.*

We invest in customers that pay us back over future years



3. How is investing in new customer acquisition different from marketing?

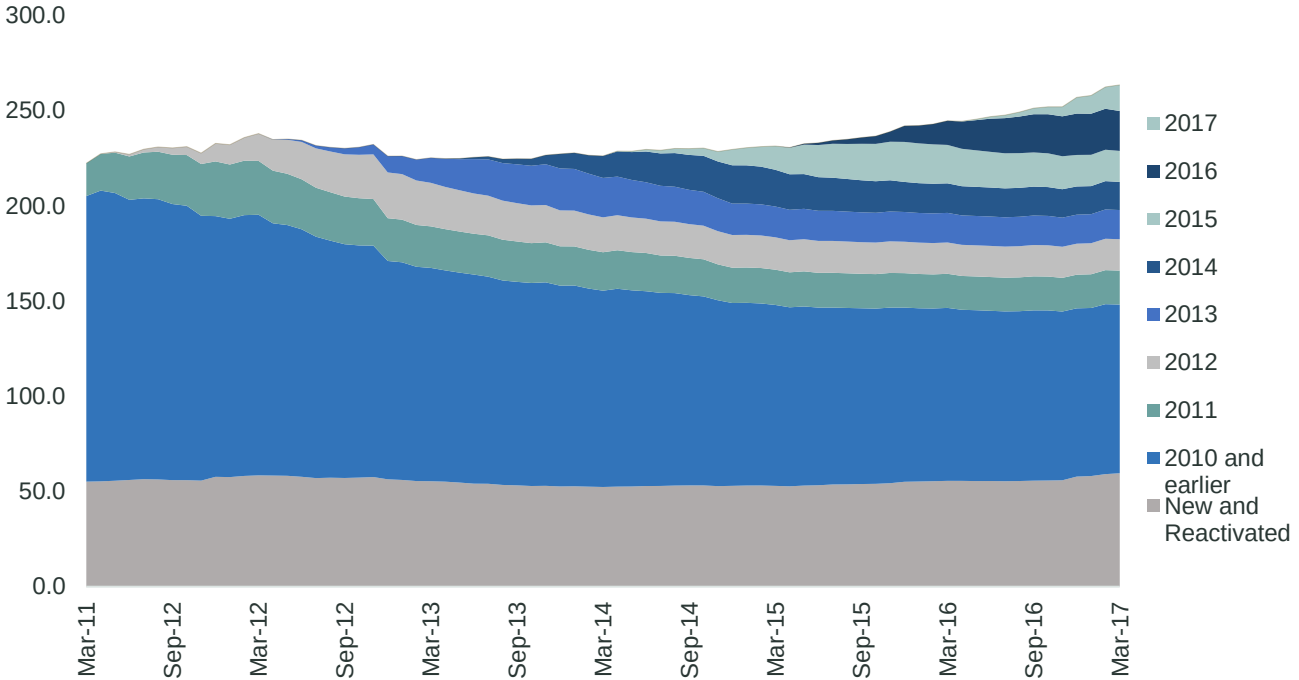
Unlike most retailers, we can track retention of acquired customers – and we know they pay back for years



...and the same is true for Majestic

Majestic Retail Sales Breakdown

12 months rolling total, £m



4. Are you going to have a repeat of the direct mail mistake you had two years ago?

The nature of test and learn is that we expect to have one step back for every few steps forward

BUT...

- *The tests are smaller – eg USA nationwide digital test may cost £50k, rather than £1m*
- *We have tightened controls and are investing in these further*



5. Will profits fall in the short term?

Yes. But only because we expense customer acquisition investment in year, rather than writing it off over 15 years (as we would with a new store)

	Naked model	Retail model
Profit from existing customers	20	20
Investment in NCA	-10	0
Net profit	10	20
Capex	0	-10
Net cash flow	10	10
Commitment	Months	Years

6. What are you going to do IF investment potential shrinks?

- We will do what we have been saying all along
- If we cannot allocate capital above our target return (4x payback) we will return to shareholders

We are not interested in growth for growth's sake



7. *What if you're wrong, and the returns don't come through?*

- We are taking it one step at a time
- The bulk of the planned spend for this year has already been tested and proven
- **For the rest, if we are wrong…we know within 90 days**
- **But if we are right…we generate returns for years**

Conclusion

- We now know the potential for this business is bigger than we thought
- So we plan to accelerate growth – safely, efficiently and transparently
- To do this, we will need to:
  - put long term shareholder value ahead of short term cosmetics
  - maximise investment - rather than managing to consensus – we will provide better metrics for you to hold us to account
  - Short term profit impact in FY2019

As significant shareholders in this business, we believe this is the right thing to do

The Financial Section

1. Remind you of the financial dynamics of the business
2. Explain how we measure performance
3. Give guidance and an overview of our forecasting approach



