

FY20 Results Presentation

24 June 2020

Delivering growth, opportunity accelerated

Winemaker: **Carmen Stevens, South Africa**

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Overview: Delivering growth, opportunity accelerated

- FY20 results marginally ahead of expectations
  - 14% revenue growth
- Significant improvement in sales retention and 20-year payback metrics driven by strong second half and COVID acceleration in final weeks of year
  - 83% sales retention
  - 4.9x 20-year payback
- Strong balance sheet with £55m net cash gives flexibility
- Well positioned for an accelerated shift to online





naked wines

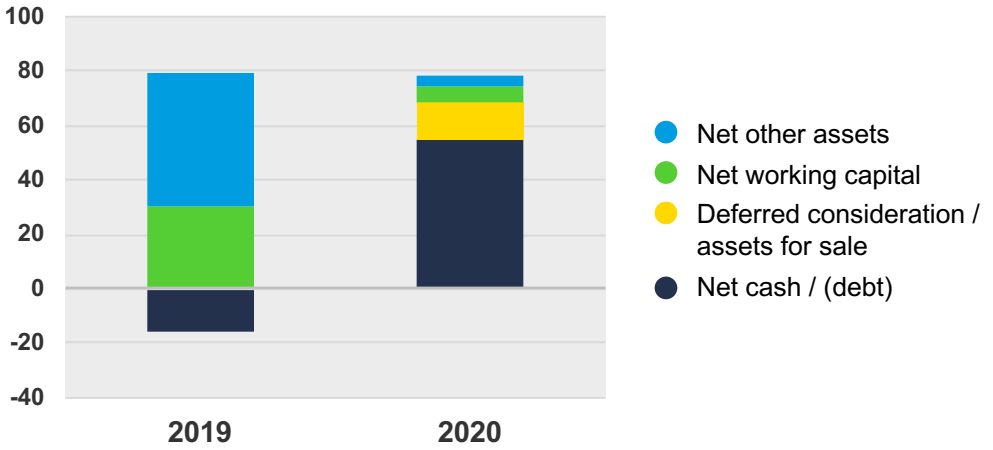
James Crawford

Group CFO

Winemaker: **Tom Puyabert, Spain**

A reshaped, well funded, asset-light group

Net Asset Base (exc. Intangibles) (£m)



2019	2020	
£506m	£203m	**Sales**
6%	14%	**Sales growth**
£12m	£(1.4)m	**Adj EBIT**
£6.1m	£1.6m	**Adj EBIT YoY**

Note: FY20 relates to continuing businesses only

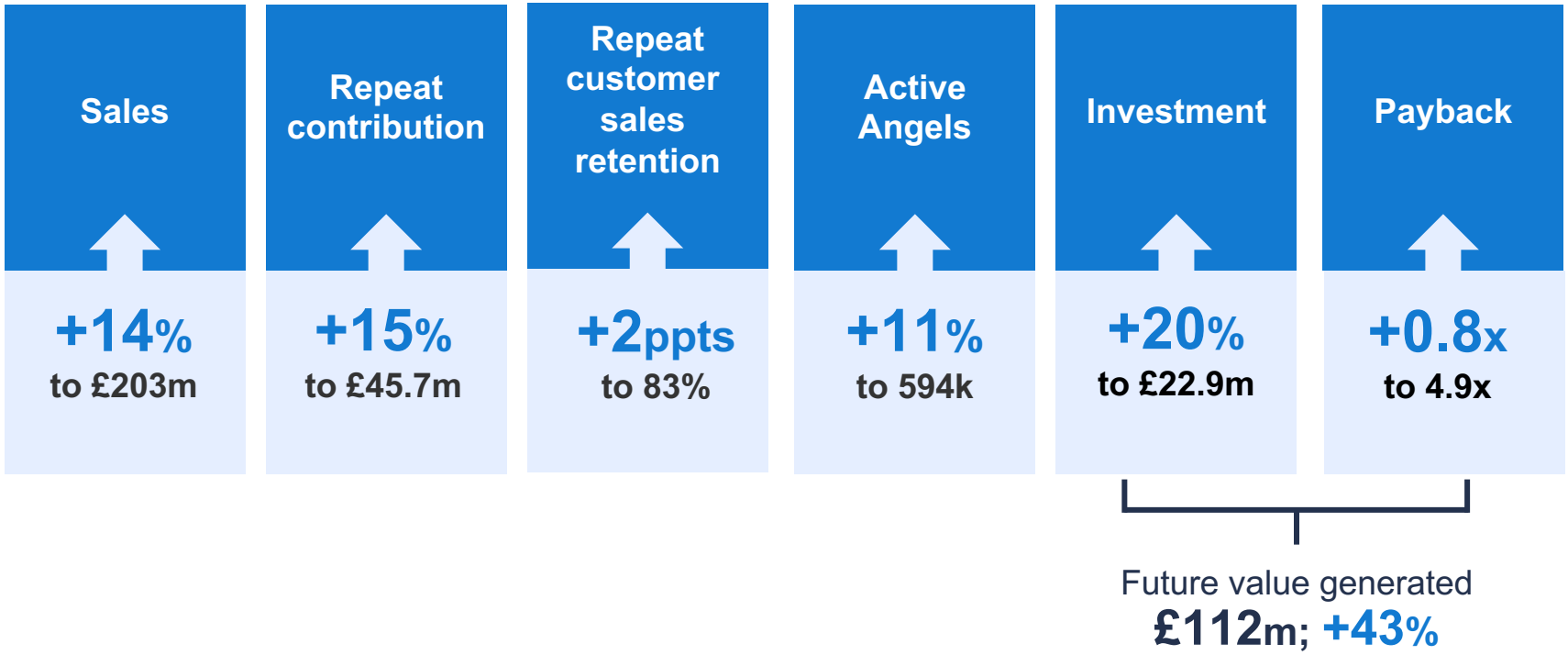
Reduced asset base

- Divested of fixed assets: Majestic stores
- Reduced working capital

Converts to cash

- £55m cash on hand at year end
  - Covers >100% of Angel Funds
  - Or 2 years fixed cost base
- Up to £23m to follow
  - Escrow
  - Store sales
  - Brexit contingent consideration
  - Loan note

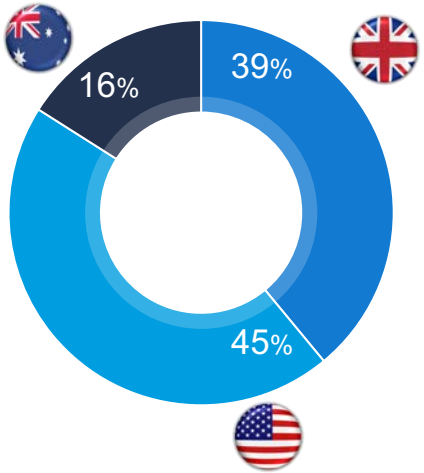
Business model delivering consistently



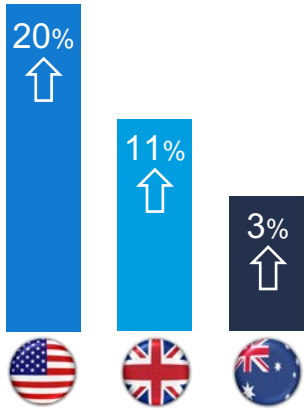
Largest market, USA, delivering fastest growth

- US market clear leader in both scale and growth
- Growth accelerated into H2 in main markets
  - Returned to growth in investment
  - COVID acceleration late March
- Maintained investment discipline in Australia

