
naked wines
FY23 Results Presentation
19th September 2023

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Introduction

Nick Devlin
Group CEO

Top four questions you might have

Are you going to run out of cash?	We believe we've taken enough action on cost and inventory commitments to not only manage through our near-term period of low liquidity, but also come out as a leaner and tougher competitor
Why the delay?	Trading was below expectations during Q1. As a result, we replanned more conservatively, and brought forward actions on costs and inventory. As a result, we had to repeat a sizable portion of the audit process over summer
What are you doing to fix the problems you have?	We've delivered a pivot to profit. Now we're taking a three-stage approach to turning our competitive advantages into a substantial business: 1. Rebuild a stable platform (recent focus), 2. Rebuild profitable growth (testing underway), 3. Fulfil potential
Sounds like what you've been saying for a long time - what's different?	We fully acknowledge we have made mistakes and had a volatile history. New "guardrails" are in place to guide us to profitable growth: ● Fixed the marketing budget for 24+ months, ● Clear relationship between G&A and sales, ● Capital allocation discipline

Financial Review

James Crawford
Group CFO



Our Winemakers: Carmen Stevens, Dominic Hentall and Benjamin Darnault

Where are we?

The bad...

We are profitable but not yet sustainably profitable because we are not recruiting enough new subscribers. To become so, may require us to be a smaller business

Trading is behind our initial plans especially with respect new customer volumes

Cash levels are tight, with lower headroom on our borrowing covenants than we forecast

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... the good

Existing customers are performing well in terms of customer retention and revenue per customer

Whether it improves or not, we have taken action to ensure we are profitable and cash generative in the future

We have further adjusted the covenant structure to afford greater flexibility and exclude costs we may incur to solve our problems

