

The start of a new chapter

Results for 26 weeks ended 30 September 2019

Winemaker: Adam Barton


naked wines
Rowan Gormley
Group CEO
Winemaker: Scott Kelley

Start of a new chapter…

Foundations laid

- Simple business - a pure play online subscription retailer
- Clear focus - US market
- Fully resourced
  - Capital
  - Capability
  - New team

Growth on track

- Sales up, Repeat Contribution up
- Investment in growth up - payback just behind target
- Sluggish trading in UK & Aus

Fulfilling the potential

- The US - a $20bn addressable market
- Model uniquely configured to win
- New team to deliver that
- What will change - and what will stay the same

Foundations laid

Conclusion of a 2-year process

- Huge US market opportunity
  - $20bn addressable market, growing, with high margins
  - Model uniquely configured to win
- To take advantage of that opportunity we had to do 3 things
  1. Simplify - Become a pure play online subscription retailer
  2. Build resources - the capital to deliver the potential
  3. New team to deliver the potential

These conditions are now in place

A new team to deliver this potential

The changes

- **John Walden**
  Chairman
- **Nick Devlin**
  ex president Naked USA
  -> CEO
- New leadership roles
  - Wine Director
  - US Strategic Partnerships
- **Rowan Gormley** and **Greg Hodder** retiring

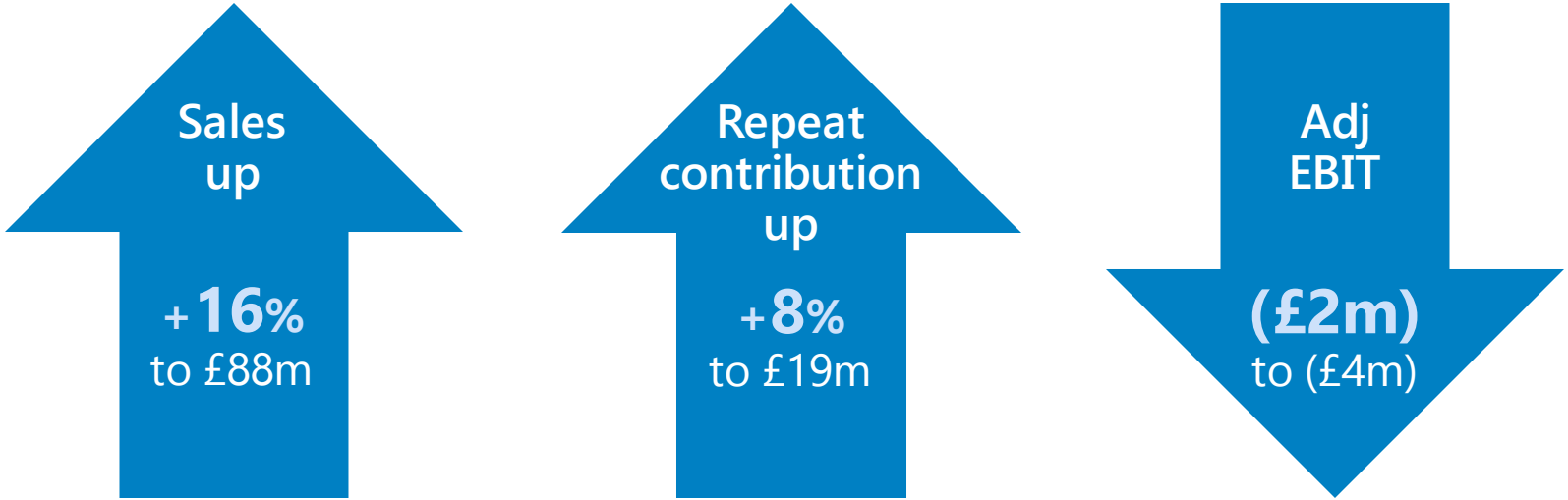
Why? And why now?

- It takes one set of skills to grow from 0-£200m and another to take it to the next stage
- Conclusion of a process that was kicked off 18 months ago
- We did a thorough review of the market
- Decided to appoint Nick subject to
  - Majestic being sold
  - Him proving himself in COO role
- He has proven himself
- Majestic completing shortly

Why Nick?

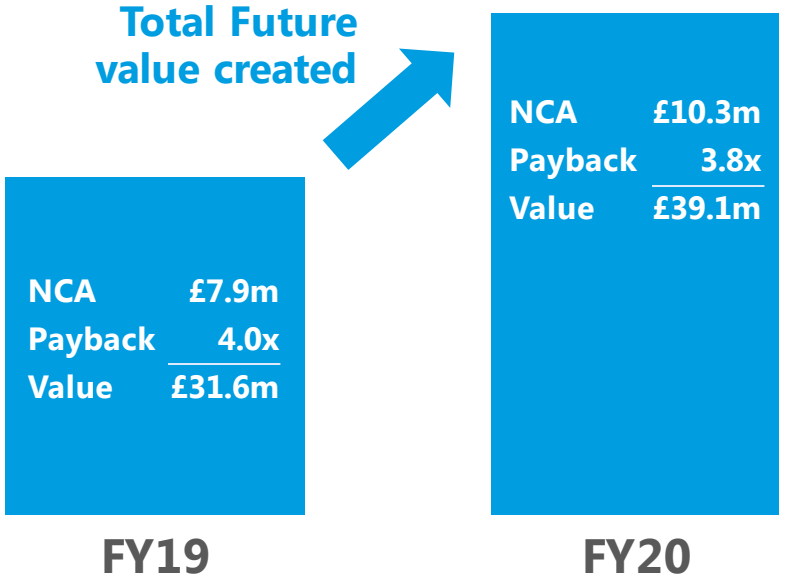
- Right person to deliver on the potential
- Proven ability - driven Naked USA growth
- Up to speed - been with us 4 years
- Imbued with Naked DNA
- Passionate about wine

