

naked wines

A pivotal moment

2019 Full Year Results & Investor Presentation

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Important Context

- This is not our normal results presentation
- As we plan to focus on Naked Wines ("Naked") and exit Majestic Retail and Commercial ("Majestic"), we have split this presentation into two:
- **Part 1 - Selected overall Group reporting**
- **Part 2 - Focus on Naked**
  - Overview of FY19 trading - Naked only
  - Future of Naked

Part 1

Review of FY19 results

FY19 Results: Highlights and lowlights

Highlights

- ✓ Revenue growth in all businesses
- ✓ Naked driver of Group revenue acceleration
- ✓ Naked repeat customer contribution growth of £6m to £40m
- ✓ Investment up £5m to £19m per year with payback on target at 4x

Lowlights

- ✗ Retail gross profit decline of £2m (gross margin decline of 110 bps to 21.8%)
- ✗ Naked fixed cost growth of £2.9m to £14.0m was above guidance

Worth understanding

- £23m reduction in free cashflow

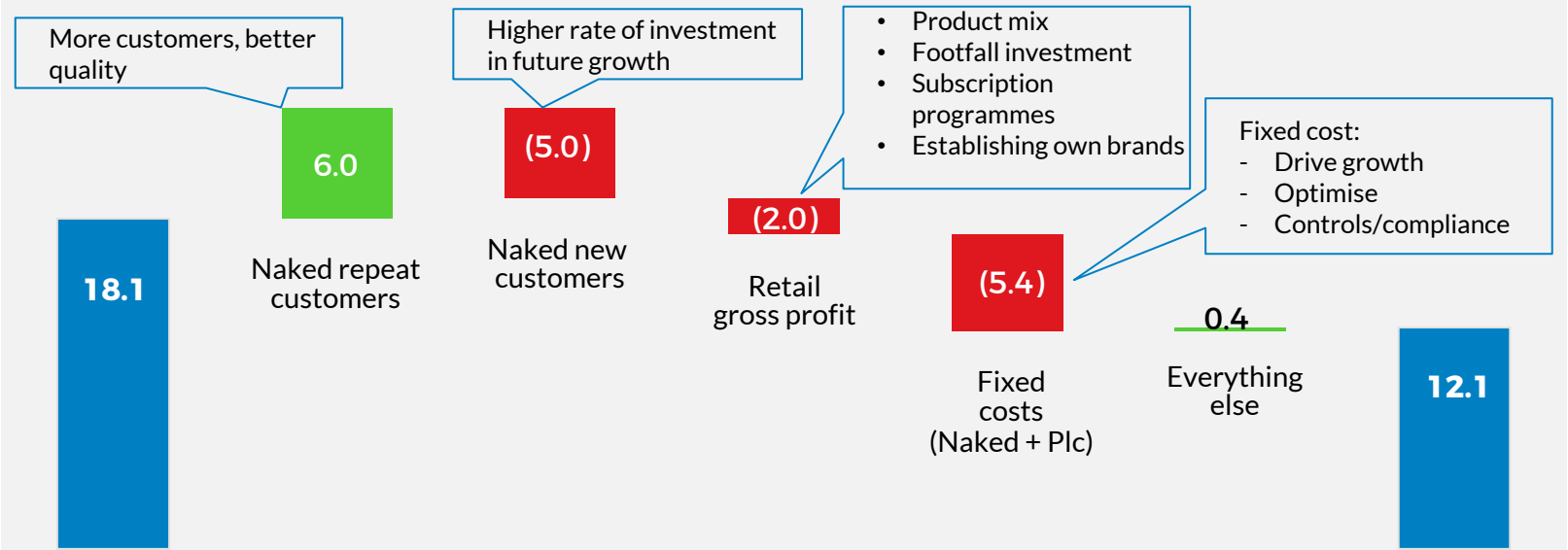
Naked continues to drive revenue growth



	FY19 Underlying Revenue Growth	H1 FY19	H2 FY18	H1 FY18	Momentum
Naked Wines	14.5%	14.0%	11.6%	10.9%	↑
Lay & Wheeler	2.4%	(9.4%)	(7.9%)	8.9%	↑
Commercial	1.8%	(2.0%)	(7.9%)	(3.4%)	↑
Retail	1.5%	1.9%	1.8%	2.0%	↓
TOTAL	5.8%	4.8%	3.7%	4.2%	↑

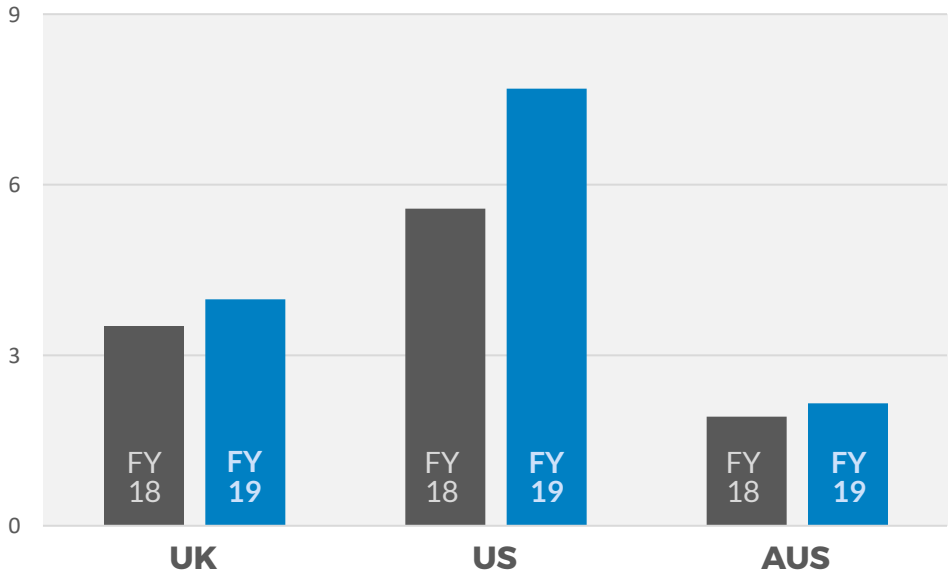
EBIT decline from Naked investment and Retail reduced profits offsetting £6m increase in Naked repeat contribution