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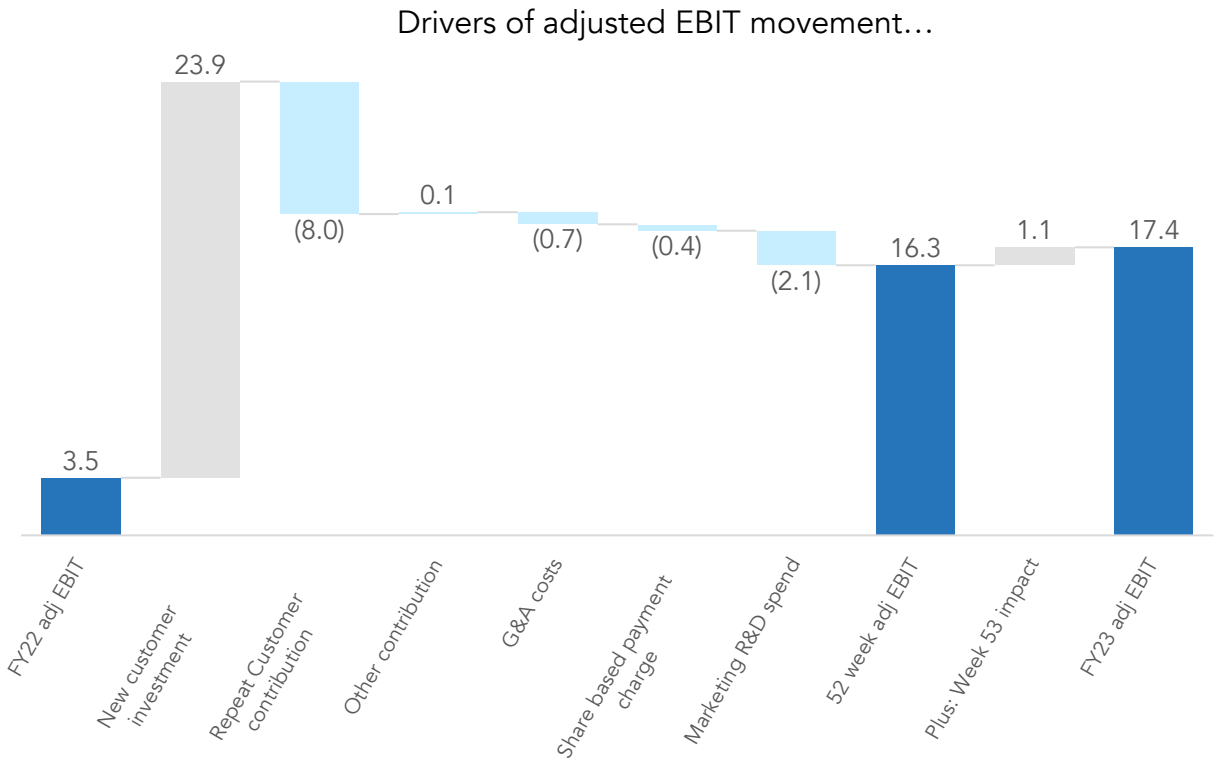
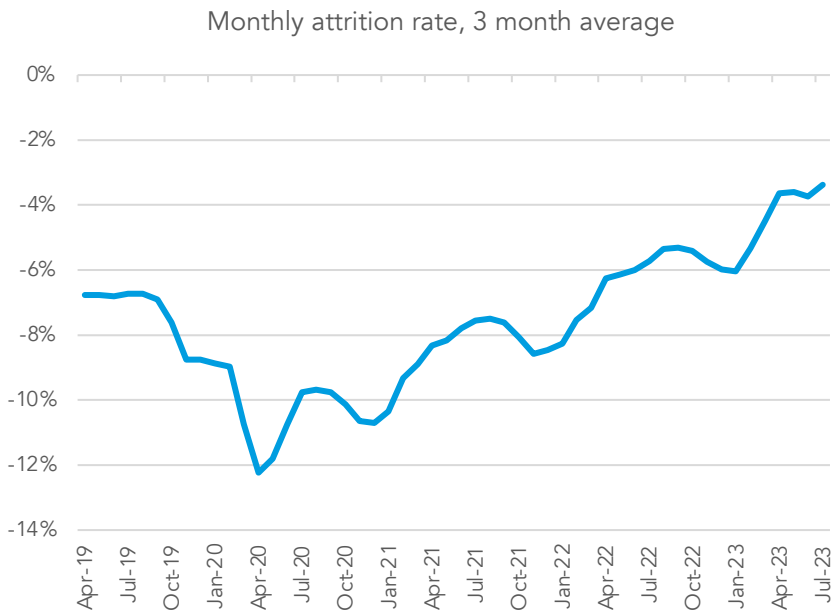
We are profitable, but not sustainably profitable: We delivered too much profit due to low levels of new customer investment



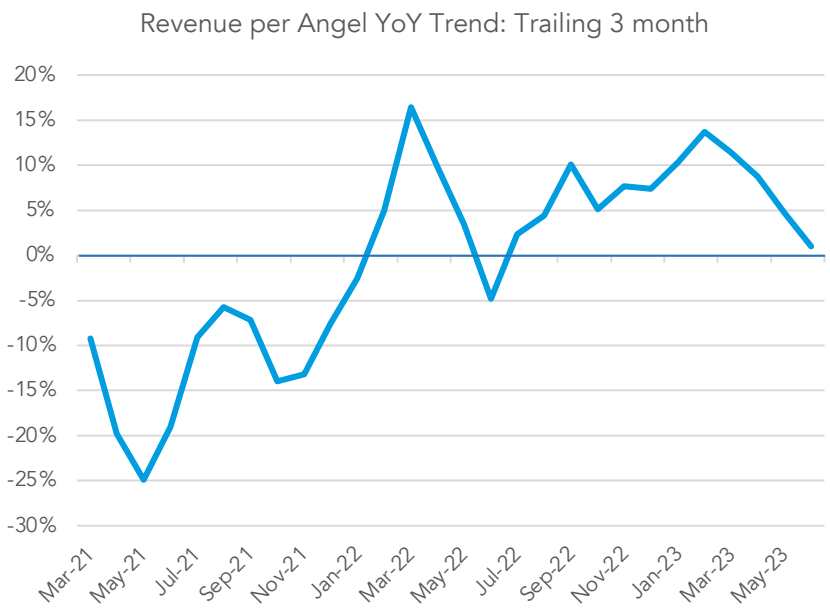
- Underspend in customer acquisition resulted in excess profitability
- Non-cash impairments (inventory & goodwill) resulted in a statutory loss
- Seeking to deliver sustainable profitability through additional savings in fulfilment costs reinvested into additional customer acquisition