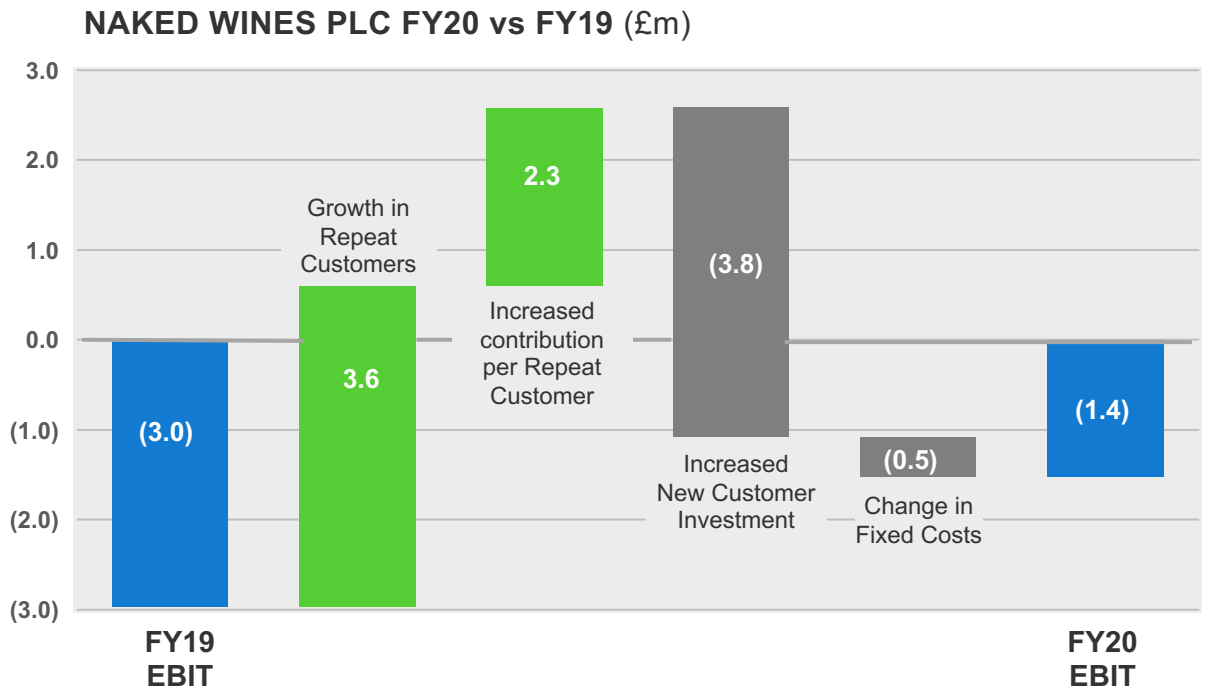
FY20 SALES



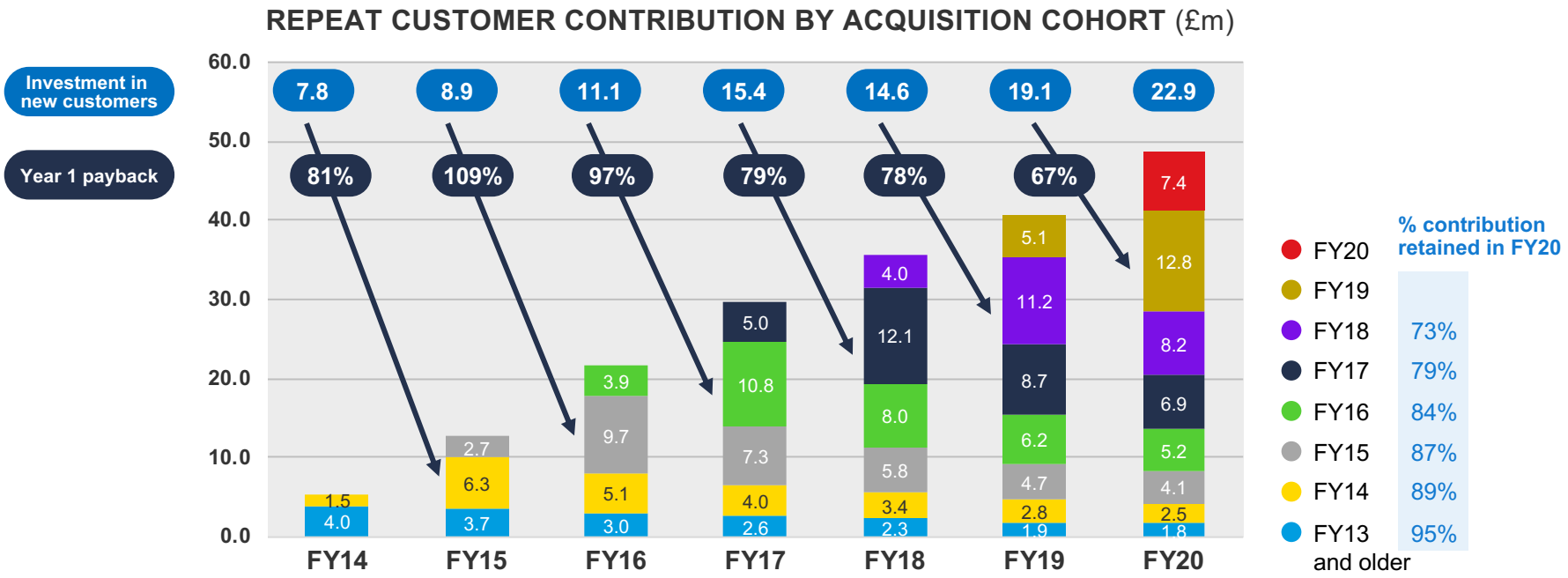
FY20 SALES GROWTH



Repeat customer growth driving adj EBIT improvement



Repeat contribution growth driven by strong retention and investment payback

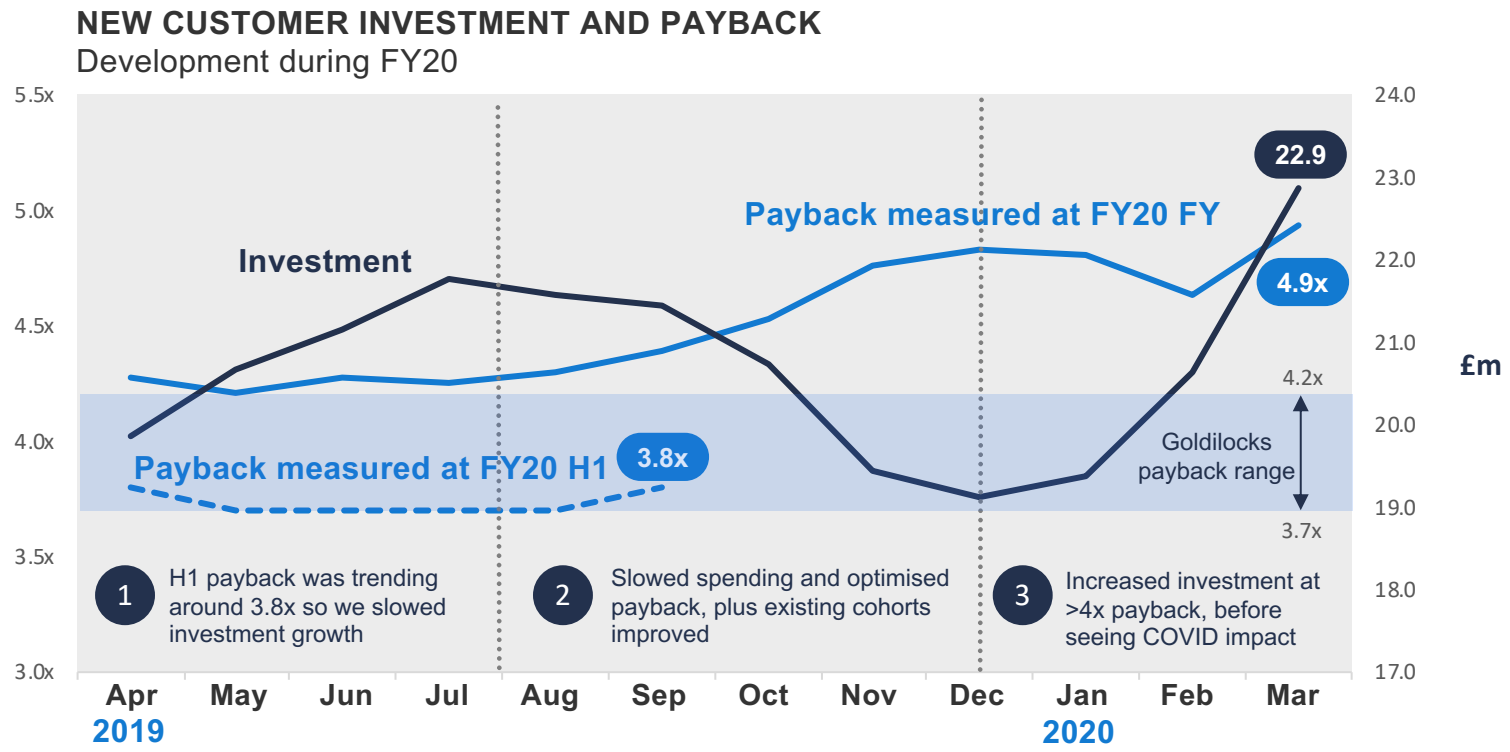


1. Analysis excludes revenue recognition adjustments
2. Restated for constant currency

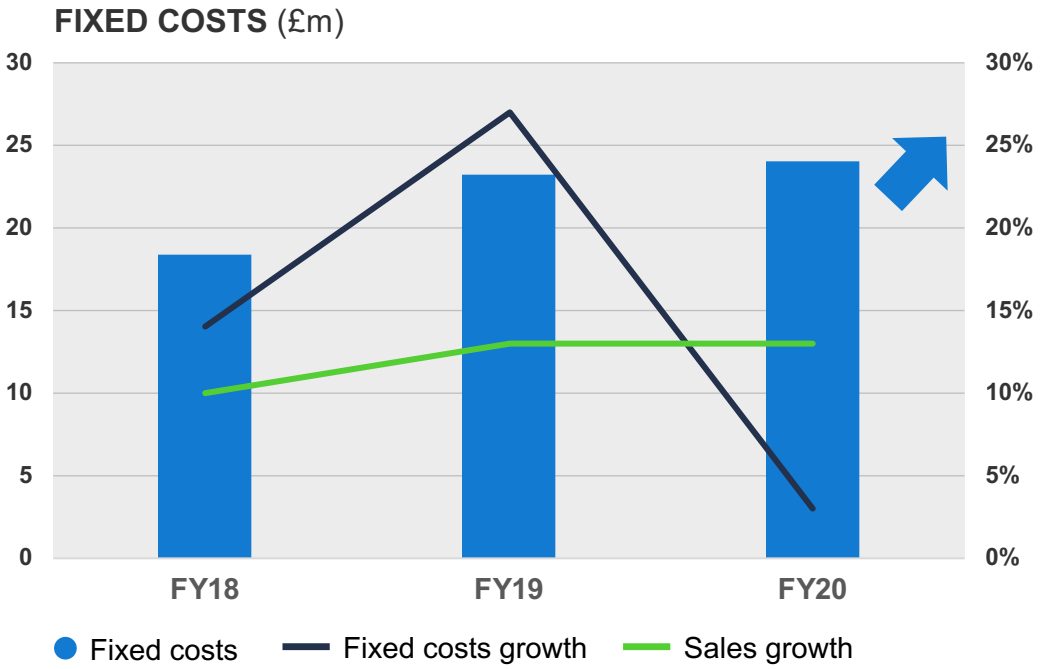
… translating to attractive paybacks

Cohort	Age at reporting date	Payback		
		5 year (Forecast)	20 year (Forecast)	Payback to date
FY16	49-60 months	3.1x (actual)	6.3x	3.1x
FY17	37-48 months	2.5x	5.2x	2.1x
FY18	25-36 months	2.5x	5.1x	1.6x
FY19	13-24 months	2.3x	4.4x	0.9x