Trading for the half year broadly on track



Total future value up year on year

- Total future value created up 24%
- US performing strongly
- Investment and payback slightly behind where we wanted to be
  - Sluggish UK & Australian market
- Repeat customer sales retention 1% up on prior year



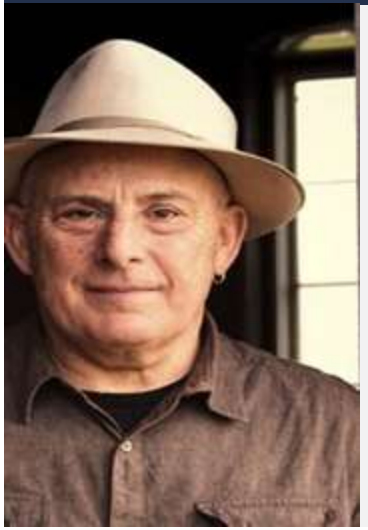
Attracting super star winemakers

Patricia Benitez



- 12 years as winemaker of Pingus, Spain's most famous wine at £800 a bottle
- First wine for Naked arriving Autumn 2021

Daniel Baron



- Former winemaker of Silver Oak ($125 a bottle), Dominus ($300) and Twomey ($50-70)
- Will make a Napa Cab from Chiles Valley

New partners recruited will deliver growth

New

AARP Real Possibilities

Green Chef

Barnes & Noble