Group underlying adjusted EBIT



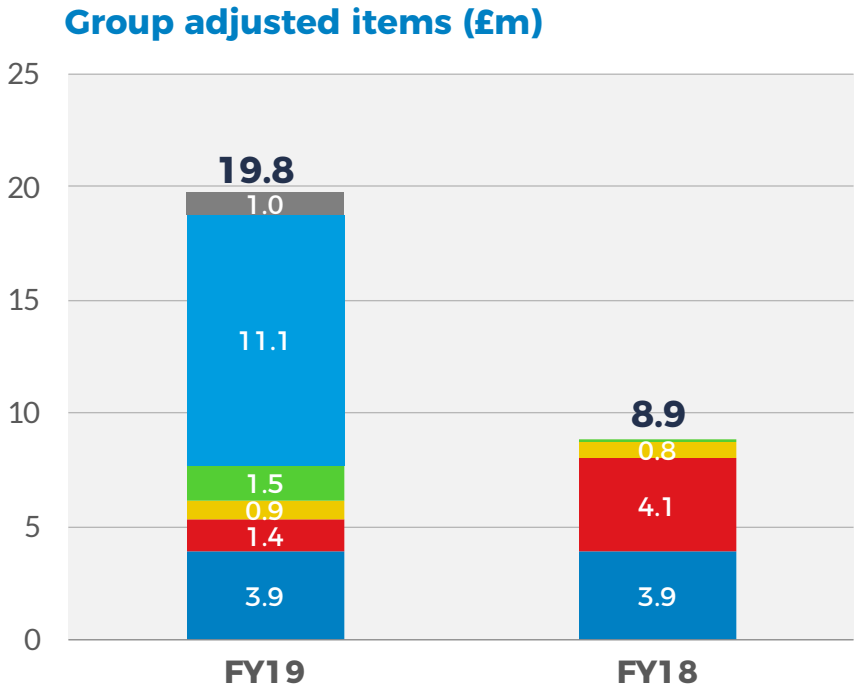
Fixed cost investment is aligned to the biggest opportunity

Naked fixed costs by market (£m)



- Fixed cost growth of £2.9m, or 26%, to £14.0m was ahead of guidance for 10% - 15% growth
- We strengthened the team ahead of our plans around:
  - Global winemaker relations
  - US Strategic partnerships
- FY20 fixed cost growth (combined Naked and Plc) planned at <10%
  - Potential net savings on sale of Majestic of c.£1.0m -£1.5m

Statutory loss due to £11m store impairment



Drivers of impairment:

- Slowing revenue
- Weaker margins
- Exclusion of web sales from store financials
- Reduced Freehold values

- Restructuring
- Store impairment
- FX and En primeur
- Non-acquisition share based payment charges
- Acquistion related share based payment charges
- Acquired intangibles

Charges relating to retail estate and group transformation

Acquisition related charges continue to run off

Net debt increased due to investment choices

£m	Total FY19	Total FY18	YoY
Adjusted EBIT	12.1	18.2	(6.1)
D&A [1]	6.8	6.5	0.3
Adjusted EBITDA	**18.9**	**24.7**	**(5.8)**
Working capital movement	(10.0)	4.0	(14.0)
Capex	(7.0)	(3.8)	(3.2)
Free cash flow	**1.9**	**24.9**	**(23.0)**

- Investments
- Retail gross margin

- Easter timing and Brexit build of £8m
- Naked stock for growth of £6.4m

- EPOS
- Shelving

- Year end net debt £15.5m
- If we had not made discretionary investments in excess of £10m we would be almost debt free
- Dividend to be replaced with special dividend, contingent on Majestic sale

1 D&A includes loss on disposal of fixed assets

Group performance summary

- Growth accelerated due to Naked
- Fixed costs ahead of plan but tempering in FY20
- Retail growth but margin under pressure
- Balance sheet supports continued growth investment

Part 2

Focus on Naked


Majestic
Sale process advanced


naked wines
Firmly on track


The future


Majestic
Sale process advanced


naked wines
Firmly on track


The future

Majestic sale process – at an advanced stage

- Our goal is to...
  - Focus on Naked; and
  - Exit Majestic
- We now believe that a sale of Majestic, rather than the merger of both businesses, is the best way to maximise value for our shareholders
- We are currently in an advanced sale process
- With multiple bidders
- We expect to reach a conclusion over the summer months

If we are unable to complete the process over the summer, in time for the important Christmas and New Year season, we will continue to run the two businesses independently of each other and look to restart the process in 2020







- Contribution up, EBIT down
- Payback on target at 4x
- Underlying KPIs all stable or improving
- Rate of new customer investment accelerating

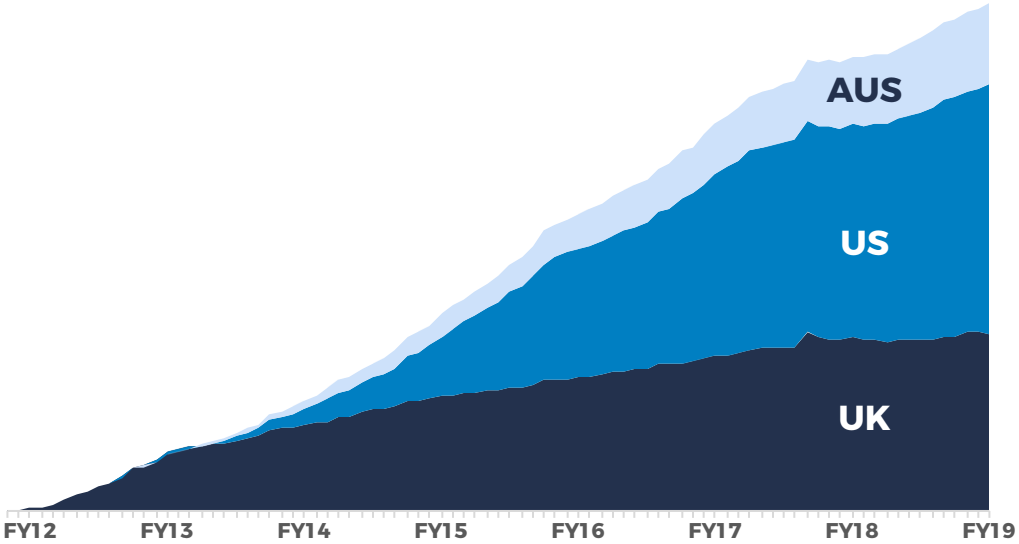
Doing what we said we would do



Note: Sales were up 14.5%, but as this is not a priority KPI. We report it for information and to support P&L forecasting. Repeat customer contribution is the strongest indicator of the health of the customer base.