FY20	0-12 months	2.6x	4.9x	0.3x

Investment plans determined from payback



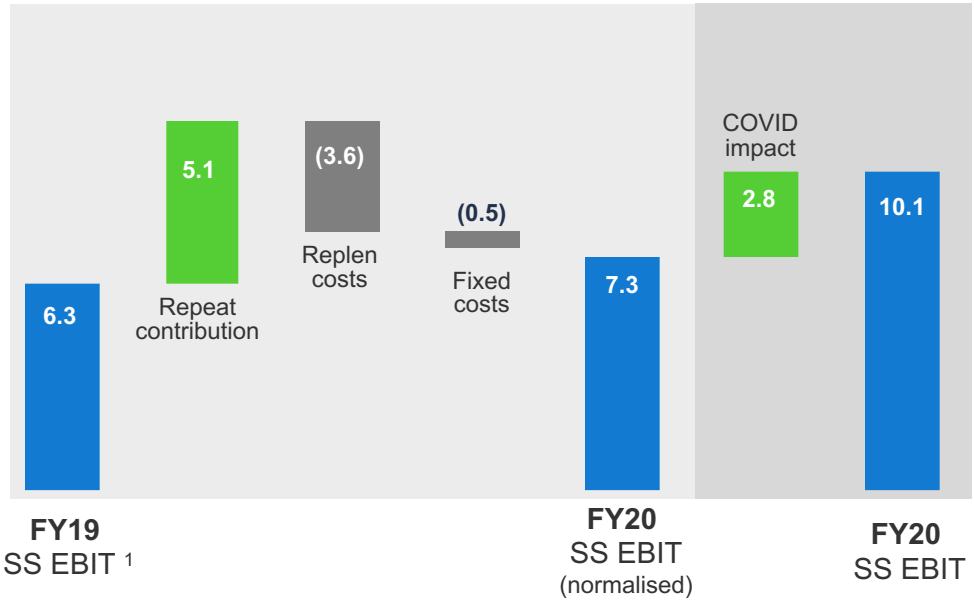
Fixed costs below guidance



- FY20 growth at bottom end of guided range
  - Phasing of new hires
  - Reduced variable compensation
- Will unwind into FY21

60% growth in Standstill EBIT, 17% exc. COVID

STANDSTILL EBIT (£m)



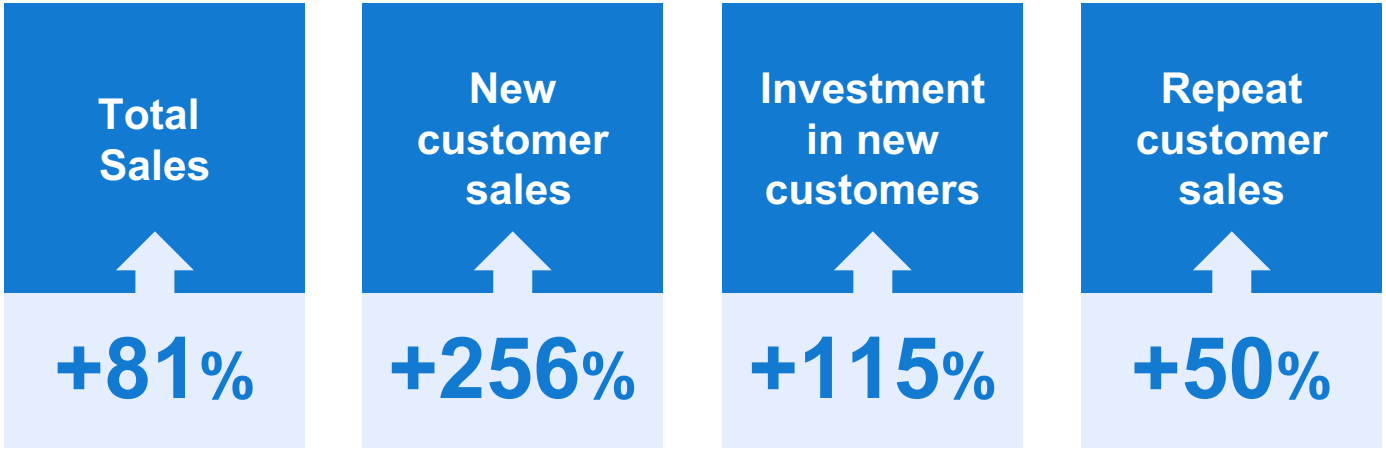
- Standstill (SS) EBIT = EBIT excluding investment that drives growth
- We have normalised for estimated COVID impact
  - Significant impact on this metric as impacts all components of calculation
- Growth driven by
  - More repeat contribution; less
  - Increase in replenishment spend; less
  - Fixed cost increase

