

naked wines

Operational & Financial Update

October 2022

Our Winemakers: Australia

We are committed to facing challenges head on

Liquidity concerns due to facility structure:

- The previous covenants relating to repeat contribution were agreed on an assumption of continued rapid growth
- Revised covenants based on adjusted EBITDA, set at a level where we have considerable headroom and more short-term control

Too much inventory:

- Decisions taken during rapid growth periods result in high inventory levels as growth slowed
- Destocking plans are underway, but this will take time to unwind, peaking in Oct 2022
- Expect to exit FY23 with £185m of inventory and revert to £145m by end FY24

Reducing costs:

- Tightening growth investment activities to deliver payback above 2.0x on F23 spend of £20-24m
- Right-sizing G&A to ensure we have the correct cost base going forwards
- Demonstrating the underlying profitability of the business

We have taken decisive action to demonstrate the profitability of Naked Wines and support liquidity in the near-term

We have renegotiated our credit facility to ensure flexibility

Why have a working capital facility?

- Efficient financing of working capital cycle
- Flexibility to align supply and demand through different periods of growth
- Ability to fund inventory for growth initiatives prior to recruiting Angels

Previous Covenants were linked to:

- Current Ratio
- Qualified Cash
- Repeat Contribution

Revised Covenants now linked to:

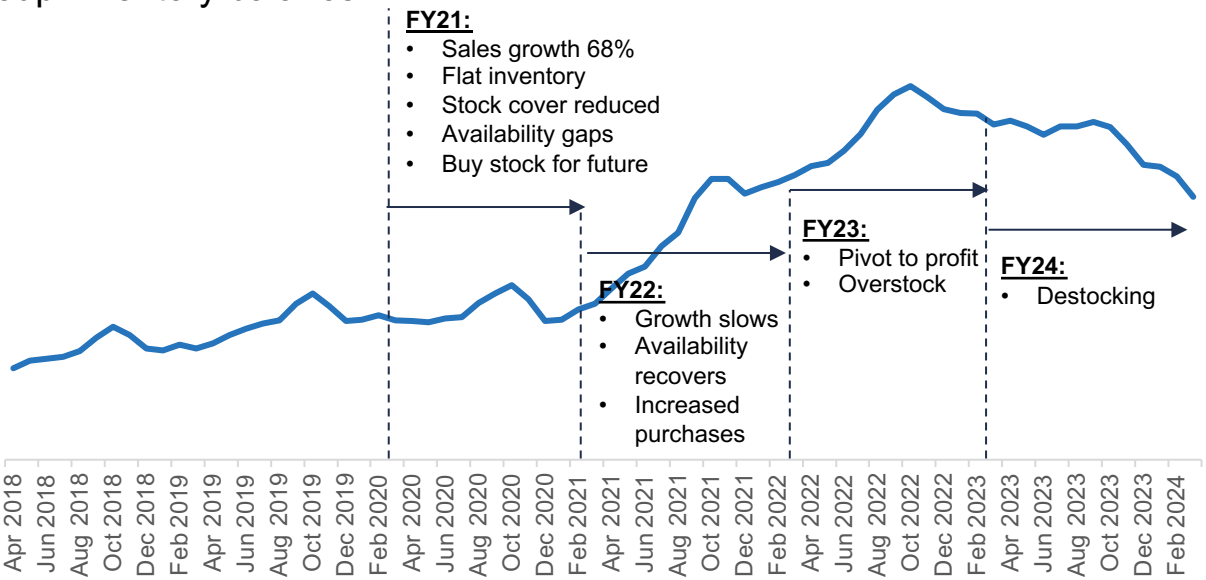
- Current Ratio
- Qualified Cash
- Facility adjusted EBITDA[1]

Resulting in a revised facility supporting **£64m of available liquidity** as of reporting date[2]

Note: 1) Adj EBITDA excluding share based payments charges. 2) Available liquidity is a function of available cash and a maximum credit facility of $60m based on qualifying inventory, currently £43m.

Inventory is peaking and forecast to reduce

Group inventory balance[1]



Destock plan strikes balance between:

- Liquidity
- Winemaker relationship management
- Customer value

Inventory levels will peak in Oct 2022, and remain elevated through to Oct 2023, before dropping and returning cash to the balance sheet, fully financed by the revised credit facility

Note: 1) includes forward projections with translations based on 1.15 GBP/USD rate

Update on H1 trading

H1’23 revenue growth +4% (constant currency -3%) in challenging environment

- US: returned to growth in Q2, showing consumer resilience, with strong addressable market
- UK: returned to growth in Q2, more competitive and lower margin market

Strong profit delivery in H1’23, adjusted EBIT of £4m up 3x H1’22

- Demonstrates ability to derive profitability from an engaged customer base
- Profit before tax includes a one-time charge of up to £12m during FY23, reflecting the cost of a combination of bulk wine sales and negotiated exit of commitments. Offset by a £4.8m profit on disposal of a property freehold.

Significant available liquidity

- Renegotiated credit facility supports £64m in available liquidity
- Closing net cash of £22m in H1’23 reflecting further outflows for stock commitments
- Under revised plan, expect to generate cash again from FY24

Outlook

We have reshaped our plans to:

- Deliver a sustainable level of profit,
- Right-size our fixed cost base,
- Refocused marketing spend to be set for when growth returns

We expect to deliver £9-13m in adjusted EBIT this year and further improvement next year, with the flexibility to restart investment for growth when conditions improve

KPI	FY23 guidance 9 June	FY23 guidance revised	FY24 guidance
Revenue	£345m - 375m	£340m - 360m	-
Revenue growth (CCY)	-4% to +4%	-9% to -4%	-
Inv. In New Customer Acquisition	£30m - 40m	£20m - 24m	-
Repeat Customer Contribution profit	£83m - 93m	£80m - 88m	-
General & Administrative costs	£45m - 48m	£42m - 44m	Flat
Share based payment charge	£4m	£1.5m - 2.5m	£2m - 3m
Marketing R&D costs	£5m	£5m	Nil
Adjusted EBIT	Breakeven Adj. EBITDA	£9m - 13m	Improvement vs. FY23
Adjusted EBIT margin	-	2 - 4%	Improvement vs. FY23

During our interim results presentation in December we will share more detail on the early outcomes of our pivot to profit strategy.


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Q&A
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Glossary of terms

Adjusted (Adj) EBIT - Operating profit adjusted back for amortisation of acquired intangibles, impairment of goodwill, restructuring costs and fair value movement through the income statement on financial instruments and revaluation of funding cash balances held.

Facility adjusted (Adj) EBITDA - Operating profit adjusted back for share based payment charges, depreciation, amortisation of acquired intangibles, impairment of goodwill, non cash restructuring costs, fair value movement through the income statement on financial instruments and revaluation of funding cash balances held, other non cash gains and losses, and other amounts approved with our lender

Payback - The ratio of projected future Repeat Customer Contribution profit we expect to earn from the New Customers recruited in the year divided by the Investment in New Customers.

G&A - General & Administrative costs