US is now our biggest and fastest growing market – measured by contribution

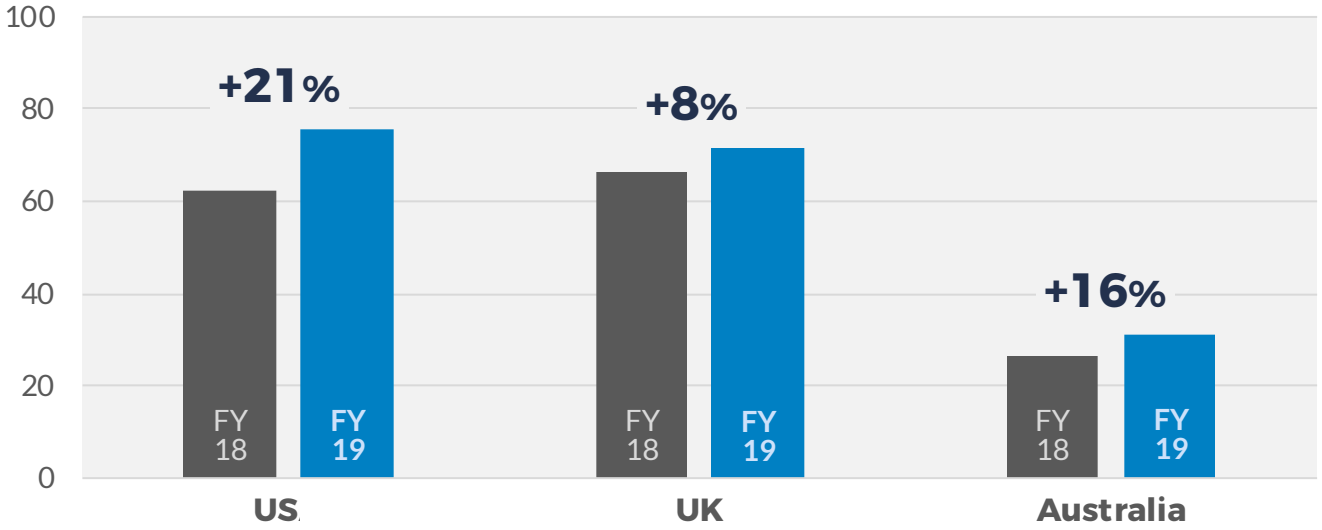
Naked repeat customer contribution



- Repeat customer contribution grew 18% to £39.8m
- And has grown 2.4x since Majestic acquired Naked

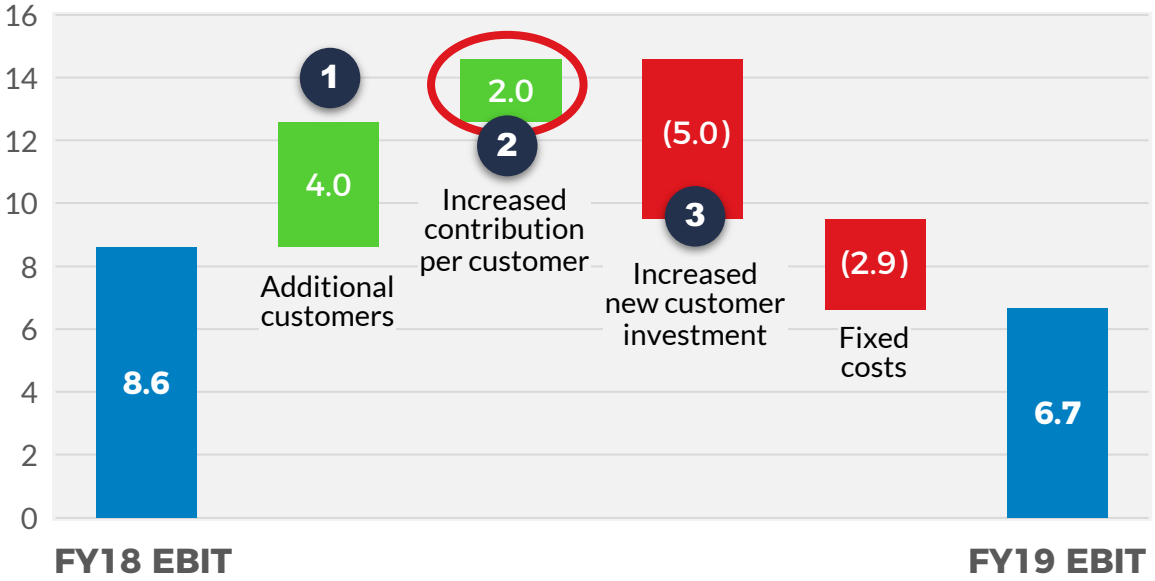
US biggest & fastest growth business – measured by revenue

Naked revenue by market (FY19 vs FY18 £m)



Adjusted EBIT fell as growth in repeat customer contribution was offset by increased investment

Naked Wines Underlying EBIT



3 things to note

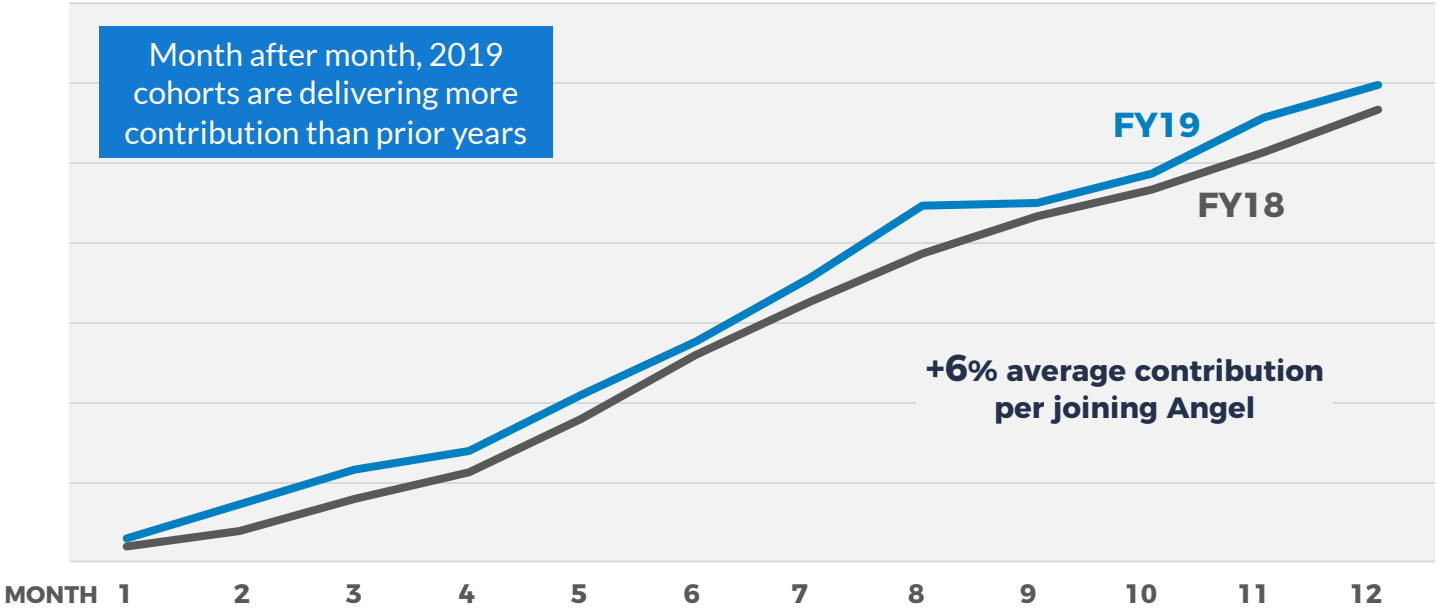
1. The cost of these customers was largely incurred in previous periods
2. On average, customer quality is improving. (See slide 22)
3. This investment will drive growth in future periods