Note: Investment KPIs are calculated from management information before revenue recognition adjustments. Due to high numbers of orders placed and not delivered as of March 30th we see stronger KPIs than are reflected in reported financial performance

Continuing business cash consumption is modest

For the year ended (£m)	FY18	FY19	FY20	Total FY18-20
Repeat contribution	*33.8*	*39.8*	*45.7*	*120.0*
New customer investment	*(14.0)*	*(19.1)*	*(22.9)*	*(56.5)*
Fixed costs	*(18.3)*	*(23.7)*	*(24.2)*	*(66.4)*
Adjusted EBIT	1.5	(3.0)	(1.4)	(2.9)
Addback depreciation	0.4	0.6	1.8	2.8
Adjusted EBITDA	**1.9**	**(2.4)**	**0.4**	**(0.1)**
Less Capex	(0.9)	(0.9)	(1.1)	(2.9)
Change in working capital	3.1	(6.3)	(1.7)	(4.9)
Free Cash Flow	**4.1**	**(9.6)**	**(2.4)**	**(8.0)**
Year on year growth in working capital	3.1	(6.3)	(1.7)	(4.9)
Year on year growth in New Customer Investment	(0.8)	5.0	3.4	7.6
Ratio	388%	126%	50%	64%

Current trading (to end P2) showing continued acceleration



Note: Growth rates are in comparison to end P2 YoY. We are providing a one-off update on current trading as a result of the COVID pandemic having a material impact in the group. It is not policy to typically release this.

Cost guidance

1. **Not providing full FY21 guidance due to COVID-19**
2. **£3m R&D fund**
   - Supports marketing channel expansion
   - Reported centrally, excluded from payback calculations
   - Any “production” spend reported in new customer contribution
3. **£28m - £30m fixed costs (exc. R&D)**
   - £4m - £6m uplift year on year
   - Will unwind underspend from FY20
   - Investment in marketing development, digital marketing, data science, commercial finance
   - If momentum is sustained, we may add further fixed costs to manage the high growth levels



Winemaker: **Eddy Naim, Lebanon**

COVID-19
UPDATE



THE GROWTH OPPORTUNITY



AREAS OF **STRATEGIC FOCUS**



COVID-19 update

People first

- Focus on staff, customers & winemakers
- Giving back to communities
- Supporting the industry

Driving scale

- Driving increased sales early in Q1
- Robust infrastructure scaled efficiently
- Stock to support growth

Early signs positive

- New members performing as forecasted
- Angel retention rates strong
- Retained 5* customer service and 90% ‘Buy It Again’ rating

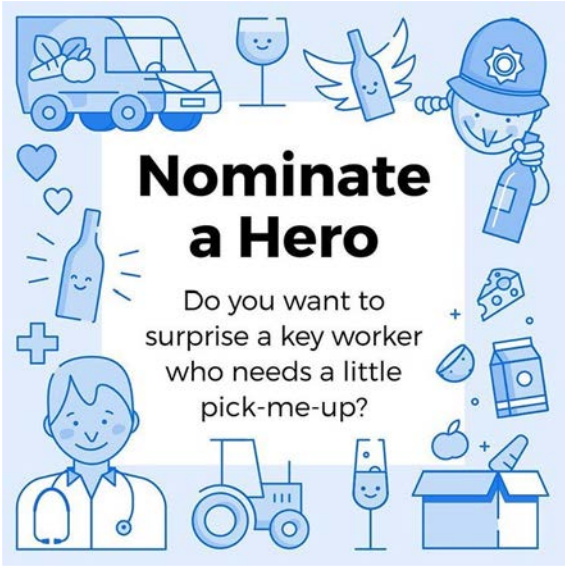
Medium term upside

- COVID-19 accelerated trends to online
- Favorable marketing conditions
- Strong balance sheet

COVID-19 UPDATE

Looking after our people and communities

- Safeguarding our employees and supply chain:
  - Social distancing in warehouses
  - Teams and customer service working from home
  - Achieved with minimal impact to customer experience
- Giving back & supporting our communities:
  - UK: 23,000 meals for NHS and 400 cases/week donated to key workers
  - US: 1,000 meals for key workers
  - Producing hand sanitizer in all markets
- Launched a $5m COVID support fund for winemakers & suppliers:
  - $5m fully subscribed
  - Over 44 winemakers supported



COVID-19 UPDATE

Early signs from new cohorts encouraging

- Too early to be definitive but ‘no red flags’ on cohort quality
- Early indicators show:
  - No elevated cancel rates
  - Higher rates of repurchase in early months
  - Higher early contribution per joining Angel
- Remain prudent in outlook as we have no data yet in “normal” conditions

Our subscription model allows us to translate heightened trading through COVID-19 into sustained higher growth



COVID-19 UPDATE

Well positioned for the long term

Demand



- At home drinking likely to continue taking share from out of home through 2020
- Greater awareness and openness to online channel
- Wine category volume demand resilient to recession

Supply



- COVID-19 restrictions will limit On-Premise venues through at least summer 2020
- Some weaker competitor models (low online exposure) may not survive

Marketing



- Lower CPCs / CPMs as weakened players pull back marketing spend
- Increased efficiency driven by higher salience of online wine as category
- Strategic partnerships environment favorable

Naked well positioned with strong balance sheet to take advantage of investment opportunities through disruption