Existing customer performance is sound

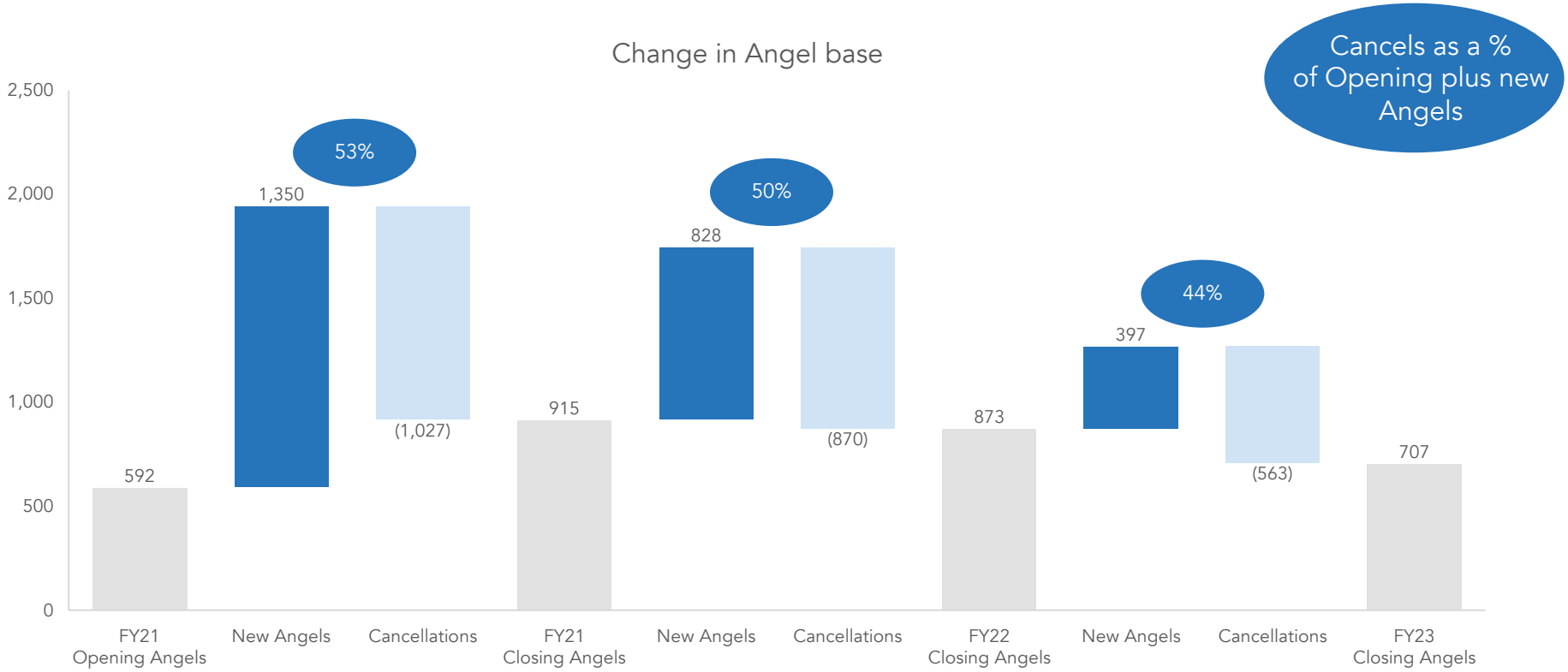
Customer retention is improving…



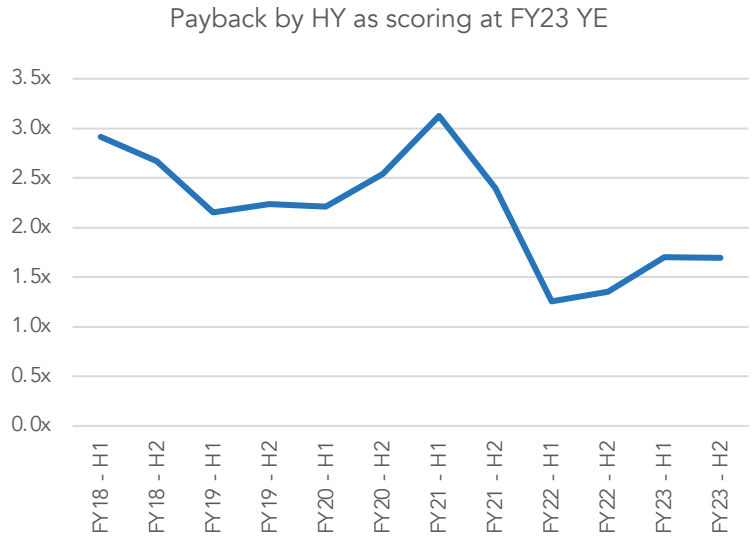
...and revenue per customer has been growing

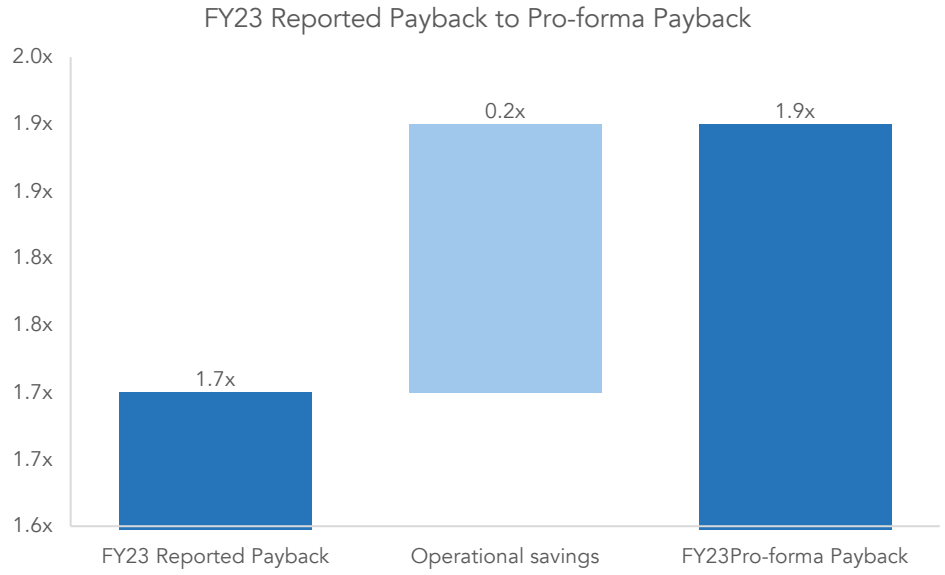


We are just not recruiting enough new Angels



We have stabilised payback at proforma 1.9x once contracted savings are factored in





Now the challenge is to reach £25m of investment with flat to improving payback

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FY24 guidance reflects trends and actions to deliver profit and cash

Moderate revenue decline… :

- We expect revenue to decline 8% - 12%[1] in FY24
- Driven by £23-27m of new customer investment
- Generating a repeat contribution of £72-80m

… combined with cost moderation… :

- Underlying G&A costs (inc. share based payments) to be £37-40m
- Adjusted EBIT of £8-12m

… delivers profitable cash generation:

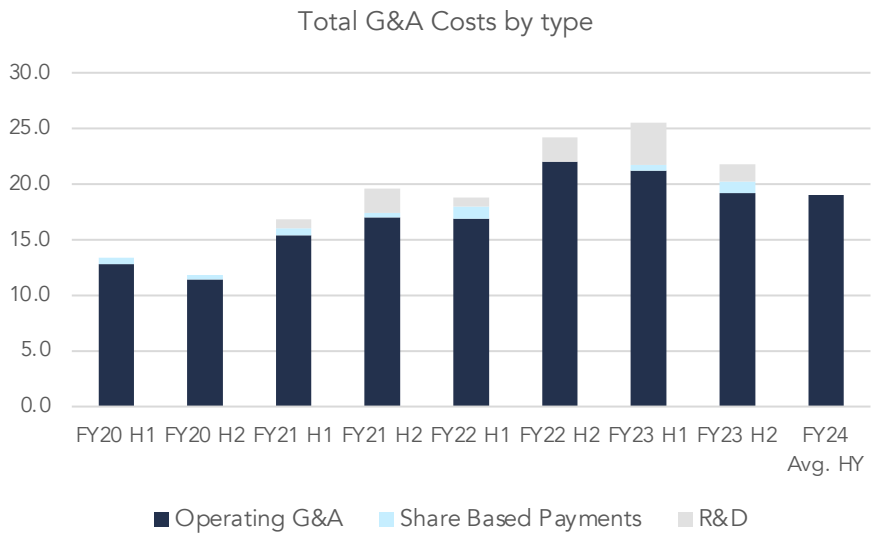
- Year-end inventory of c. £145-155m
- Year-end net cash of c. £10-30m

Trading in line with this forecast in P4 & P5



1. Constant currency, 52 week comparable
For full detailed guidance, see page two of the RNS or appendices of this presentation

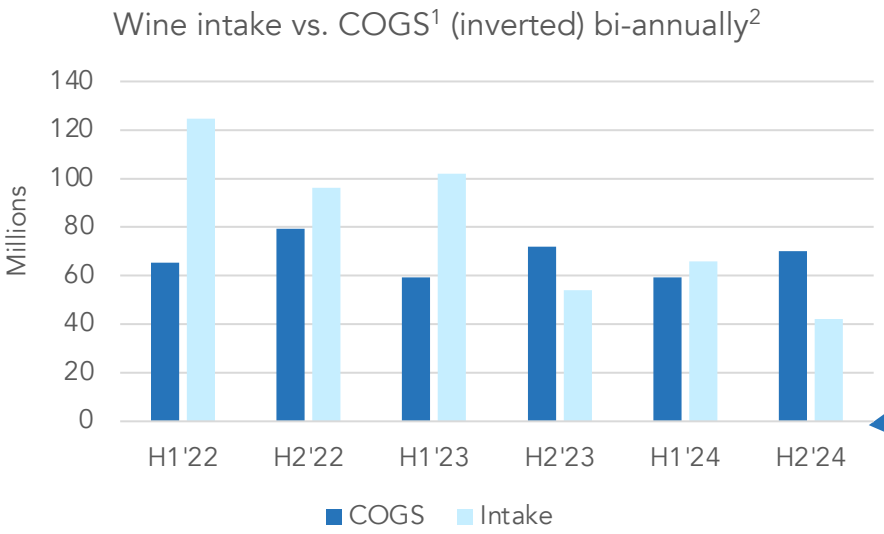
Costs are being aligned to revenue trends, securing profitability



We reduced run rate costs across countries and at group:

- Reversed a climbing trend evident in late FY24
- Executing savings to offset material wage inflation
- Aiming to maintain flat G&A (exc R&D) in FY24

While stock commitments are set to drive destock and cashflow



We are delivering on our destocking plan:

- Reduced intake through rephasing and renegotiating arrangements with winemakers
- Liquidating excess inventory through bulk wine sales

Expect to destock to £145-155m by FY24 y/e

Additional significant reduction in FY25

Note: 1) COGS excludes excise tax, 2) these commitment figures are total commitments and so include pending statuses (unconfirmed/uncommunicated)