Underlying KPIs solid



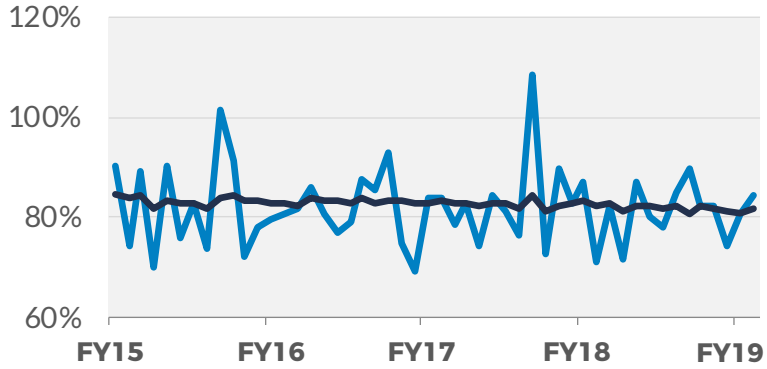
New customer quality is improving

Naked cumulative contribution per joining Angel (FY19 by cohort tenure)

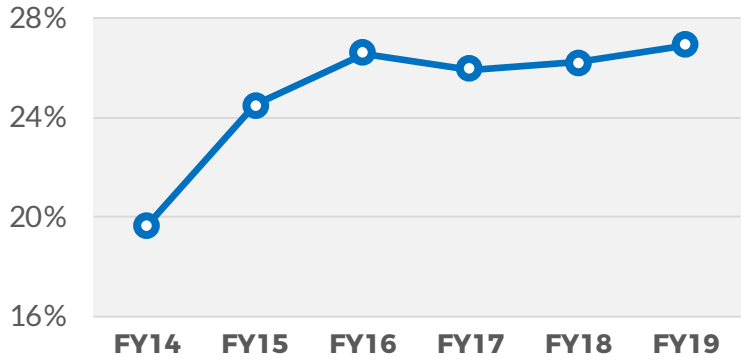


Repeat sales retention is stable and margins are rising

Naked repeat customer sales retention: monthly and rolling 12m



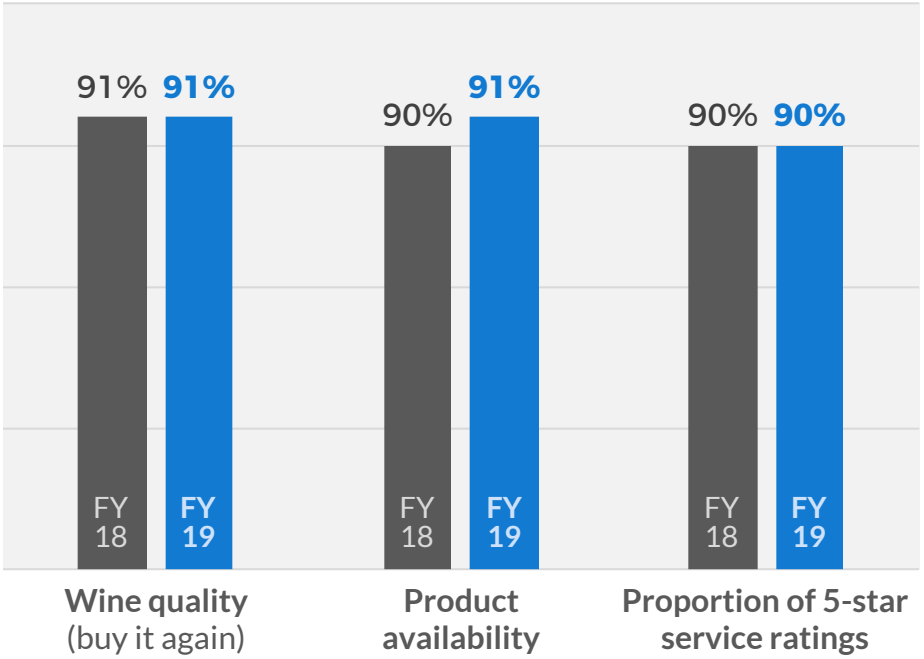
Naked repeat customer contribution margin



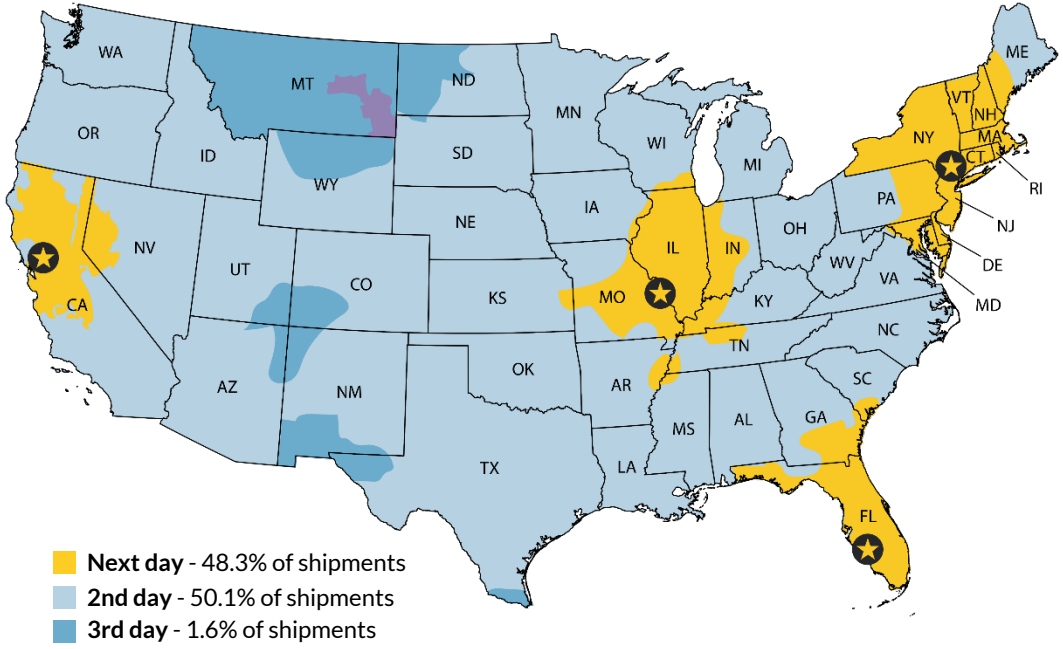
3 factors impacting retention

- Mix - increased new customer investment reduces retention
- Country - US and Australia retention is lower than the UK
- Seasonality - FY19 didn't have any peak Easter trading periods

Operating KPIs remain strong



We have invested heavily in improving service levels



- Four distribution centers strategically located in New York, Florida, Missouri and California
- Capability to deliver to majority of US population within 48 hours
- Supports margin improvement

And we continue to build the winemaker pipeline



Simon 'Sorby' Adams
Former Chief Winemaker at Yalumba, creater of Yalumba Octavius

Jorge Gutierrez
Maker of the iconic Montes Alpha "M"





David Seijas
Sommelier at El Bulli, the world's best restaurant for 11 years



Tim Smith
Winner of the IWSC best Shiraz in the world trophy

Edgard Carter
Made Sena, Chile's most iconic wine (£100 per bottle in the UK)

Penelope Gadd-Coster
Director of winemaking for US operations at Mumm and Domain Chandon





Caroline Dunn
Most awarded female winemaker in Australia

Majestic

Sale process advanced

naked wines

Firmly on track

The future







- What the new Naked Wines Plc will look like
- How we plan to grow it from there

What does the future Naked Wines Plc look like?