Office Depot

EveryPlate

Existing

HelloFresh

zooplus

Book Depository

Blacks

zulily

Shutterfly

American Express

kogan

wayfair

trainline

Staples

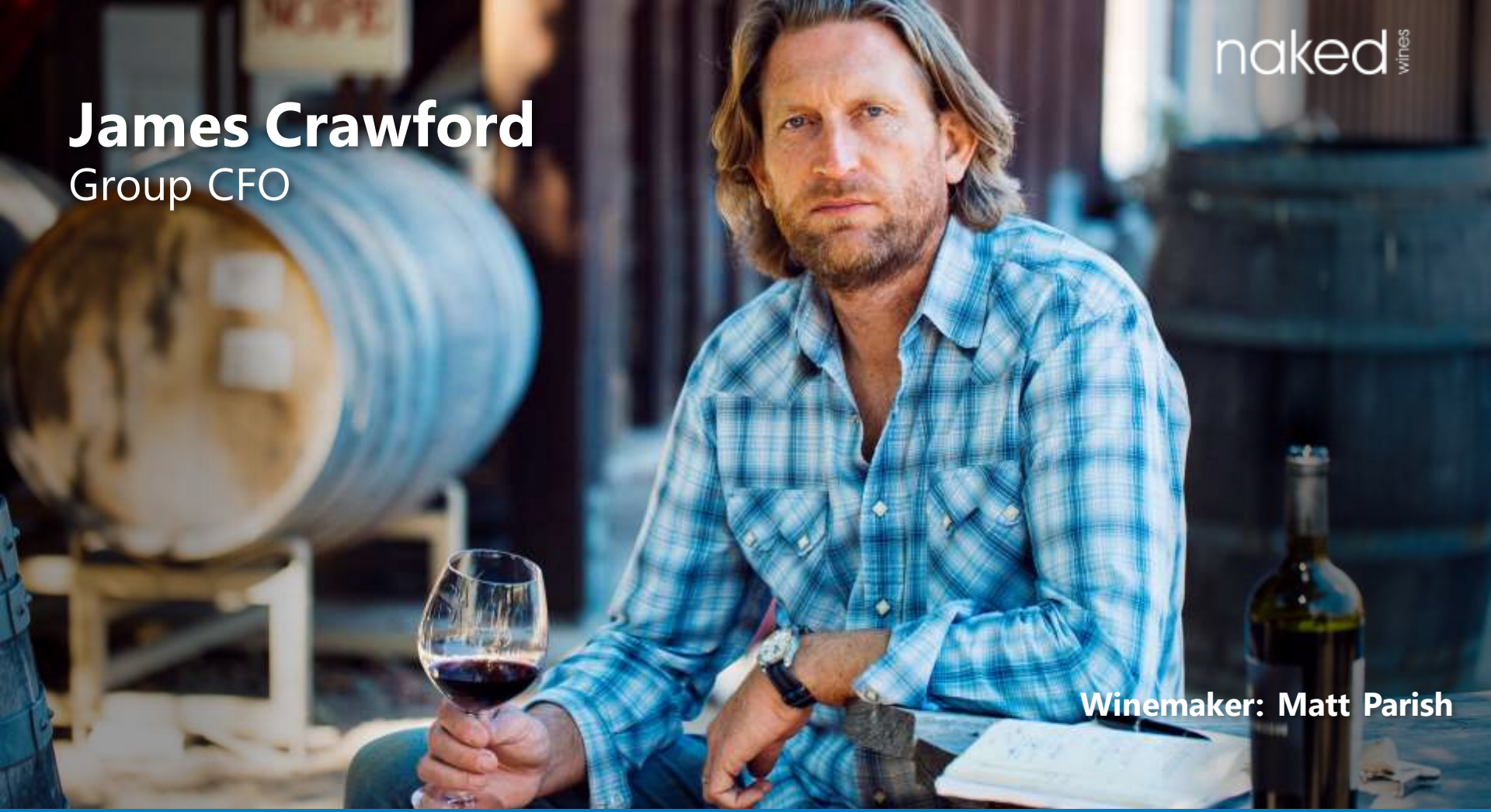
ProFlowers

Crate&Barrel

amazon.com.au

Saks Fifth Avenue

Fanatics


naked wines
James Crawford
Group CFO
Winemaker: Matt Parish


Foundations laid
Growth on track
Fulfilling the potential

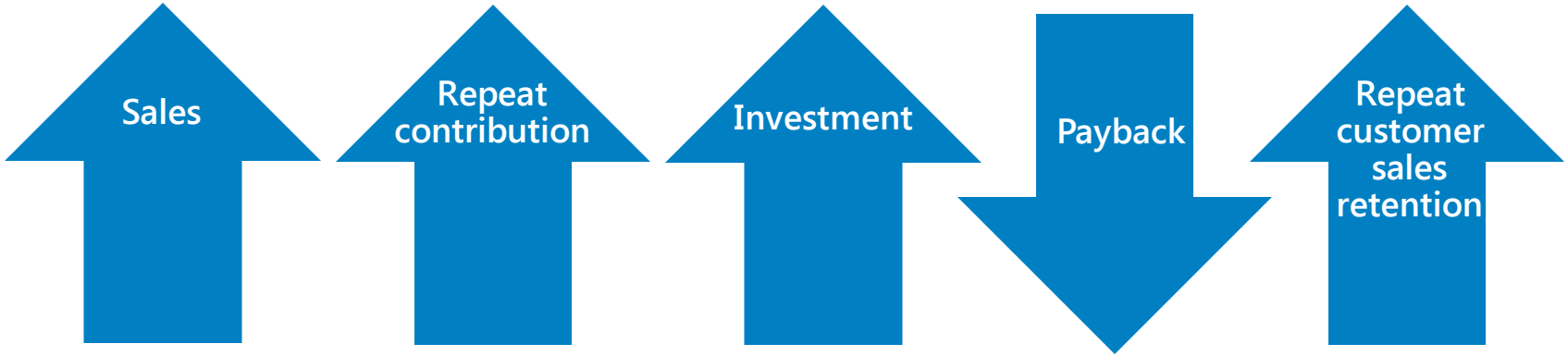
Financial review

Growth strategy on track

Strongly capitalised for future growth

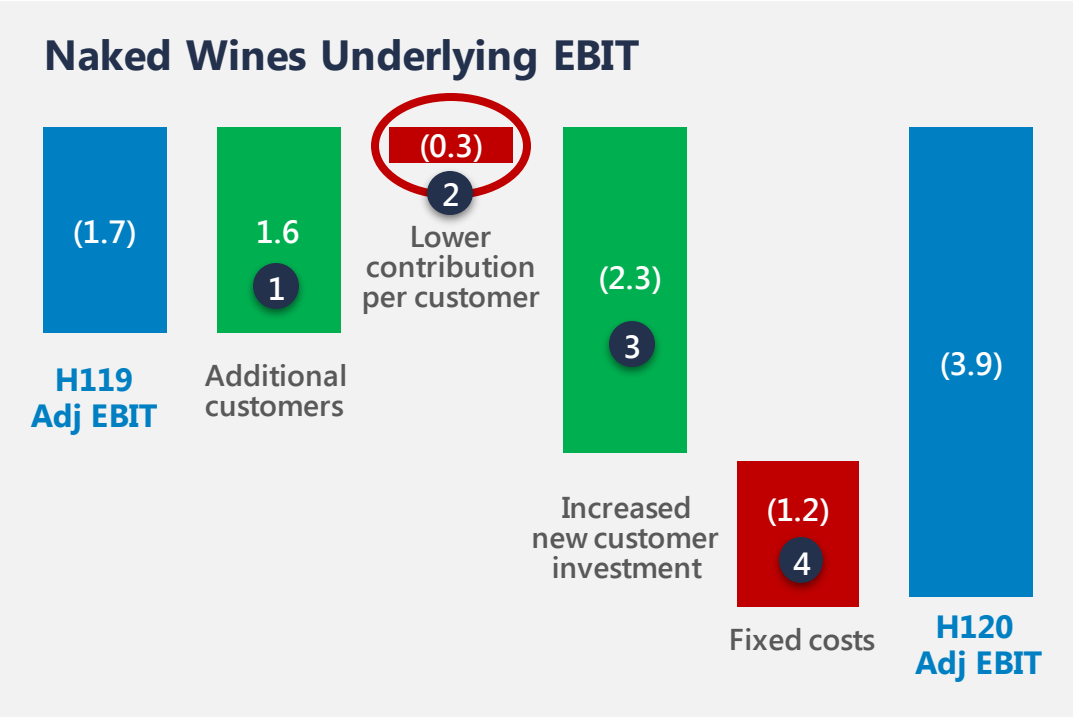
Disciplined use of capital

Growth on track



Sales	Repeat contribution	Investment	Payback	Repeat customer sales retention
+16% to £88m	**+8%** to £19m	**+29%** to £10m	**3.8x** (0.2x)	**+1%** to 79%