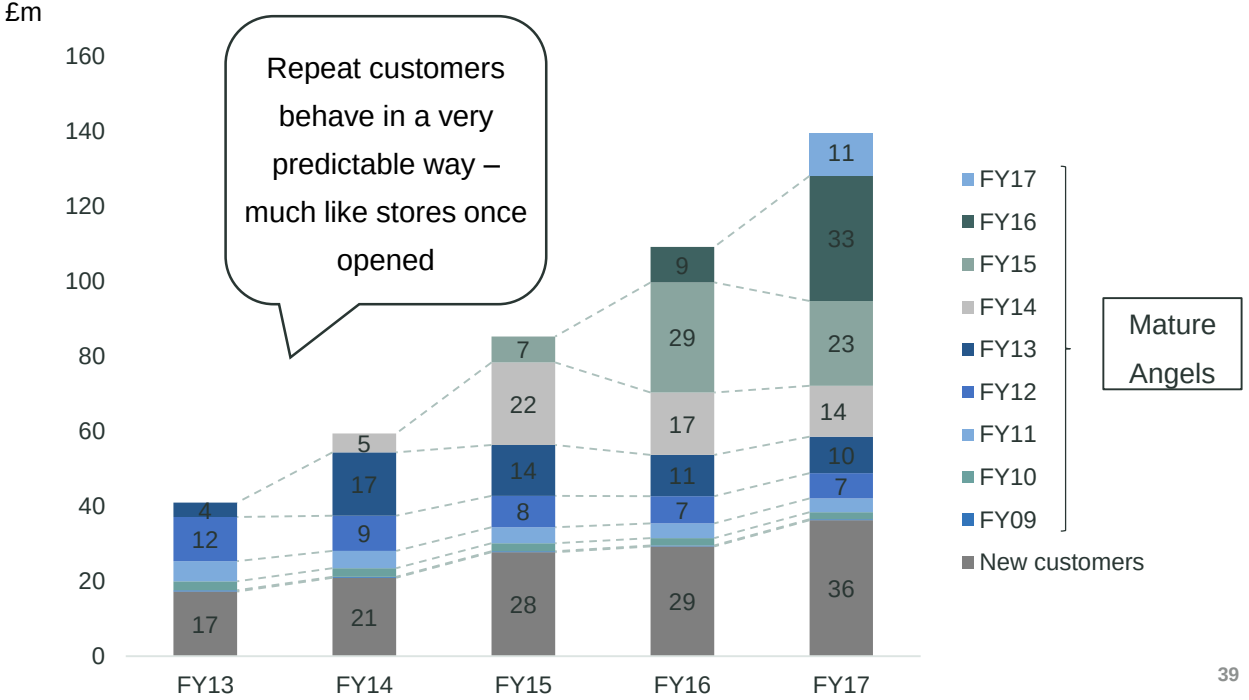
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Traditional retailers grow by adding stores. We grow by adding customers