Solid core business

2019 Stand still[1] EBIT

£16m

Strong embedded growth

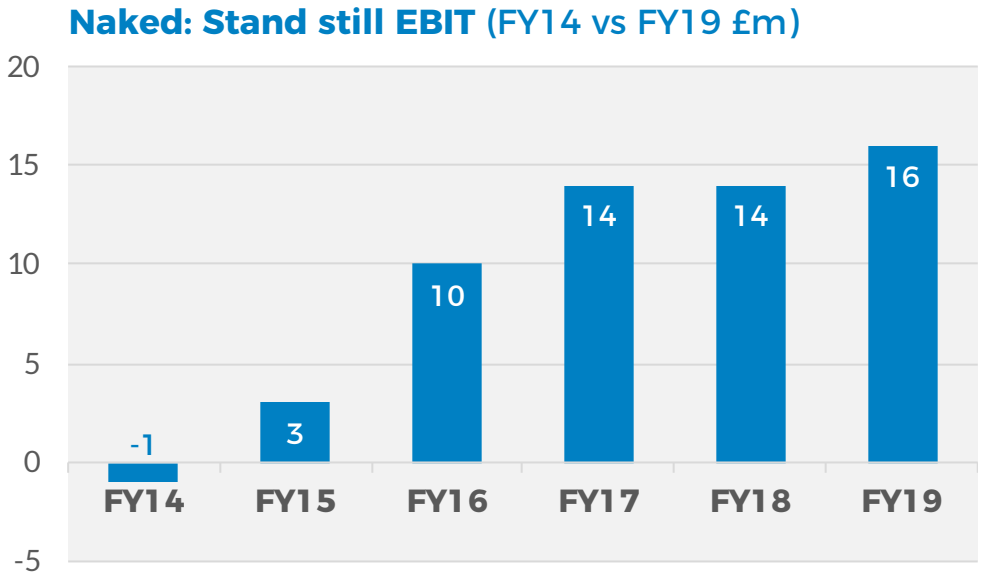
Investing at >2x rate

required for Stand still EBIT

And we aim to go faster

1. See Appendix slide 51 for an illustration of the stand still EBIT calculation.

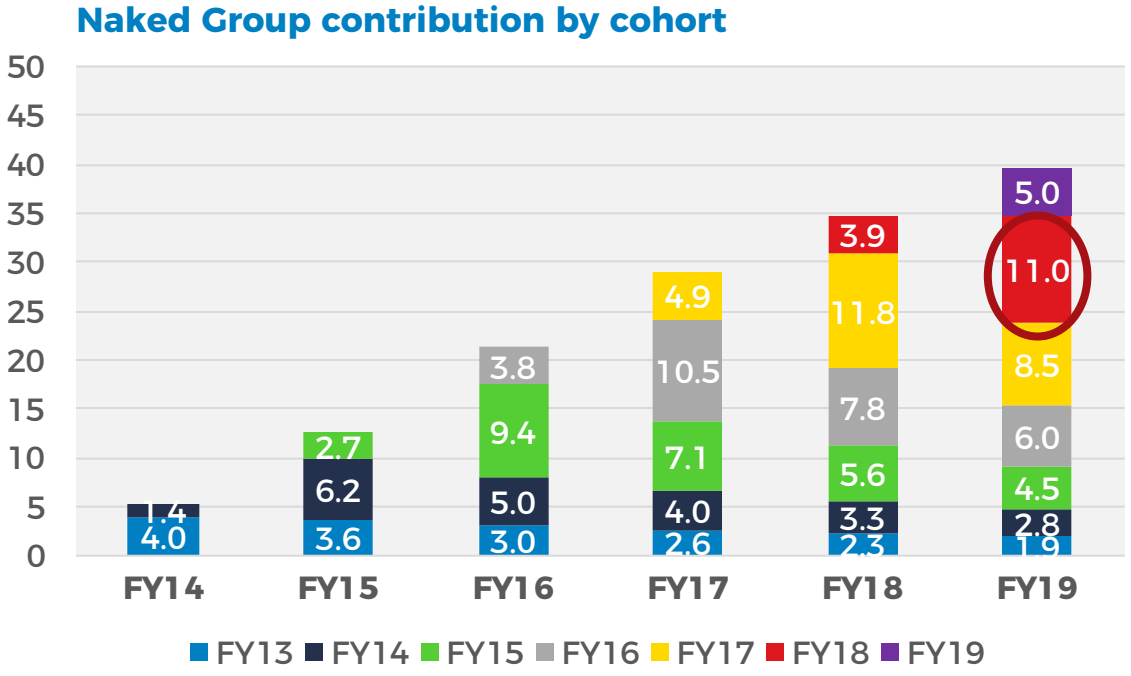
The core business is solid…



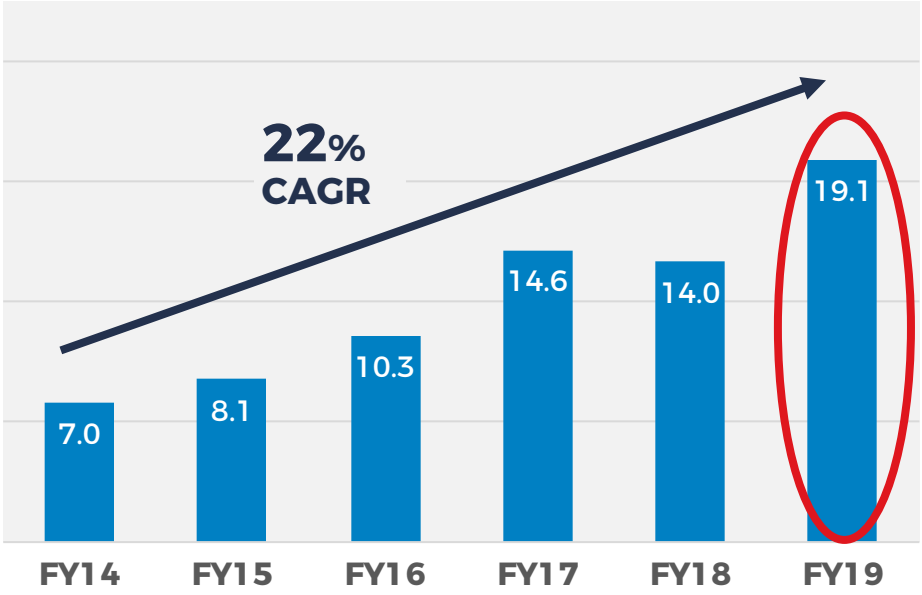
- Stand still EBIT has grown steadily to £16m in 2019
- Stand still EBIT calculates EBIT after allowing for the cost of replenishing attrition, measured by sales rather than customers
- NOTE: from FY20 we expect to incur c. £9.5m central costs (see slide 33)

1. See Appendix slide 50 for an illustration of the Stand still EBIT calculation. This measure is calculated using data and KPIs disclosed in this presentation, notably repeat sales retention. Previous calculations have used repeat customer retention which is no longer disclosed as it is not as effective a measure.