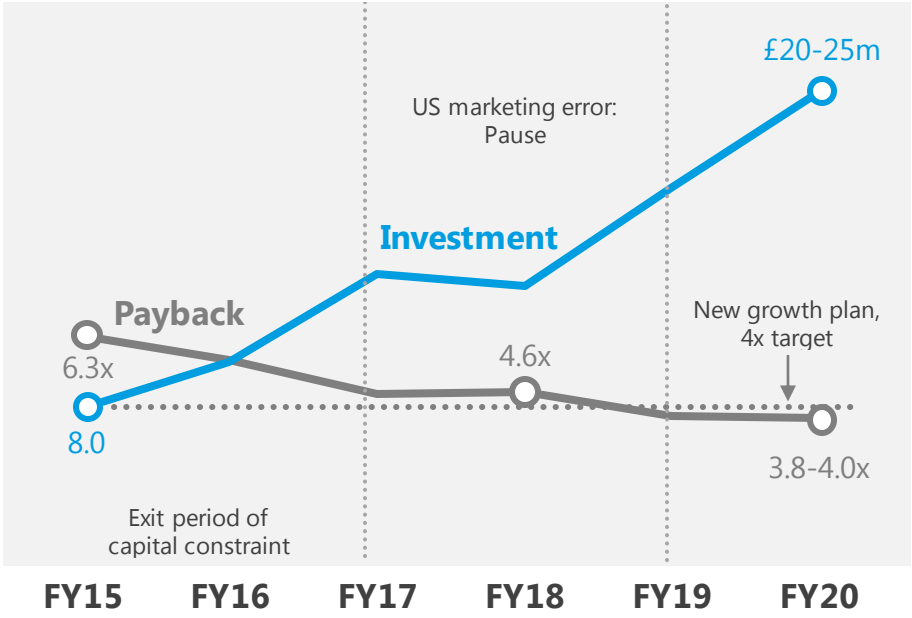
Adjusted EBIT lower due to higher investments



4 things to note

1. Contribution largely generated by customers recruited in prior periods
2. Margin declines:
   - Investment in premiumisation
   - Proactive refunds program
3. This investment will drive growth in future periods
4. Broadly in line with guidance

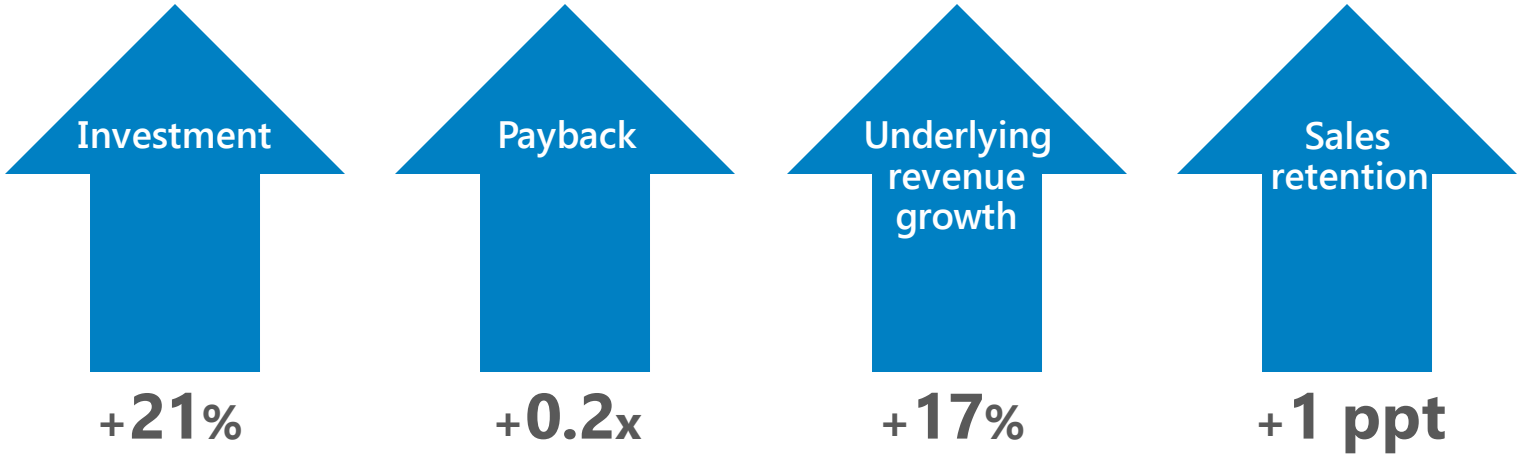
Strong investment growth 29%, Payback broadly on track at 3.8x