Naked Wines: Sales by Cohort
FY13-FY17
£m

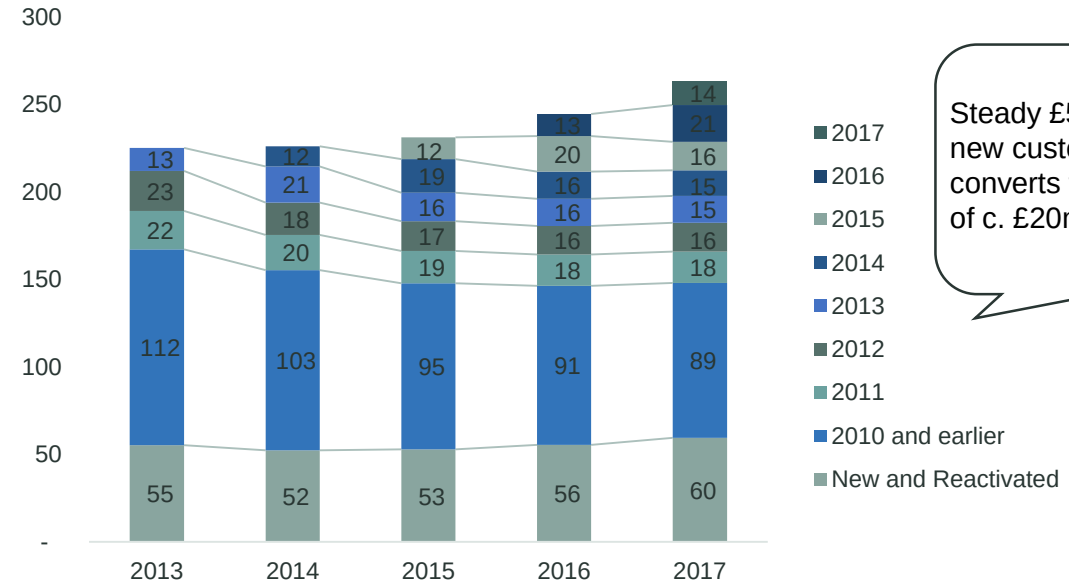


This is not unique to Naked. Majestic Retail performs the same

Retail: Sales split by repeat cohort and new customers

FY13-17

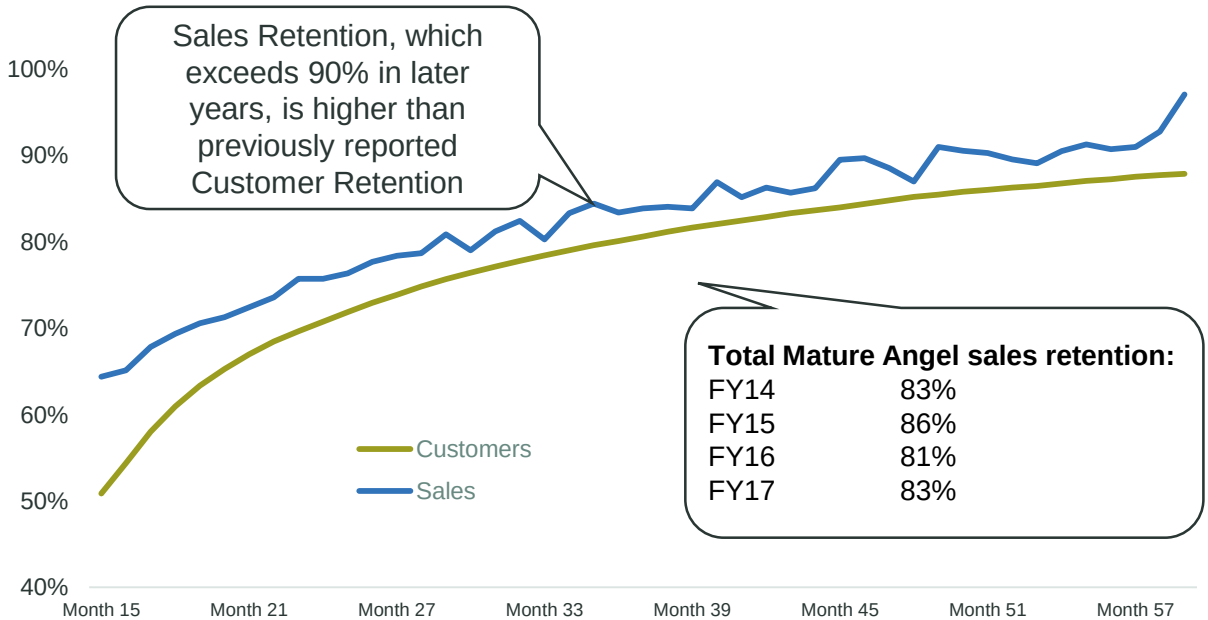
£m



Steady £50-60m per year of new customer sales converts to a repeat cohort of c. £20m per year of sales

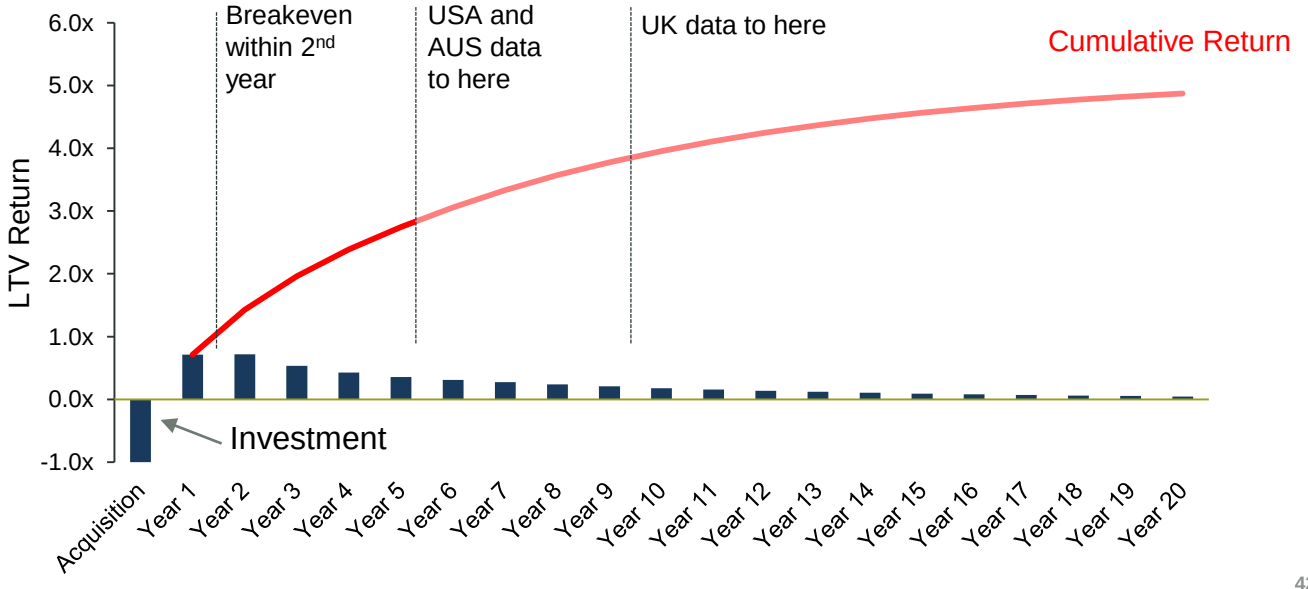
Cohorts retain sales better than customers – they improve in quality with time

Naked Wines: Retention rate of Angels and Sales
By month since sign-up
%



Every £1 we invest in new customer acquisition pays back £4 in 10 years, and 5x in 20 years