COVID-19
UPDATE



THE
GROWTH
OPPORTUNITY



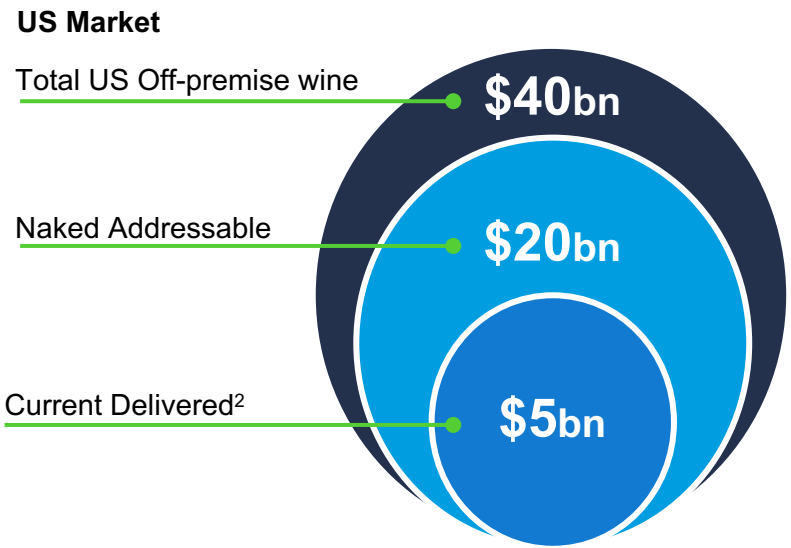
AREAS OF
STRATEGIC
FOCUS



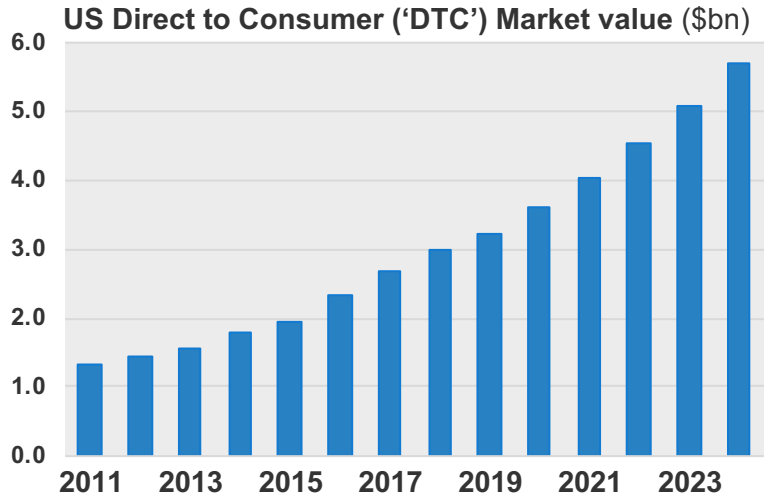
Naked serves a TAM of $20bn in the US

Large addressable market

US WINE MARKET CHANNEL SHARE



Naked in the fastest growing sector[1]

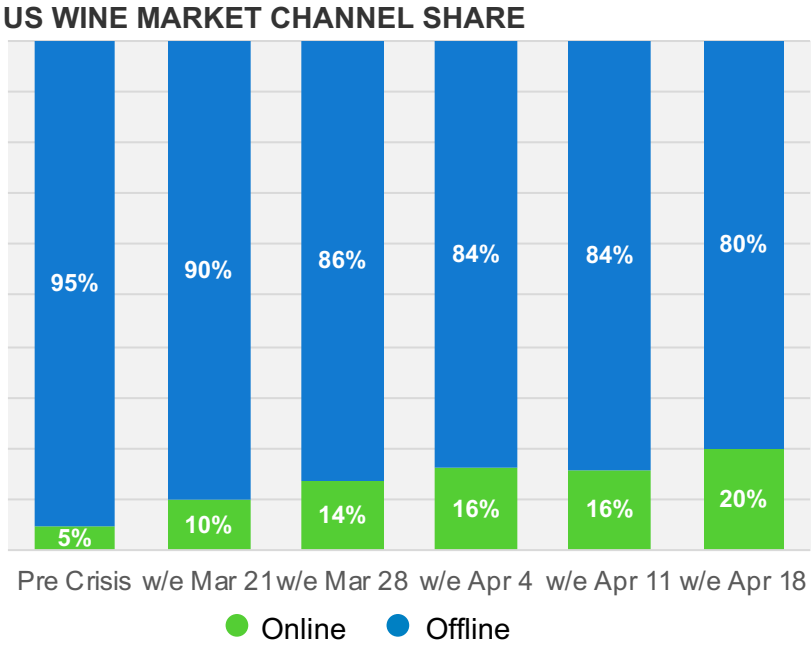


c40%
of Naked's new US customers are new to DTC wine buying

1. 2020 Direct to Consumer Wine Shipping report. See https://www.sovos.com/shipcompliant/resources/wine-dtc-report/
2. Combination of D2C & online based on analysis commissioned by the company

COVID is accelerating shift towards online

20 years of channel shift in 1 month



(1) Pre crisis share based on Nielsen tracked channels for 52 weeks ending 3/28/2020
(2) Channel growth rate data based off Nielsen tracked off premise channels

Increased pace of channel migration will accelerate Naked growth

- US wine market has lagged other US retail categories and UK in pace of online migration
- Unfamiliarity with online was a key barrier
- Q1 saw a 20-year channel shift occur in 1 month
- New pool of buyers who are open to trialling online
- Naked in best position to acquire them in coming years

We have an advantaged model vs competitors

Advantaged direct model

- Access to >90% of US wine drinking population
- Measurably better value for money & quality
- Through exclusive brands
- Generating attractive margins

Positioned to be online winner

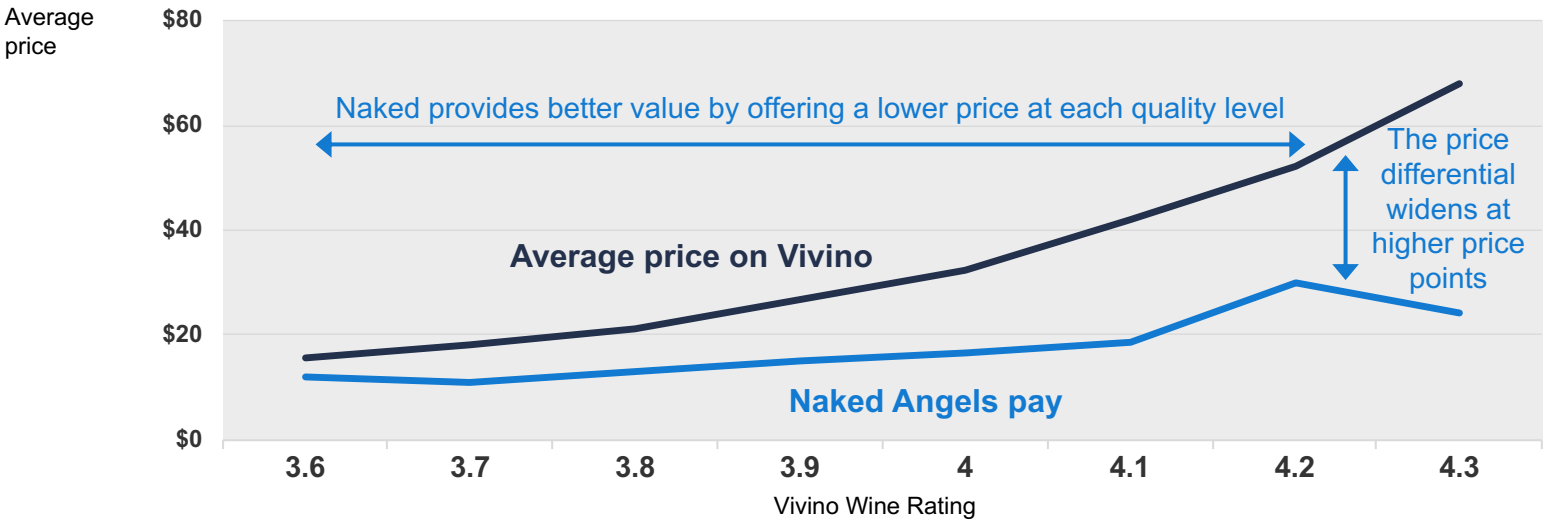
- No physical legacy
- Rich customer experience underpinned by broad range and data led proposition
- Operating at scale driving efficiency & superior customer experience
- Allows advantaged acquisition economics & higher allowable CAC

Substantial barriers to entry

- Category leading US distribution network operating at scale
- Global network of >200 leading winemakers
- >600 exclusive SKUs across >100 brands in US alone
- Data led range & customer proposition based off >20m customer reviews

Which translates into better products …

NAKED PRICING VS VIVINO MARKET AVERAGE (red wine)