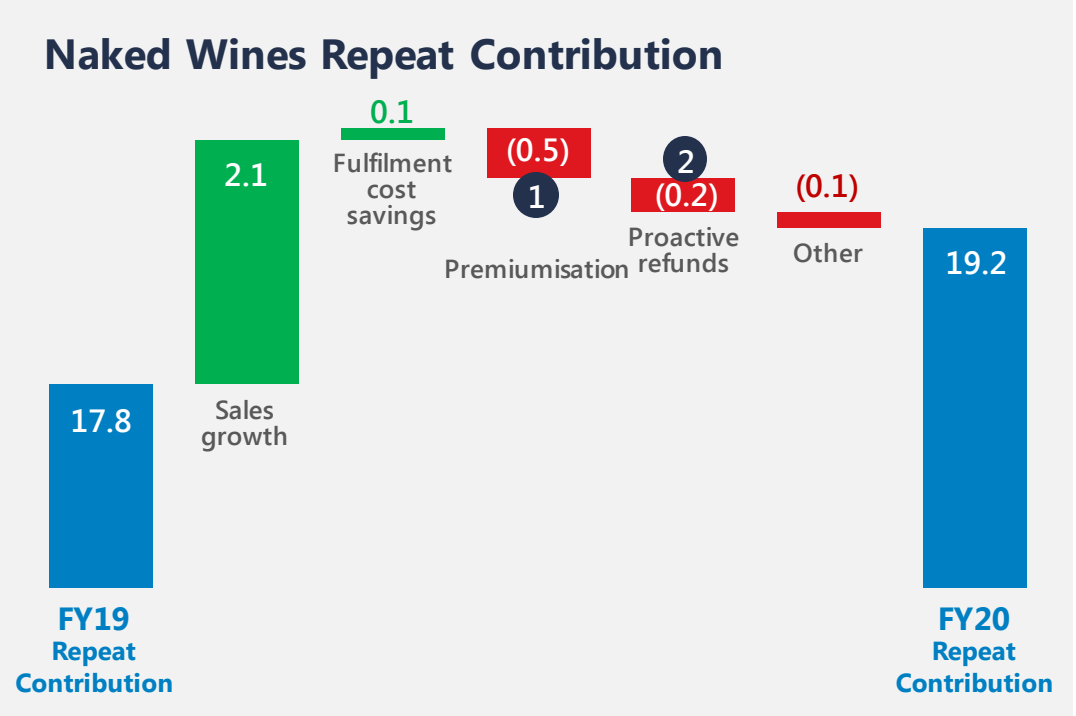
- We grew investment slower than expected due to sluggish trading in the UK and Australia
- US ahead on all KPIs
- Long term picture remains unchanged