Average cohort economics
Naked Wines: All markets, Dec 2008 to Dec 2017
LTV return including forecast period



By steadily investing more each year, Naked has steadily grown the mature business

New Customers

(First, immature and other transactions)

	Sales	Contribution
FY14	21	(8)
FY15	28	(8)
FY16	29	(10)
FY17	36	(13)

Repeat Customers

(Sales Month 4 onward)

Sales	Contribution
38	8
57	14
79	20
103	26

The Financial Section

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2. **Explain how we measure performance**
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We separate new customers from repeat customers and fixed costs

New Customers + Repeat customers + Fixed costs

Adding and replenishing customers:

- Marketing to new customers
- Discounted initial orders (after fulfilment costs)
- All activity before “Repeat” definition achieved

Underlying trading

- Repeat customer contribution (after fulfilment)

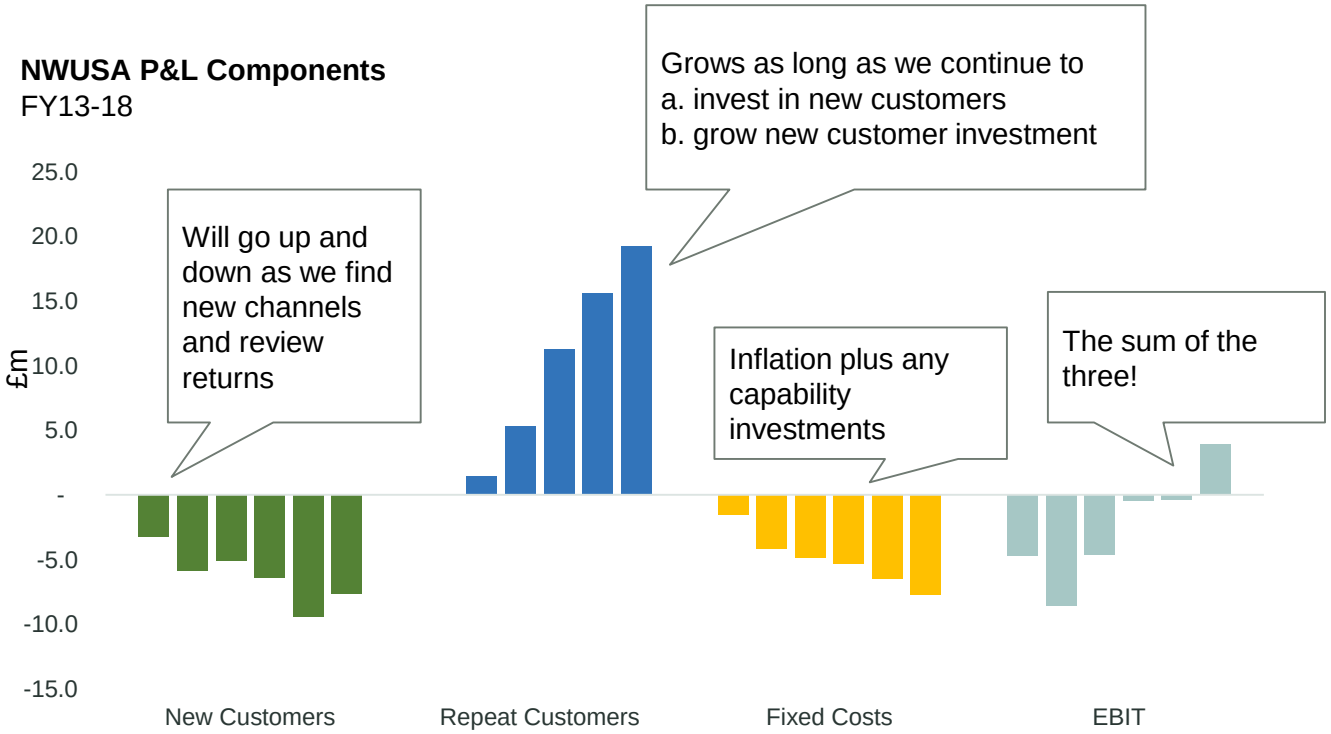
- Overhead to run the business

= EBIT



This enables us to look through the fluctuations in new customers