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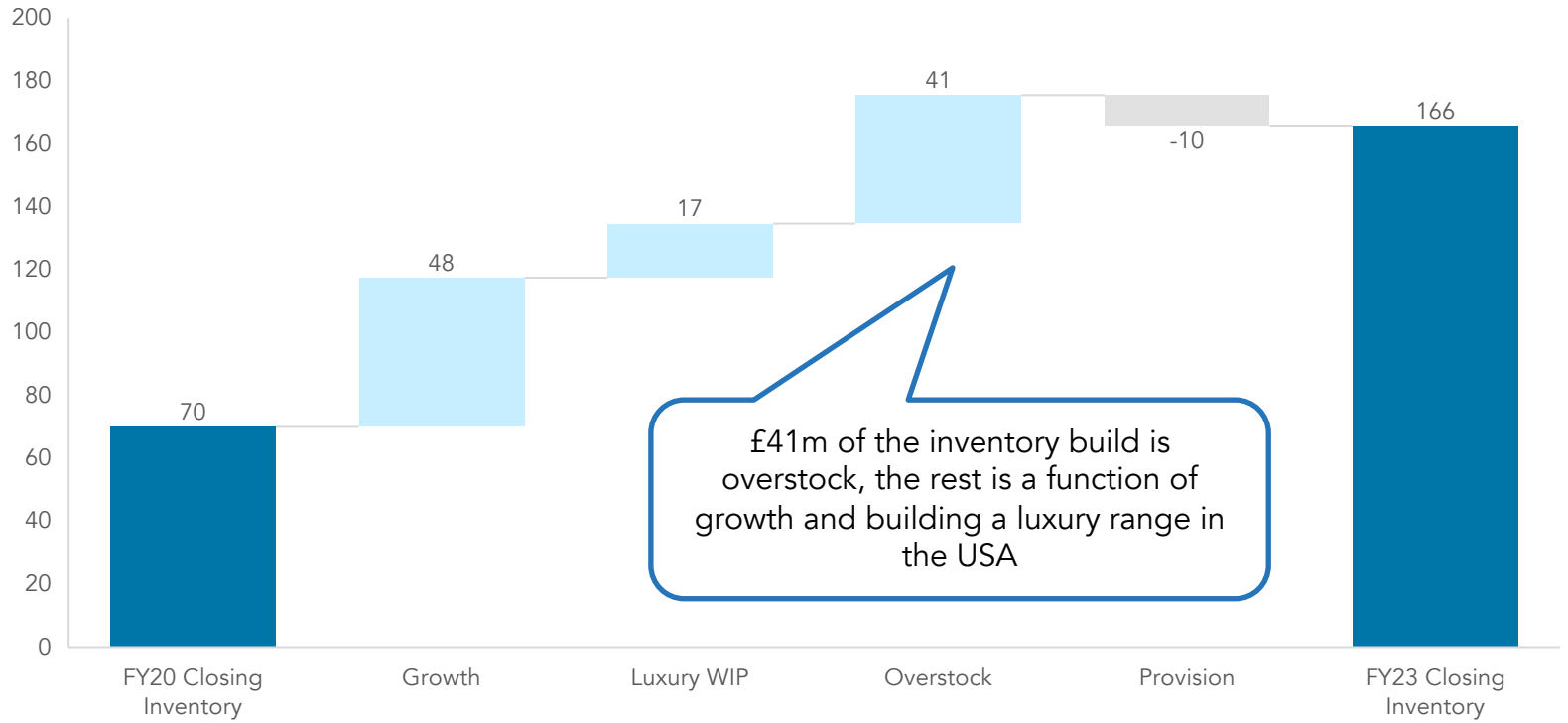
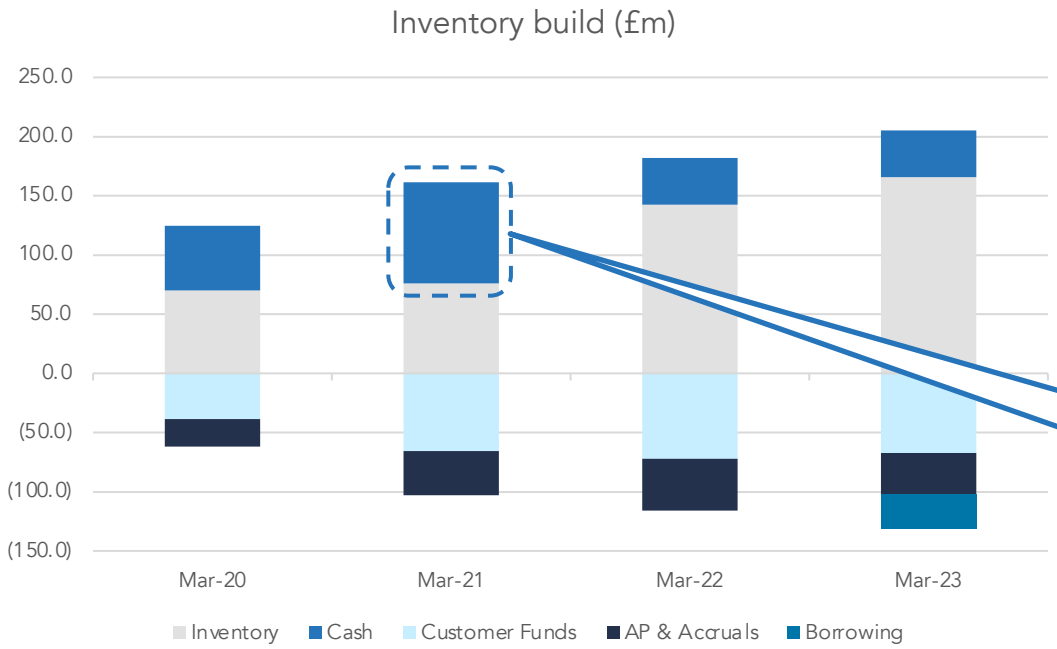
Of the £96m stock build since FY20, £41m is overstock