Consistent strong performance in most important market

US performance



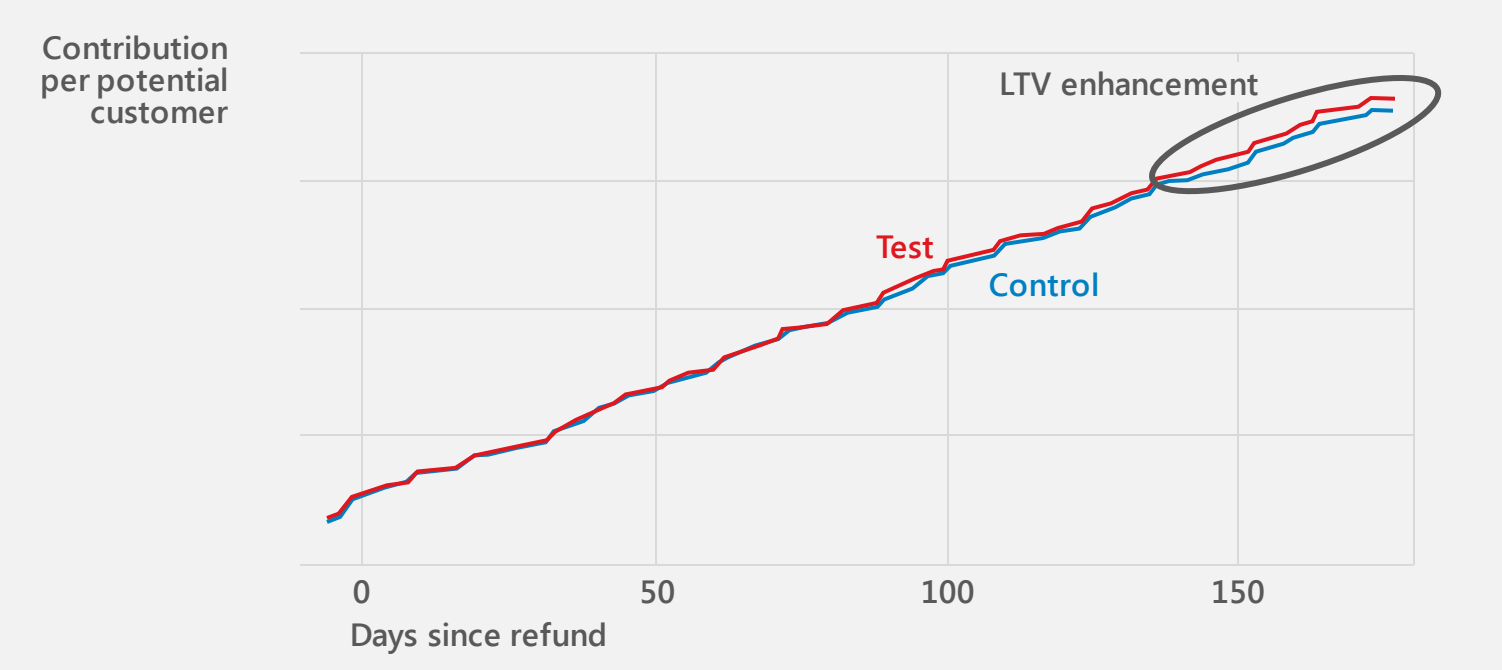
Repeat customer contribution up 8%



- Repeat customer sales +12%
- Two investments to improve customer value:
  1. Premiumisation: Higher value samples to encourage "sweet spot purchasing"
  2. Proactive refunds: Build customer confidence to try new wines

Proactive refunds

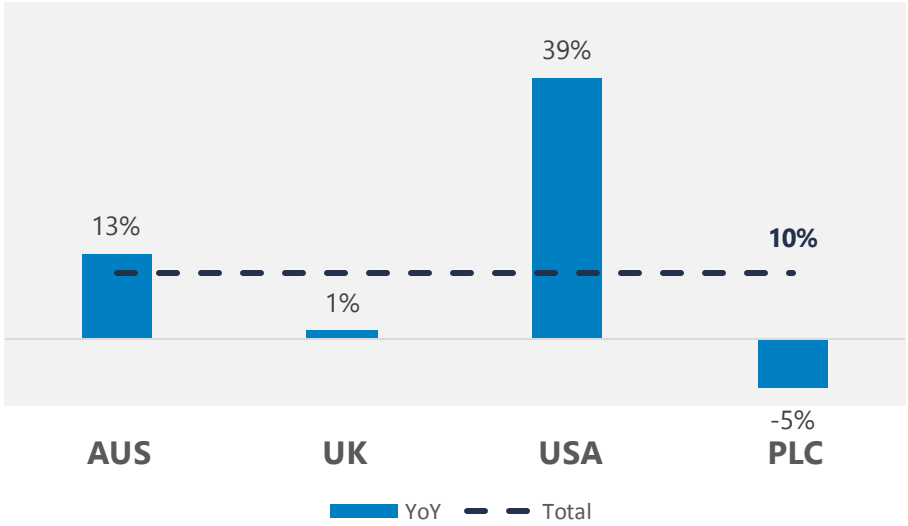
Build customer confidence to try new wines



Fixed costs

On track to 10% Guidance

Naked Wines fixed costs growth by market



- H1 +10% on track to FY20 guidance
- Growth aligned to opportunity
  - US high growth
  - Plc dropping
- Savings post Majestic sale c. £1m p.a. initially through IT recharges

FY20 Guidance

New customer investment	£20-25m
Payback	c.3.8 - 4.0x
Year 1 payback (FY19 investment)	65-70%
Repeat customer sales retention	c.82%
Repeat customer contribution margin	25-26%
Fixed costs	£24-26m

Should deliver Standstill EBIT growing by c.10-15% vs FY19
(like for like basis, inc all Central costs)

Financial review

Growth strategy on track

Strongly capitalised for future growth

Disciplined use of capital

Disposals generating £111m

Transaction	Value (£m)	FY20 (£m)	Future years (£m)	Expected timing
Lay & Wheeler	**11**	11	-	Completed Oct 2019
MWWL				
- Initial	**78**	78	-	End of CY 2019
- Calais contingent	**5**	-	5	Completion + 2 yrs
- Loan note	**12**	-	12	Completion + 5 yrs
- Property disposals	**5**	-	5	Planning dependent
Gross proceeds	**111**	89	22	
Less: costs	(5)	(5)	-	
Net proceeds	106	84	22	

Business will have c. £50m of cash post initial completion(s)

	£m
FY20 disposal proceeds	84
Net debt at closing (estimated)	(32)
Continuing business cash	**52**

Continuing investment in growth

Cash flow (£m)	H1 20	H1 19	YoY
Adjusted EBIT	(3.8)	(1.7)	(2.1)
Add back D&A	0.8	0.2	+0.6
Adjusted EBITDA	**(3.0)**	**(1.5)**	**(1.5)**
Capital expenditure	(0.6)	(0.3)	(0.3)
Working capital movement	(7.4)	(9.7)	+2.3
Pre tax FCF	**(11.0)**	**(11.5)**	**+0.5**

- H1 always cash consuming due to working capital build up for Christmas
- Stepped up growth investments in customer acquisition and working capital
- Cash outflow reduced yoy due to lower WC build despite higher losses