NWUSA P&L Components
FY13-18



Six additional disclosures provide a snapshot of business value

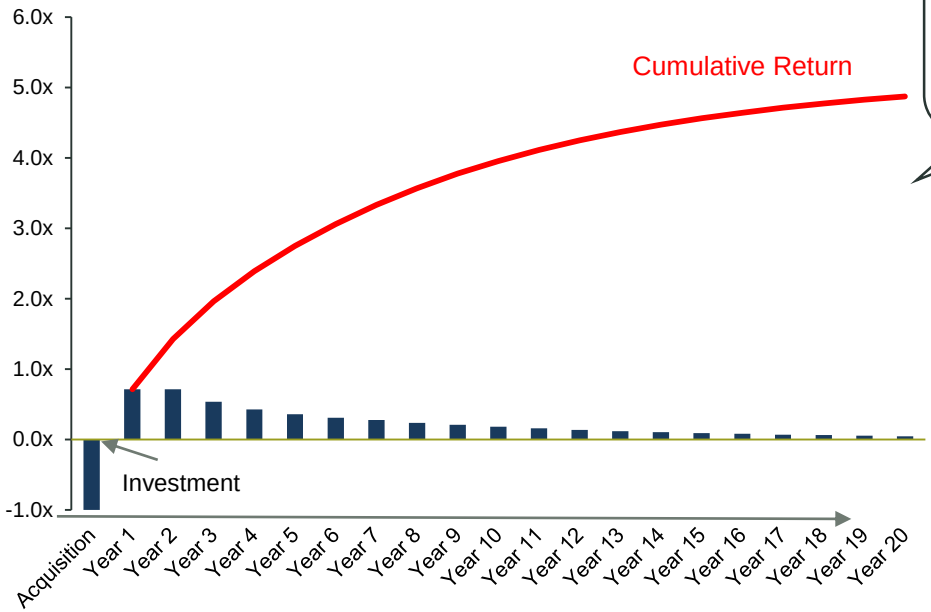
	New Customers	Repeat Customers	Fixed costs
Additional performance disclosure	• New customer contribution • LTV return	• Repeat customer sales • Repeat customer contribution • Repeat customer sales retention	• Fixed cost base
Operational KPIs	• 5* service score • Wine Quality (Buy It Again ratings) • ~~Customer Retention~~ • Product Availability • Staff retention		
Forecasting data	• New customers sales & margin	• In-year conversion of new customers sales to repeat customer sales	

The new customer disclosure describes the investment curve

Average cohort economics
Naked Wines: All markets, Dec 2008 to Dec 2017
£ and LTV return including forecast period

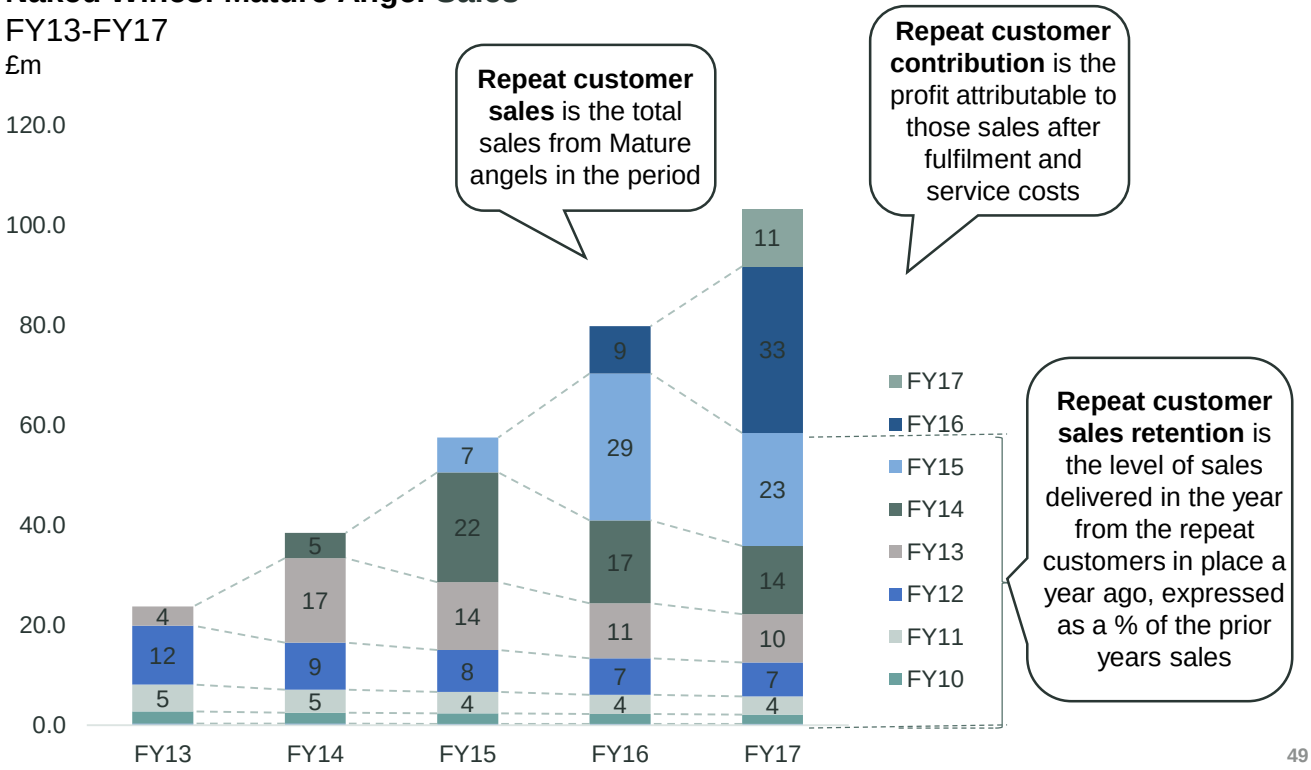
LTV return is the multiple of cash returned from the investment by year 20

New Customer Contribution is the sum of all investments in new customers in the period: Marketing and profit/loss