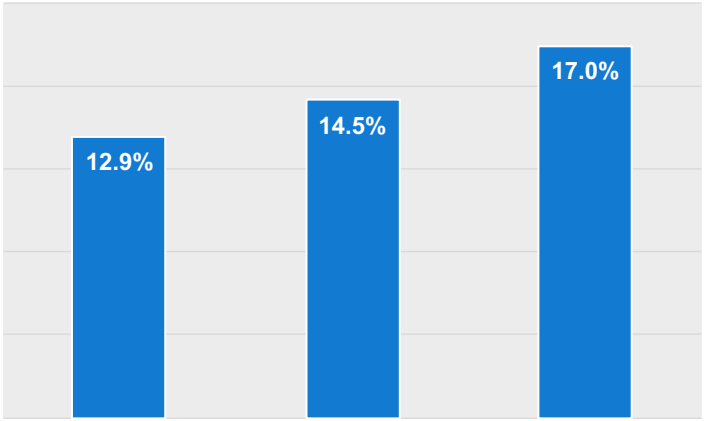


- Naked's model gives consumers better value wine
- As prices increase, so does the Naked saving due to no excessive marketing costs

Note: Pricing data for the USA specifically and is vs Naked USA

. . . and market share

NAKED'S US VOLUME SHARE OF DTC WINE MARKET



2.8%	3.4%	3.7%	**Value share**

- Naked is #1 DTC Wine company in USA
- Gaining share 2019 to 2020...with further share gain during COVID-19
- Naked shipped 1 in 6 bottles shipped DTC in March 2020
- Naked accounted for 30% of total DTC volume growth between March '19 and March '20

COVID-19
UPDATE



THE
GROWTH
OPPORTUNITY



AREAS OF
STRATEGIC FOCUS



There are 3 pillars to our growth plan

1 Improve proposition to increase LTV



IMPROVE ECONOMICS

Improved economics help unlock new channels

2 Harness scale efficiency to drive LTV



NEW CHANNELS

3 Unlock new investment channels



Enhancing the core proposition in 2020

Optimising new customer proposition

Testing:

- Initial wine curation
- Proposition clarity
- First purchase economics
- Onboarding comms

More efficient for 1st time shoppers

Enhanced subscriptions

Optimizing:

- Customer experience
- Onboarding mechanics
- Core recommendations

An effortless place to get your favorite wines

Improved shipping and delivery experience

2020 projects include:

- Increasing customer choice
- Transition to 7-day week
- Expand US network capacity

Leveraging scale to improve customer experience

Early testing of ‘Never Miss Out’ & 7-day fulfillment

Never Miss Out



15% average uptake rate

100k active subscribers globally

Count me in!

High customer appetite reflected in signup rate

Value in increasing speed to customer of first order

Naked USA has a category leading fulfilment capability

Moving to 7-day a week picking model will smooth actual time from point of order to customer delivery

Increasing scale delivers enhanced service while cost neutral whilst building more capacity and flexibility into the network



Delivering our goal to recruit world's best winemakers



Winemaker:
Jesse Katz, USA



Winemaker:
Josh Pfeiffer, Australia



Winemaker:
Tom Rinaldi, USA



Winemaker:
Jennifer Buck, France

There are 3 pillars to our growth plan

1 Improve proposition to increase LTV

2 Harness scale efficiency to drive LTV

3 Unlock new investment channels







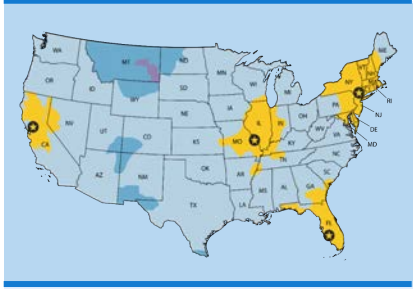
IMPROVE ECONOMICS

Improved economics help unlock new channels

NEW CHANNELS

Naked ops configured for scale efficiency

Negotiated leverage



- Warehouse / 3PL contracts
- Final mile rates
- Packaging costs

Warehouse efficiency



- Fixed site rent leverage
- Improved labor utilization
- Automation potential

Storage efficiency



- Faster stock turn
- Lower warehouse storage costs as % of sales

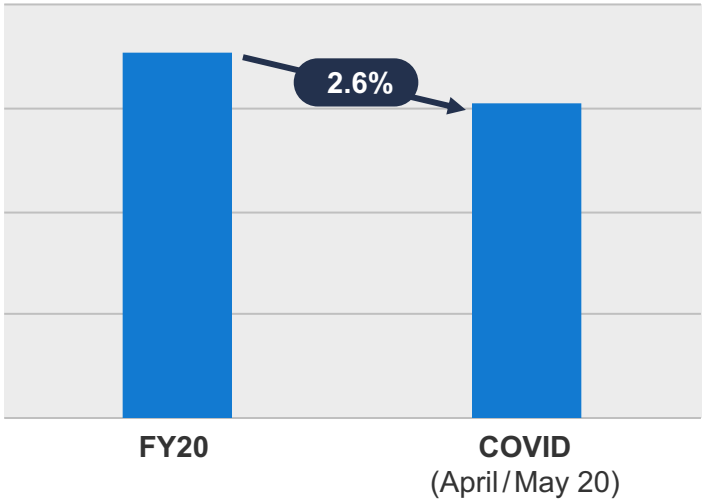
Customer service



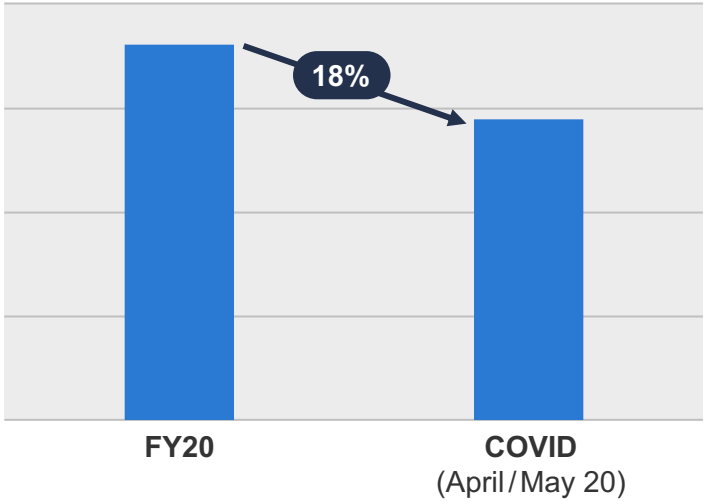
- Critical mass for efficient teams
- Automation / tech
- Self service

L2M has provided a snapshot of ‘Naked at scale’ in the USA

USA FIXED COST / SALES (%)



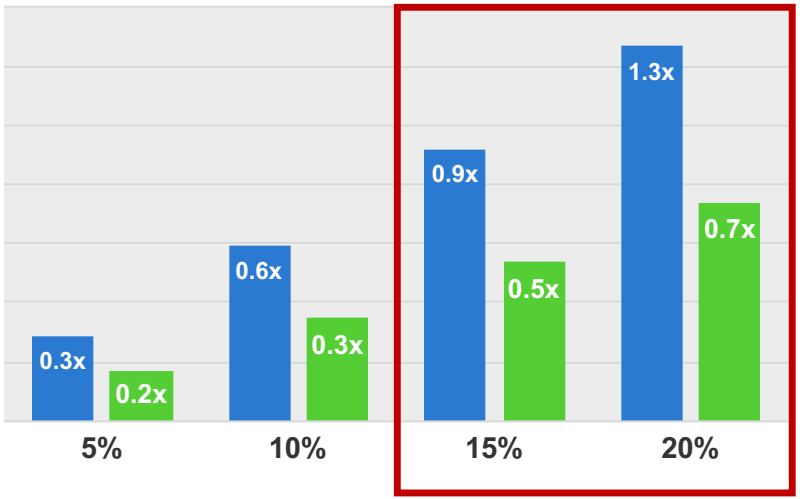
USA FULFILMENT COSTS / ORDER ($)



- Rapid growth in demand has offered a snapshot of potential for scale to transform US economics
- Potential to leverage existing infrastructure in the US to service substantially larger business

Savings unlock payback and growth upside

Naked USA: PAYBACK IMPACT OF VARIABLE COST / ORDER SAVINGS



Range of improvement seen during COVID period to date

- Variable savings drive payback via lower CAC and increased LTV
- Savings levels seen during COVID unlocks 1x payback upside
- Opportunity to re-invest upside in higher allowable CAC unlocking additional productive growth investment