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Disciplined use of capital

Priorities for uses of capital remain unchanged …

Current guidance on cash utilisation shows significant cash available

1	**Healthy Balance Sheet**	✓	Will use disposal proceeds to extinguish debt
2	**Invest for growth**	✓	• 29% growth in new customer investment. • Current run rate is approximately £10m cash consumption per annum to fund growth
3	**Return excess capital to shareholders**		Pending finalisation of growth requirements

Nick Devlin
Group COO




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Me

The US opportunity

Guiding principles

Background

- Former Management consultant for OC&C Management Consultants
- Joined Naked wines 4 years ago
  - Head of Continuous Improvement in the UK
  - President of USA operations for last 2 years
  - Promoted to Group COO and appointed to the Board in June 2019
- Overseen the US growth
- Exponent of the existing growth strategy

Me

The US opportunity

Guiding principles

The US opportunity



US DTC wine market is $3bn and has doubled over the last 7 years

- As a winery, we can sell direct to 96% of the US wine drinking population



We are to wine what Netflix is to movies

- 3 tier regulation means attractive margins and will likely stay that way

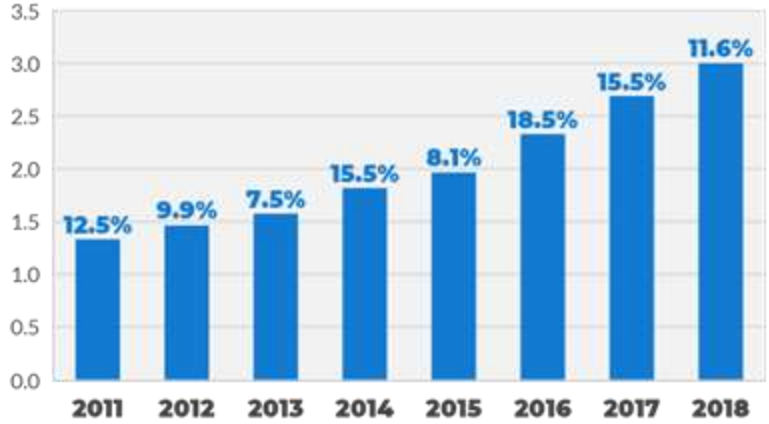


Unique and established model

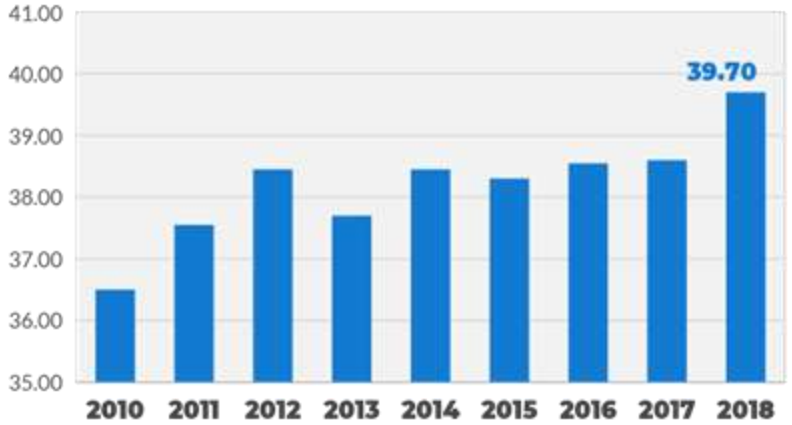
- Number 1 player in US DTC

Large and growing addressable market

Growth in value ($ billion)



Average price per bottle ($)



Source: 2019 Direct to Consumer Wine Shipping Report. See www.shipcompliant.com/dtcreport19 for more information.

We have favourable economics

We are NOT a wine retailer.
Like Netflix, we produce original content, so...

1 We are regulated as a winery

We can access 96% of US wine drinking population

2 We access 3 levels of GP

We can beat our competitors on price and still make healthy margins

3 We own our brands

Customers become loyal to our exclusive wines and winemakers

And an established leadership position

Nakedwines.com
voted as the
#1 US wine club by USA Today



Nakedwines.com
is the market leader in Pennsylvania - the most recent major state to open for DTC

Winery	% sales
NAKEDWINES.COM INC	11.0%
WINE INSIDERS	8.6%
LAITH WAITES	5.4%
WOLF BLASS/ WINDSOR	2.8%
FIRSTLEAF	2.4%
WINE ACCESS	2.3%
TREASURY WINE ESTATES AMERICAS COMPANY	1.9%
FN CELLARS LLC	1.7%
WINC	1.6%
HALL WINES LLC	1.5%
1-800 WINESHOP.COM, INC	1.5%
VINTAGE WINE ESTATES INC	1.5%
HUNEEUS VINTNERS LLC	1.1%
HARLAN ESTATE WINERY INC	1.0%
JACKSON FAMILY WINES INC	1.0%
KB WINES LLC	1.0%
GIFT SERVICES INC	1.0%
PETER MICHAEL WINERY	0.9%
DUCKHORN WINE COMPANY	0.9%
STAGS LEAP WINE CELLARS LLC	0.9%

Me

The US opportunity

Guiding principles

Guiding principles

What stays the same?