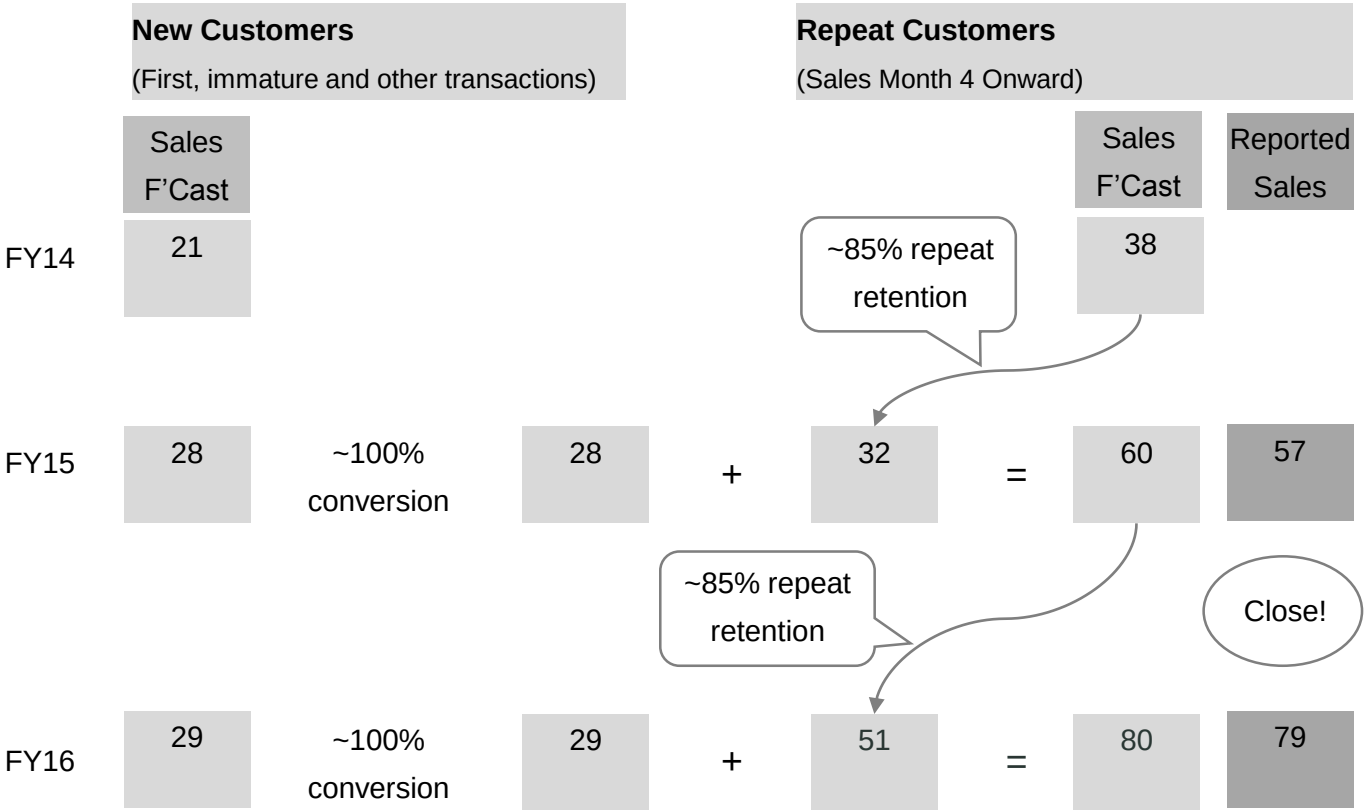


The repeat customer disclosure describes the cohort evolution

Naked Wines: Mature Angel Sales
FY13-FY17
£m



The really simple approach to a sales forecast



The Financial Section

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Guidance: Growth is our priority use of capital

Hierarchy	Status at End of FY18	Based on current known pipeline
1. Investment in new customers/growth	£12.5m p.a.	£5m - £8m additional in FY19
2. Target net debt 0.5x EBITDA	Net debt c. 0.4x EBITDA, 0.7x/£17m lower year on year	0.7-1x (driven by FY19 EBITDA reduction)
3. Return Capital to shareholders - Ordinary dividend	£4m paid out during FY18	Targeting to be in line with market expectations

Total Group Investments in FY19

	Growth		
	New Customer acquisition (Growth)	**Growing the right way (Efficiency)**	**Controls & Compliance (Safety)**
What	Naked: Partners and digital, esp USA Retail & L&W: Continued R&D	Optimisation IT capacity Creating future growth opportunities	Systems: EPOS, Accounting Resource: Compliance, controls, analytics
How much?	£5-8m additional	£2 – 2.5m additional	£1.5-2m

Net result is group profitability reducing by at least £2.5m versus FY2018 , depending on final investment level