…driven by growing repeat customer contribution



… which has been driven by increased investment



The bulk of the return on FY19 investment will come through in FY20

Approach to capital allocation

We want to be	So we will ...

Capital efficient	• Priorities for capital allocation are:
	  • Healthy balance sheet
	  • Growth
	  • Return surplus cash to shareholders

High growth	• We will maximise investment in new customers, even if that reduces short term EBIT
	  • We test hundreds of new opportunities every year
	  • If they prove themselves, we will invest in them
	  • If they don't, we won't

We aim to grow faster and be more efficient

New customer investment

- Expect to maintain organic +15% growth in new customer investment
- And to grow digital marketing faster than that
- Testing other channels - early days

c. £26m
in 2020

IT, AI, data science capability

- Automation - reducing costs by automating manual tasks
- Optimisation - reducing "friction"
- Innovation - improving our economics

£3.5m

Note: Efficiency gains will show up as increased investment at target payback, rather than increased payback.

2020 Naked Wines Plc pro-forma

£m	FY19	FY20
Repeat contribution	39.8	46.4
New customer investment	(19.1)	(26.1)
Fixed costs	(14.0)	(14.0)
EBIT	**6.7**	**6.3**
Plc costs	(6.0)	(6.0)
Investment		(3.5)
Pro Forma EBIT	**0.7**	**(3.2)**

Note

- Repeat customer contribution will largely come from customers already acquired
- Expect £9.5m central costs in FY20 reflecting:
  - portion of current Plc costs
  - £3.5m investment in capability

See slide 50 in the Appendix for the calculation of Stand still EBIT and Pro Forma method. Any forward looking and / or pro forma financial information is for purely illustrative purposes, reflecting assumptions based on historical data and guidance. It should not be interpreted as a forecast of future performance.

2020 Naked Wines Plc stand still EBIT

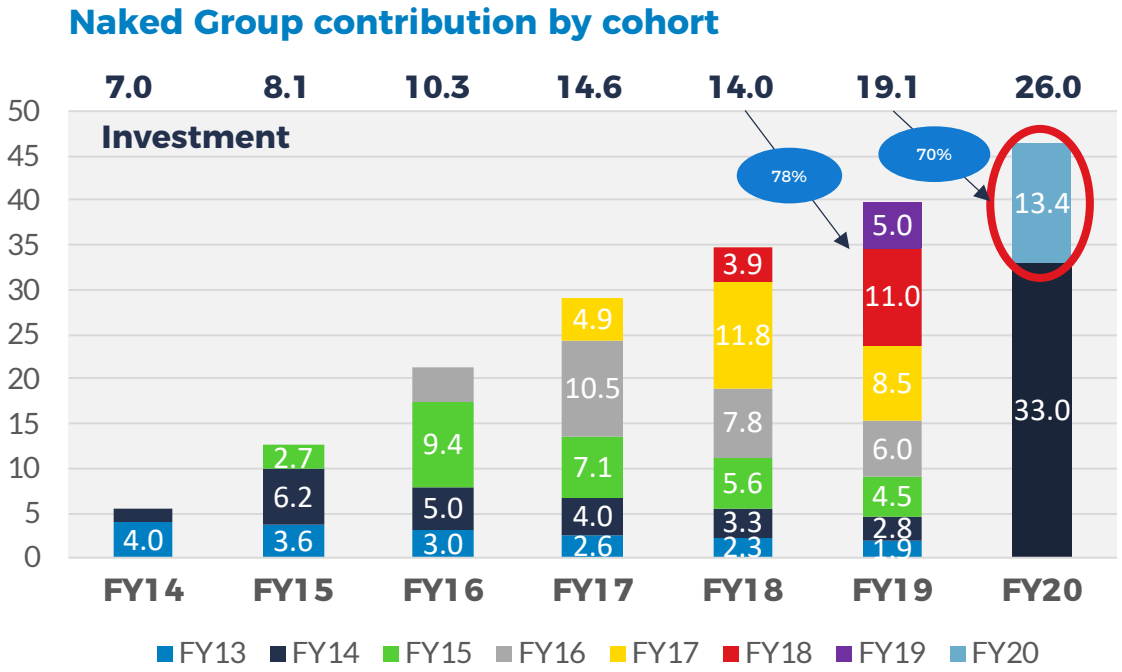
£m	FY19	FY20
Repeat contribution	39.8	46.4
New customer investment	(9.6)	(11.3)
Fixed costs	(14.0)	(14.0)
EBIT	**16.2**	**21.1**
Plc costs	(6.0)	(6.0)
Investment		(3.5)
Stand still EBIT	**10.2**	**11.6**

Note

- Repeat customer contribution will largely come from customers already acquired
- Expect £9.5m central costs in FY20 reflecting:
  - portion of current Plc costs
  - £3.5m investment in capability

See slide 50 in the Appendix for the calculation of Stand still EBIT and Pro Forma method. Any forward looking and / or pro forma financial information is for purely illustrative purposes, reflecting assumptions based on historical data and guidance. It should not be interpreted as a forecast of future performance.

If you want to extrapolate longer term



- We generated £40m of contribution from repeat customers last year
- We are targeting investing £26m per year in FY20
- If we keep
  - Investment at that level
  - 4x payback

Then we will double repeat contribution in ~5 years

See slide 51 in the Appendix for the calculation of Stand still EBIT and Pro Forma method. Any forward looking and / or pro forma financial information is for purely illustrative purposes, reflecting assumptions based on historical data and guidance. It should not be interpreted as a forecast of future performance.

Balancing the Board composition towards the US market - our biggest growth opportunity

John Walden
Chairman Elect

- Previously CEO of Argos
- US native
- US online experience at Best Buy and FTD

Katrina Cliffe
Non Executive Director

- American Express
- NED at Homeserve
- Strong experience working with subscription businesses

Nick Devlin
Chief Operating Officer

- 3 years at Naked
- Led the growth of Naked US
- Previously OC&C strategy consultant

Greg Hodder will be stepping down as Chairman, reflecting the focus on the US

Our future is Naked

A simple business

- One brand
- One model
- One team
- Properly resourced

Clear focus

Profitable growth by going:

- Faster - max investment at target returns
- Smarter - lower cost, higher efficiency

On track for growth

- We have a solid core business
- At our current rate of investment we double it profitably
- We think we can grow faster



naked wines

Q&A



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Appendices

Appendices

1. Additional FY19 performance information
   - Group Summary
   - Business unit P&Ls
2. Guidance and forecasting
   - Subscription economics
   - Stand still and pro forma illustration
   - Guidance
3. Additional material
   - IFRS16

Group Summary

£m unless otherwise stated	FY19	FY18	YoY
Reported revenue	506.1	476.1	6.3%
Group underlying revenue	505.1	477.5	5.8%
Adjusted EBIT	12.1	18.1	(32.9)%
Adjusted PBT	11.3	17.1	(33.6)%
Adjusted EPS	14.7p	23.9p	(38.9)%
(Loss)/profit before tax	(8.5)	8.3	(202.4)%
Final dividend per share	-	5.2p	(100)%
Free cashflow	1.9	24.9	(94.7)%
Net debt	(15.5)	(8.4)	(84.5)%

- Naked revenue growth accelerated to 14.5% (FY18: 11.3%); US particularly strong up 21.0%
- Majestic Retail underlying revenue growth of 1.5% (FY18: 1.9%)
- Naked growth plan on track
  - New customer investment of £19.1m, up £5m YoY
  - Repeat customer sales retention of 81% (FY18: 83%)
  - Repeat customer contribution increased £6.0m to £39.8m; margin of 26.1% (FY18: 25.2%)
  - Forecast payback on new investment on target at 4.0x (FY18: 4.7x)

Note: Refer to Appendix slide 55 for definitions.