There are 3 pillars to our growth plan

1 Improve proposition to increase LTV

2 Harness scale efficiency to drive LTV

3 Unlock new investment channels







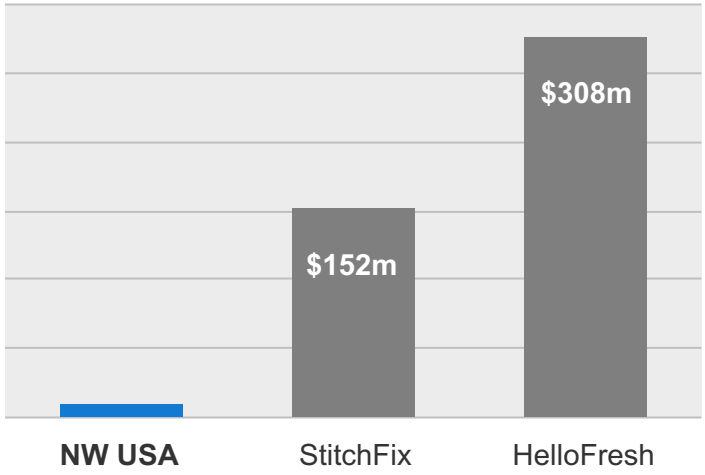
IMPROVE ECONOMICS

Improved economics help unlock new channels

NEW CHANNELS

Substantial headroom for increased investment

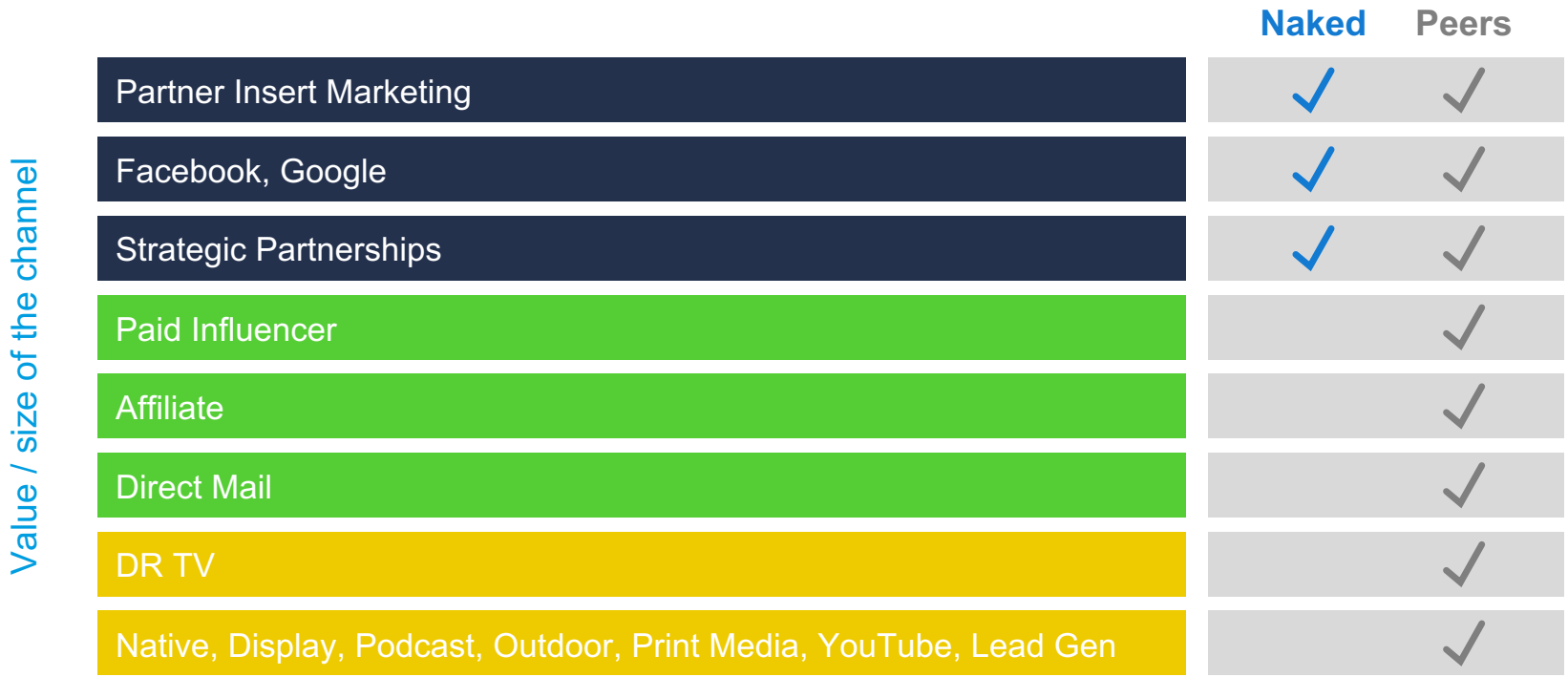
SELECTED USA DTC LEADERS MARKETING INVESTMENT [1]



- We are currently subscale in customer acquisition vs US peers
- Massive headroom in US but also scope for growth in UK / Australia
- When capital constrained, we deployed investment through a narrow set of channels
- Now have opportunity to broaden channel mix

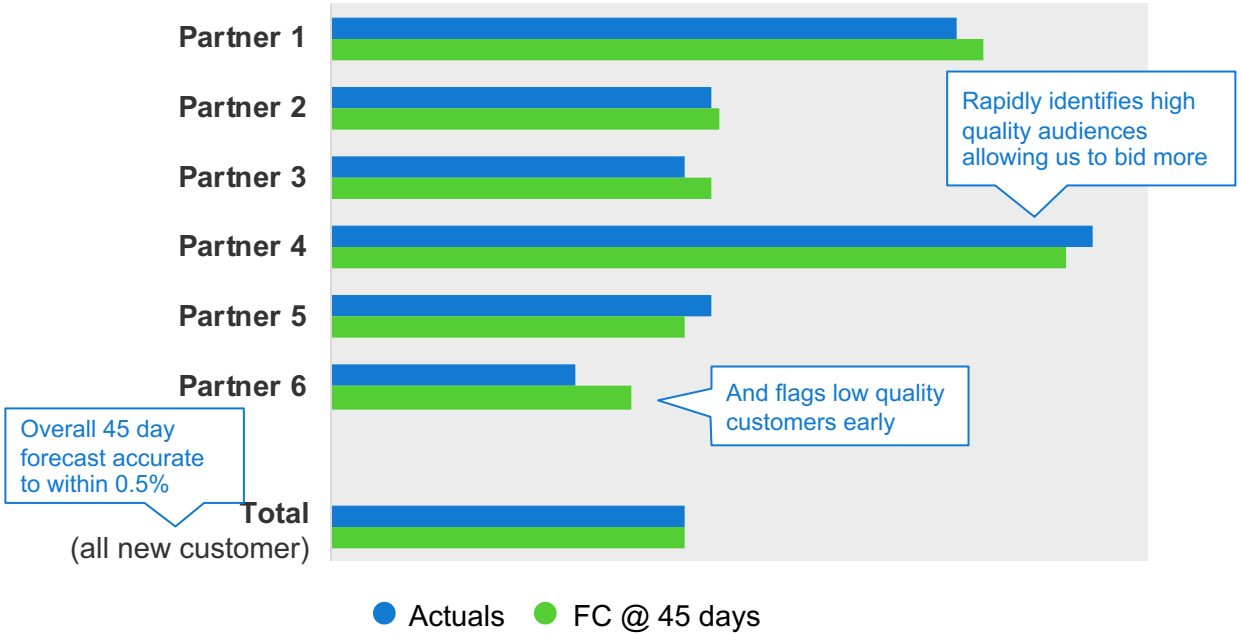
1. Naked Wines USA FY20 Investment, HelloFresh and StitchFix investment levels from latest full year annual reports. US investment only. EUR:USD converted at an average rate of 1.12.