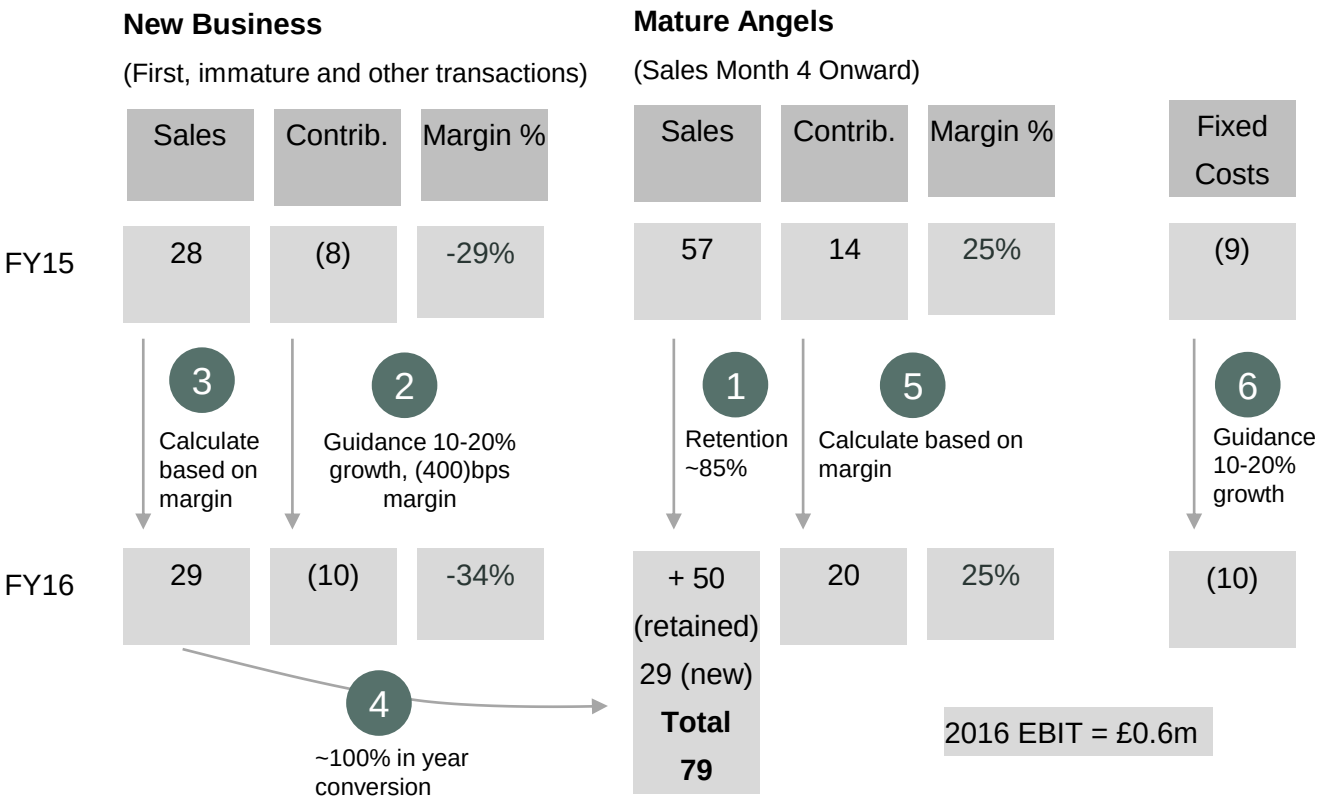
Forecasting FY19 Group sales within current consensus: FX movements offset near term acceleration

Using the reporting we will provide you can forecast the P&L

	New Customers	Repeat Customers	Fixed costs
Additional performance measures	• New customer contribution • LTV return	• Repeat customer sales • Repeat customer contribution • Repeat customer sales retention	• Fixed cost base
Forecasting data	• New customer sales & margin	• In-year conversion of new customer to repeat customer sales	



Forecasting Example



Naked Wines FY18 and FY19 guidance

	Naked FY18	Naked FY19
New customer investment	£12-12.5m	£16-20m
Repeat sales retention	c.85%	c.85%
New to repeat sales conversion	c.105%	c.100%
New customer margin	-200 to -300bps YoY	-600 to -900bpsYoY
Repeat contribution margin	+70-100bps	Unchanged
Fixed cost growth	Flat	+10-15%



Questions

1. Why are you changing from ROI?

- It was unusual and confusing for a lot of investors
- LTV brings closer focus into immediacy of payback
- We are migrating our internal reporting and measurement processes in line with the change

2. Why don't you discount your LTV?

- We've looked at it
- It reduces a 5x outlook to about 3x over 20 years (10% WACC)
- We achieve breakeven in 2nd year and doesn't impact that

3. Why are you not reporting customer numbers and customer retention?

- We've increased our level of disclosure significantly
- Sales retention is more important that customer retention
- By continuing to report customer numbers we would be providing sensitive information

4. If you have excess capital how will you return it?

- We're hoping we won't face that eventuality!
- If we do we'll explore in more detail. As of today we only have ability to pay a dividend

5. Any M&A plans?

- Not right now. Plenty of better returning customer acquisitions to do
- But never say never

6. If you can generate the same returns, why hasn't Retail performance been stronger?

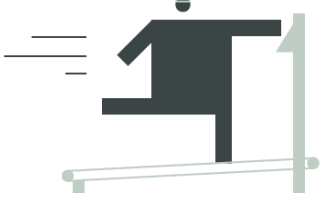
- Because we have not been investing in new customers at scale yet