Business Unit Detail: Naked Wines

	Underlying		
	FY19 £'000	FY18 £'000	YoY %
Revenue	**178,438**	**155,885**	**14.5%**
Gross profit	68,470	55,305	23.8%
Gross margin	38%	35%	+289 bps
Distribution costs	(30,057)	(24,239)	24.0%
Administrative costs	(31,757)	(22,491)	41.2%
Adjusted EBIT	**6,656**	**8,574**	**(22.4%)**

Business Unit Detail: Naked revenue by geography

	Underlying		
	FY19 £m	FY18 £m	YoY %
UK	71.8	66.5	8%
US	75.6	62.6	21%
Australia	31.0	26.8	16%
Total revenue	**178.4**	**155.9**	**15%**

Business Unit Detail: Majestic Retail

	Underlying		
	FY19 £'000	FY18 £'000	YoY %
Revenue	**267,664**	**263,764**	**1.5%**
Gross profit	58,463	60,423	(3.2%)
Gross margin	21.8%	22.9%	(107 bps)
Distribution costs	(31,239)	(30,385)	2.8%
Administrative costs	(15,891)	(16,689)	(4.8%)
Adjusted EBIT	**11,333**	**13,349**	**(15.1%)**

Business Unit Detail: Majestic Commercial

	Underlying		
	FY19 £'000	FY18 £'000	YoY %
Revenue	**44,132**	**43,360**	**1.8%**
Gross profit	7,949	7,694	3.3%
Gross margin	18.0%	17.7%	27 bps
Distribution costs	(3,160)	(3,059)	3.3%
Administrative costs	(2,277)	(2,200)	3.5%
Adjusted EBIT	**2,512**	**2,435**	**3.2%**

Business Unit Detail: Lay & Wheeler

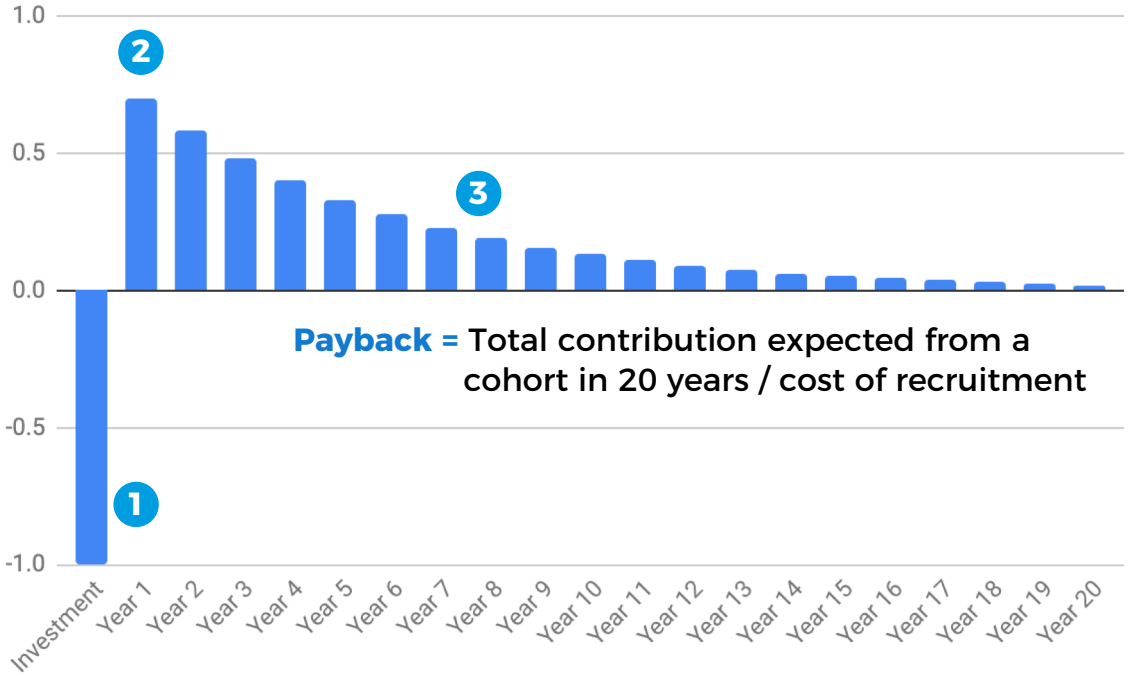
	Underlying		
	FY19 £'000	FY18 £'000	YoY %
Revenue	**14,896**	**14,549**	**2.4%**
Gross profit	4,234	4,042	4.8%
Gross margin	28.4%	27.8%	64 bps
Distribution costs	(1,156)	(1,198)	(3.5%)
Administrative costs	(1,927)	(1,907)	1.0%
Adjusted EBIT	**1,151**	**937**	**22.8%**

Plc costs & Group

	Underlying		
	FY19 £'000	FY18 £'000	YoY %
Administrative costs	(9,614)	(7,208)	33.4%
Adjusted EBIT	**(9,614)**	**(7,208)**	**33.4%**
Group			
Revenue	505,130	477,558	5.8%
Gross profit	139,116	127,464	9.1%
Gross margin	27.5%	26.7%	+85 bps
Distribution costs	(65,612)	(58,882)	11.4%
Administrative costs	(61,466)	(50,495)	21.7%
Adjusted EBIT	**12,038**	**18,087**	**21.7%**

Reminder:

Acquiring subscription customers generates a predictable stream of cash flows for years to come



The simplest way to understand Naked is…

1. For every £1 we spend acquiring new customers
2. We make around £0.70-£1 in contribution the following year
3. Which attrites at 15-20% a year
4. Delivering a payback in
   - 1 year ~0.8x
   - 5 years 2.5x
   - 20 years 4x

Stand still and pro-forma illustration

Stand still EBIT calculates EBIT after allowing for the cost of replenishing attrition, measured by sales rather than customers