And multiple direct response channels to add



Proprietary customer LTV modelling is a key capability

Naked Customer Valuation Performance



We have . . .

- Refined our investment approach
- Improved early warning systems
- Developed effective data analytics

Enabling us to . . .

- Triple investment in 5 years
- Maintain payback at target levels
- Able to ‘put foot on gas’ much more confidently vs 2016

Significant investment potential

Capital allocation policy unchanged

1. Maintain a healthy balance sheet
2. Invest in growth in a disciplined way
3. Return funds in excess of those needed to fund growth and manage risk

- Cash reserves are a strategic advantage
- Significant headroom and opportunity to accelerate growth
- Maintain prudent capital position in the face of uncertainty

With so many opportunities and the uncertain environment
we are clear the business does not have excess capital;
we intend to retain capital and focus on growth

In Summary

- Differentiated proposition delivering superior value to customers
- Clear and proven investment strategy
- Large US market opportunity
- COVID-19 has amplified favorable trends supporting our business
- Strong balance sheet to pursue opportunities for faster growth

Naked ideally placed to accelerate growth to scale



Winemaker: **Matt Parish, USA**



Winemaker: **Johan Kruger, South Africa**

naked wines

Appendices



Winemaker: **Charles & Ruth Simpson, France**

Presentational updates

1. Including 5-year paybacks as well as 20-year paybacks
2. Adjusted EBIT definition will INCLUDE Share based payment charges in future (c. £1m p.a. cost)
3. Focusing on reported growth measures - Underlying movements to be commented only if material

Income Statement

£m	FY20	FY19	YoY %
New customers			
Revenue	29.2	25.5	14.6%
Contribution	(22.9)	(19.1)	20.0%
Repeat customers			
Revenue	173.7	152.9	13.6%
Contribution	45.7	39.8	14.7%
Fixed costs	(24.2)	(23.7)	2.3%
Adjusted EBIT	(1.4)	(3.0)	(51.6%)
Finance charges	(0.5)	(0.8)	(36.7%)
Adjusted loss before tax	(1.9)	(3.7)	(48.5%)

Summary balance sheet and Free Cash Flow drivers

For the year ended (£m)	FY18	FY19	FY20
Non-current assets	45.7	41.9	59.7
- Intangibles	42.7	39.1	36.0
- Others	3.0	2.8	23.5
Non-Current Liabilities	(14.8)	(22.6)	(5.8)
Working capital			
Inventory	41.7	56.1	69.9
Other current assets	6.5	6.2	5.4
Customer funds	(31.0)	(37.8)	(43.6)
Payables and accruals	(18.7)	(20.7)	(27.2)
Other current liabilities			
Net working capital	**(1.5)**	**3.7**	**4.5**
Year on year growth in working capital	3.1	(6.3)	(1.7)
Year on year growth in New Customer Investment	(0.8)	5.0	3.4
Ratio	*388%*	*126%*	*50%*
Adjusted EBIT	1.5	(3.0)	(1.4)
Addback: Depreciation	0.4	0.6	1.8
Less: Capex	(0.9)	(0.9)	(1.1)
Changes in working capital	3.1	(6.3)	(1.7)
Free Cash Flow	**4.1**	**(9.6)**	**(2.4)**

Revenue by geography

£m	Underlying FY20	FY19	YoY %
UK	80.0	71.8	11.4%
US	90.9	75.7	20.2%
Australia	32.0	31.0	3.4%
Total revenue	**202.9**	**178.4**	**13.7%**
Revenue by customer group:			
New customers	29.2	25.5	14.6%
Repeat customers	173.7	152.9	13.6%

Standstill EBIT

£m	FY18	FY19	FY20
Repeat contribution	33.8	39.8	45.7
Sales Retention	83.2%	80.7%	83.3%
Repeat contribution lost to attrition	5.7	7.7	7.6
Year 1 payback (from PY cohort)	81.2%	78.0%	67.0%
Spend to replenish lost repeat contribution	7.0	9.8	11.4
SS EBIT is calculated as			
Repeat contribution	33.8	39.8	45.7
Less: replenishment spend	(7.0)	(9.8)	(11.4)
Less fixed cost	(18.3)	(23.7)	(24.2)
	8.5	**6.3**	**10.1**

Payback

HISTORIC PAYBACK STABILITY

Cohort	Initial payback forecast	Latest forecast	Change
FY17	4.5x	5.2x	+0.7x
FY18	4.6x	5.1x	+0.5x
FY19	**4.0x**	**4.4x**	**+0.4x**

IFRS16 impact

	Continuing operations				
	Depreciation £'000	Loss on disposal of lease £'000	Finance charges £'000	Net lease payments £'000	**Total £'000**
Cost of sales	234	-	-	(246)	(12)
Distribution costs	306	8	-	(332)	(18)
Administrative expenses	623	-	-	(685)	(62)
Operating loss/(profit)	1,163	8	-	(1,263)	(92)
Net interest payable	-	-	156	-	156
Loss/(profit) before tax	1,163	8	156	(1,263)	64

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 and fair value movement through the income statement on financial instruments and revaluation of funding cash balances held.
EBITDA	EBIT plus depreciation and amortisation
Adjusted EBITDA	Adjusted EBIT plus depreciation and amortisation, but excluding any depreciation or amortisation costs included in our adjusted items e.g. amortisation of acquired intangibles.
Adjusted PBT	Adjusted EBIT less net finance charges
Adjusted effective tax rate	Defined as the current year's current tax charge divided by the adjusted profit before tax.
Free cash flow	Cash generated by operating activities less capital expenditure and before adjusted items and taxation. A reconciliation of this metric is provided below.
Net Debt	Borrowings less cash and debt issuance cost.
Operating Costs	Defined as administrative expenses less other operating income excluding adjusted items

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 Lifetime value (see below) of the customers recruited this year to the investment we made recruiting them. 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.
Lifetime value	The future contribution we expect to earn from customers recruited in a discrete period of time. We calculate this future contribution using a Machine Learning (ML) model. Collecting data for a number of key customer characteristics including retention, order frequency and order value along with customer demographics and non-transactional data, the ML algorithms then predict the future (lifetime) value of that customer.
Repeat customer contribution	The profit attributable to those sales after fulfilment and service costs.
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 website data, the population who were subscribers 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.
Fixed costs	Administrative costs by division excluding marketing spend.
Year one payback	This short-term payback measure shows the actual return in this financial year of our investment in the prior year, removing the need to use a model to forecast the future.

Glossary of terms (continued)

Definitions	
Angel	A customer who deposits funds into their Angel account each month to spend on the wines on our website.
CAGR	Compound annual growth rate. The year on year growth rate required for a number of years for a value to grow from its beginning balance to its ending balance.
Company, Naked or Naked Wines	Naked Wines plc
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.
DTC	Direct to consumer
ESO	Employee stock option
Group	Naked Wines plc and its subsidiary undertakings
LTIP	Long Term Incentive Plan
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 subscribing with us at some point or cannot be identified.
New customer sales	Revenues derived from transactions with customers who meet our definition of a new customer.
Repeat customer	A customer ('Angel') who has subscribed and made their first monthly subscription payment.
SIP	Share Incentive Plan

Glossary of terms (continued)

Operational KPIs	
Product availability	% of targeted range available on websites as indicated by our inventory reporting.
Wine quality – "Buy it again ratings"	% of "Yes" scores in the last 12 months as recorded by websites/ apps
Service ratings – "5* customer service"	The number of service ratings scoring 5* as a % of total ratings in the last 12 months as recorded by websites/apps/telephone feedback.