7. Could availability of inventory constrain your growth?

- Not based on our current forecasts

Finance conclusion

- We generate attractive returns by acquiring customers, vs opening stores
- Payback is predictable and well established at Naked. Retail displays the same consistency of customer behaviour
- As a result we're going to investment faster in the customer base, and build supporting overhead. Adjusted EBIT will reduce by £2m to £3m next year as we build a more valuable customer base
- To help you to assess performance, we are enhancing our reporting to provide transparency on investment and repeat customer performance
- We'll provide updated guidance on FY19 investment levels with the FY18 results



Summary

We are in the fortunate position of having the OPTION to accelerate growth

- ✓ Trading, cash and dividends on track
- ✓ 10 year track record of growing sales by investing in new customer acquisition
- ✓ Investing £12m a year in new customer acquisition – at a payback in excess of 4 to 1

Today, we are sharing new information showing investment opportunity is bigger than thought

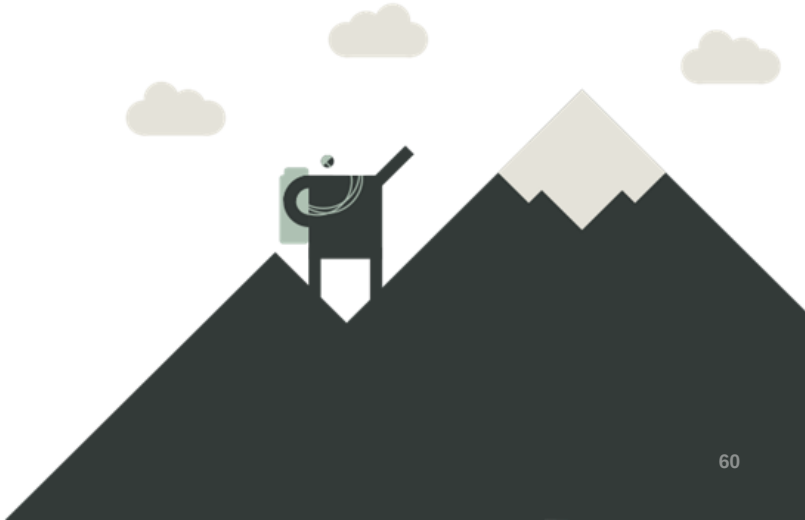
- ✓ Potential investment opportunity materially larger than current rate of investment
- ✓ Returns are trending UP
- ✓ Early indications – the same techniques work in Majestic Retail

***This will more than double the value added through new customer acquisition*:**

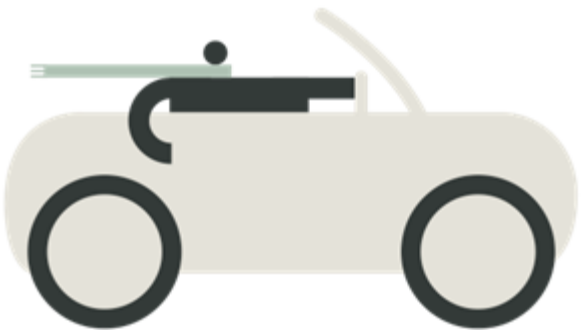
	Invest	Return	Payback
Current	-£12m	4x	£48m
Potential	-£24m	>4x	£100m+

- **The downside is limited** – the success of our investments can be measured in months, but deliver returns for years
- **We will invest an additional £9m to £12m,** of which £7m to £10m is directed at growth and £2m will ensure we drive growth safely
- ***This will reduce adjusted EBIT in FY19 by £2m to £3m vs FY18, but increase value added from £48m to £80m+ a year***

QUESTIONS?



APPENDICES



Glossary

Additional disclosure

Repeat customer sales	The total sales from Mature angels in the period
New Customer Contribution	The sum of all investments in new customers in the period: Marketing and profit/loss
Lifetime Value	LTV return is the multiple of cash returned from the investment by year 20
Repeat customer contribution	The profit attributable to those sales after fulfilment and service costs
Repeat customer sales retention	The level of sales delivered in the year from the repeat customers in place a year ago, expressed as a % of the prior years sales

Group definitions

Contribution	Sales less product costs, costs of fulfiling the sale e.g. branch staff, credit card fees etc.
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
Annual Contribution	Number of Orders per year x Contribution per Mature Angel
Cohort	Group of Mature Angels recruited in the same Financial year

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

Naked Wines

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
Repeat Customer Attrition	(1 – Repeat Customer Retention %)

Operational KPIs

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

Amended and extended Revolving Credit Facility

- Revolving Credit Facility extended to December 2022
- £65m headline value
- Amended covenants:
  - Net debt : EBITDA max 3x, dropping to 2x over 5 years
  - Fixed charge cover >1.75x. End FY19 c.3x



Four year Naked Wines history

	New Customers (First, immature and other transactions)			Mature Angels (Sales Month 4 Onward)			
	Sales	Contrib.	Margin %	Sales	Contrib.	Margin %	Fixed Costs
FY14	21	(8)	-38%	38	8	21%	(7)
FY15	28	(8)	-29%	57	14	25%	(9)
FY16	29	(10)	-34%	79	20	25%	(10)
FY17	36	(13)	-36%	103	26	25%	(11)