- Our mission – connecting every-day wine drinkers to talented and passionate winemakers
- Core belief – we maximise shareholder value by disrupting the wine industry for the benefit of customers, winemakers and staff
- Disciplined capital allocation
  - Stable balance sheet
  - Growth
  - Return to shareholders
- How we progress
  - Test and learn
  - Continuous improvement

What will change?

- We think we can grow faster
- We think we can deepen our defensive moat

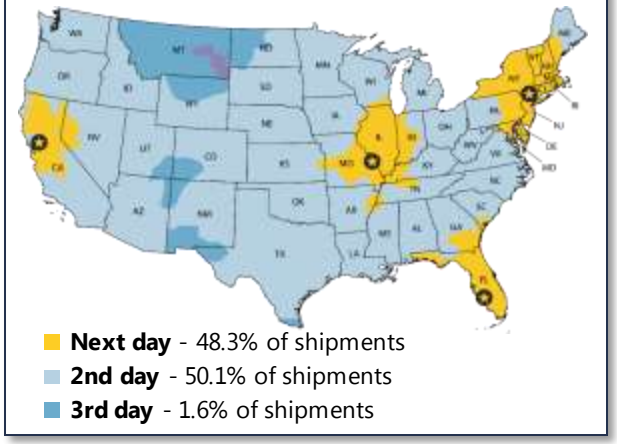
Deepening defensive moat

Projects completed this year

Customer powered pricing

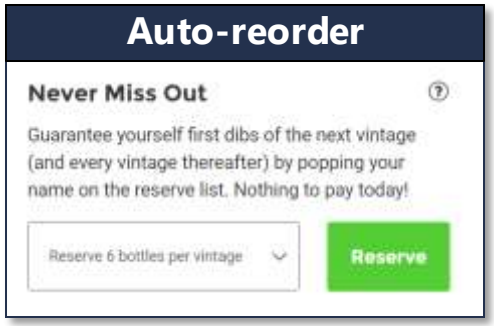


Restructured US supply chain



Signed c.15k Angels

Auto-reorder



Restructure will deliver $1m of cost savings p.a.

If we can deploy the capital …

	Current trajectory	Deploy excess capital
Sales trajectory	+10% - 15% p.a.	+20% p.a.
SS EBIT % at maturity	c.10%	c.10%
Cash utilisation	£10-15m	£40m

- Illustrative example showing what the business is capable of at different levels of investment
- Two attractive outcomes:
  - Medium growth, high cash
  - High growth, low cash

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.

In case you were wondering...

1. **Will you throw good money after bad?**
   No. We will remain committed to rational and profitable growth investment. Where we see evidence of falling returns, as we have in UK in H1, we will pull back spend.

2. **Are you going to do something stupid with the money?**
   No. We will look at ways to invest to accelerate our core business and deepen our competitive moat but we are not planning any investment outside of our core business.

3. **Are you holding onto the cash for ever?**
   No. We need 12-18 months to prove the options to accelerate investment. At that point, should we still be forecasting excess capital we will make returns to shareholders.

4. **Are you going to spend all the cash to find out the answers?**
   No. Our guidance is up to £3m of annual new customer acquisition investment directed to tests

Summary

Foundations laid

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- Clear focus - US market
- Fully resourced
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Growth on track

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naked wines
Q&A
Winemaker: Sam Plunkett



Appendices

Winemaker: Katie Jones

Business unit details: Naked Wines

	Underlying		
	HY20 £m	HY19 £m	YoY %
Revenue	**87.5**	**77.3**	**13.2%**
Gross profit	33.5	30.5	9.9%
Gross margin	38.3%	39.4%	(120 bps)
Distribution costs	(15.8)	(13.2)	20.1%
Administrative costs	(16.8)	(14.0)	19.8%
Adjusted EBIT	**0.9**	**3.3**	**(73.6%)**
Central costs	(4.8)	(5.0)	(5.4%)
Total adjusted EBIT	**(3.9)**	**(1.7)**	**124.0%**

Business unit details: Naked revenue by geography

	Underlying		
	HY20 £m	HY19 £m	YoY %
UK	32.8	29.7	10.3%
US	39.3	33.6	16.9%
Australia	15.4	14.0	10.3%
Total revenue	**87.5**	**77.3**	**13.2%**
Revenue by customer group:			
New customers	12.1	10.2	19.0%
Repeat customers	75.4	67.1	12.3%

FY19 standstill EBIT calc

Calculation Components	FY19 PF Reported
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)
Fixed costs: Plc	(9.6)
Total fixed costs	(23.6)
Stand still EBIT:	
Repeat contribution	39.8
Spend required to replenish	(9.6)
Fixed costs	(23.6)
Stand still EBIT	**6.6**

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 IFRS 16 rent paid less capital expenditure and before adjusting items and taxation.
Net debt	Borrowings less cash and debt issuance cost.
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; b) is calculated using constant FX rates for translation, c) excludes the impact of IFRS 16.

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.
LTV	The future contribution we expect to earn from new customers. This is forecast over a 20 year period.
New customer sales	Revenues derived from transactions with customers who meet our definition of a new customer.
Repeat customer contribution	The profit attributable to those sales after fulfilment and service costs.
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.
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.
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.
Stand still EBIT	Stand still EBIT calculates EBIT after allowing for the cost of replenishing attrition, measured by sales rather than customers