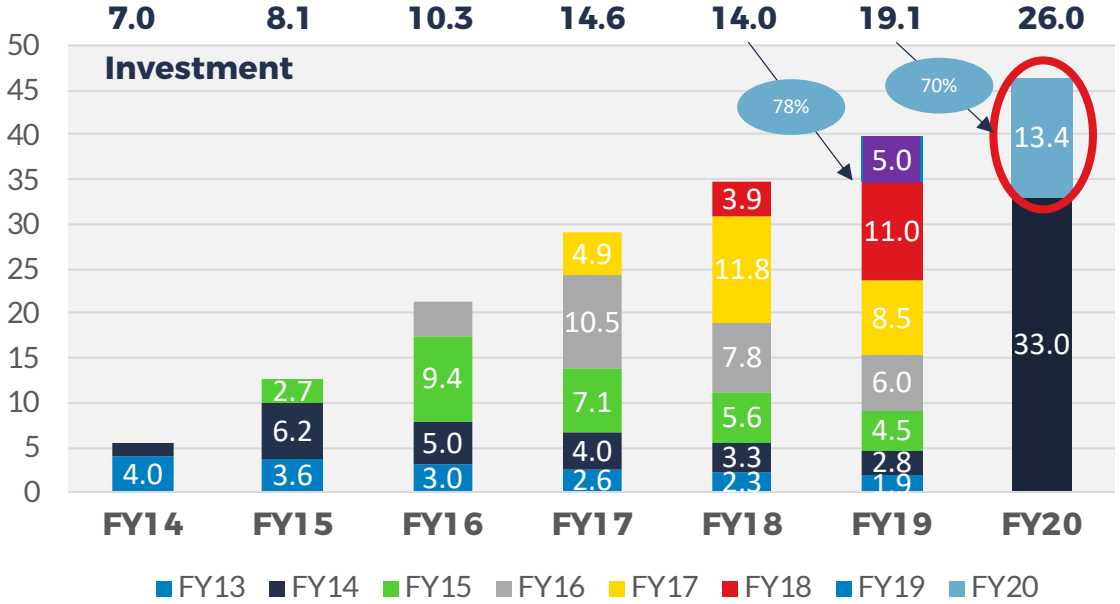
Calculation Components	FY19	FY19 PF	FY20 PF	Calculation
Repeat contribution	39.8		46.4	FY20 = (39.8 x 83%) + (19.1 x 70%)
Retention	81%		83%	
Contribution attrition	7.6		7.9	*(1 - retention) x repeat contribution*
Year 1 payback	79%		70%	
Spend needed to replenish	(9.6)		(11.3)	*Contribution attrition / Yr 1 payback*
Fixed costs: Naked	(14.0)	(14.0)	(14.0)	
Fixed costs: Plc		(6.0)	(9.5)	
Total fixed costs	(14.0)	(20.0)	(23.5)	
Stand still EBIT:				
Repeat contribution	39.8	39.8	46.4	
Spend required to replenish	(9.6)	(9.6)	(11.3)	
Fixed costs	(14.0)	(20.0)	(23.5)	
Stand still EBIT	**16.2**	**10.2**	**11.6**	

Any forward looking and / or pro forma financial information is for purely illustrative purposes, reflecting assumptions based on historical data and guidance. It should not be interpreted as a forecast of future performance.

Stand still EBIT example

Stand still EBIT calculates EBIT after allowing for the cost of replenishing attrition, measured by sales rather than customers

Naked Group Contribution by Cohort



Calculation Components	FY19
Repeat contribution	39.8
Retention	81%
Contribution attrition	7.6
Year 1 payback	78%
Spend needed to replenish	(9.6)
Fixed costs: Naked	(14.0)
Stand still EBIT:	
Repeat contribution	39.8
Spend required to replenish	(9.6)
Fixed costs	(14.0)
Stand still EBIT	**16.2**

Any forward looking and / or pro forma financial information is for purely illustrative purposes, reflecting assumptions based on historical data and guidance. It should not be interpreted as a forecast of future performance.

Naked and Plc Guidance Update

	FY19 Actual	FY20	Medium-term
New customer investment	(£19m)	+£7m	+15% - 20% pa
New customer contribution margin	(75%)	(80%)	Variable
New to Repeat conversion	183%	170-190%	160-190%
Repeat sales retention	81%	82-84%	80-85%
Repeat contribution margin	26%	26%	Assume flat
Payback *Year 1 Payback*	4x *79%*	4x *~75%*	4x *~70%*
Fixed cost - Naked BU - Central	 14.0 9.6		
Total fixed cost	23.6	10% growth	50% rate of revenue growth
		Net potential annual savings £1.0m -£1.5m if Majestic sold	
Working capital		Each £1m of growth in new business requires c. £1.0m-£1.5m more working capital	
Dividend	2.0p Interim Final suspended	When cash cannot be deployed against growth investment	

IFRS 16

- Bring leases onto balance sheet as “Right of use asset” and associated liability
- We are using the modified retrospective transition approach
  - Opening ROU assets = liabilities
  - Expected to be £55m - £65m
- FY20 impact of current leases[1]
  - EBITDA increases by c.£11m
  - EBIT increases by c.£1m
  - Interest charge increases by c.£2m
  - PBT £0m - £1m adverse

1. Profit impact relates to current leases at the transition date, and does not include any impact of impairments, or future lease renewals.

Payback at 4.0x and may move up

Investment year	Measurement		
	Year end	+12 mths	+24 mths
FY17	4.5	4.9	4.5
FY18	4.5	4.6	
FY19	4.0		

- FY19 payback forecast inline with 4.0x target, and likely to increase
  - No Easter in FY19 means sales per new customer will be lower than model expects
  - Focus on quality means improvements as better metrics come into the numbers

Glossary of terms

Alternative performance measures	
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 the Income Statement 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 effective tax rate	Defined as the current year's tax charge divided by the adjusted profit before tax.
Adjusted PBT	Adjusted EBIT less net finance charges.
EBIT	Operating profit as disclosed in the Group income statement.
Free cashflow	Cash generated by operating activities less capital expenditure and before adjusting items and taxation. A reconciliation of this metric is provided below.
Net debt	Borrowings less cash and debt issuance cost.
Stand still EBIT	Stand still EBIT calculates EBIT after allowing for the cost of replenishing attrition, measured by sales rather than customers
Operating costs	Defined as administrative expenses less other operating income excluding adjusted items.
Underlying	a) includes en primeur revenues in year of order not year of fulfilment and (b) is calculated using constant FX rates for translation .

Glossary of terms (continued)

Investment measures	
Investment in new customers (also referred to as new customer contribution)	The contribution earned from sales to new customers.
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. As this is an undiscounted forward looking estimate it cannot be reconciled back to reported financial results. As we can refine this expectation over time, we also update the expected returns from prior year investment in the financial review.
New customer sales	Revenues derived from transactions with customers who meet our definition of a new customer. A reconciliation and analysis of this metric for Retail and Naked is shown below.
Repeat customer contribution	The profit attributable to those sales after fulfilment and service costs. A reconciliation and analysis of this metric for Majestic Retail and Naked Wines is shown below.
Repeat customer sales	These are the revenues derived from orders placed by customers meeting our definition of a repeat customer at the time of ordering. A reconciliation and analysis of this metric for Retail and Naked is shown below.
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.
Year 1 payback	Repeat customer contribution divided by the new customer investment from the year before.

Glossary of terms (continued)

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. A reconciliation and analysis of this metric for Retail and Wines is shown below.
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.
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.