This overstock has consumed the cash generated in FY20/21

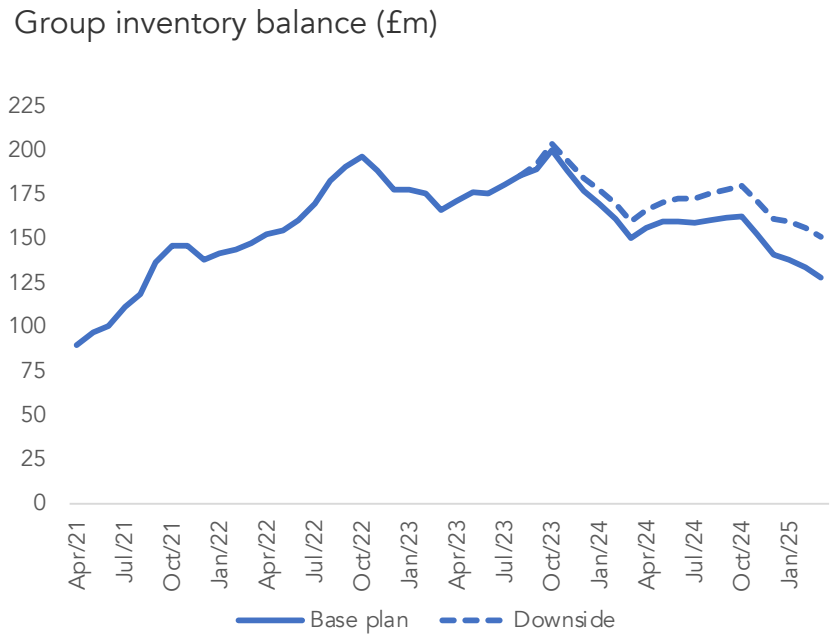


£96m of inventory build, since 2020, financed by:

- Angel funds: £29m
- Payables: £12m
- Cash: £55m

Large accumulation of cash in FY21 due to excessive destock on account of high pandemic-driven growth

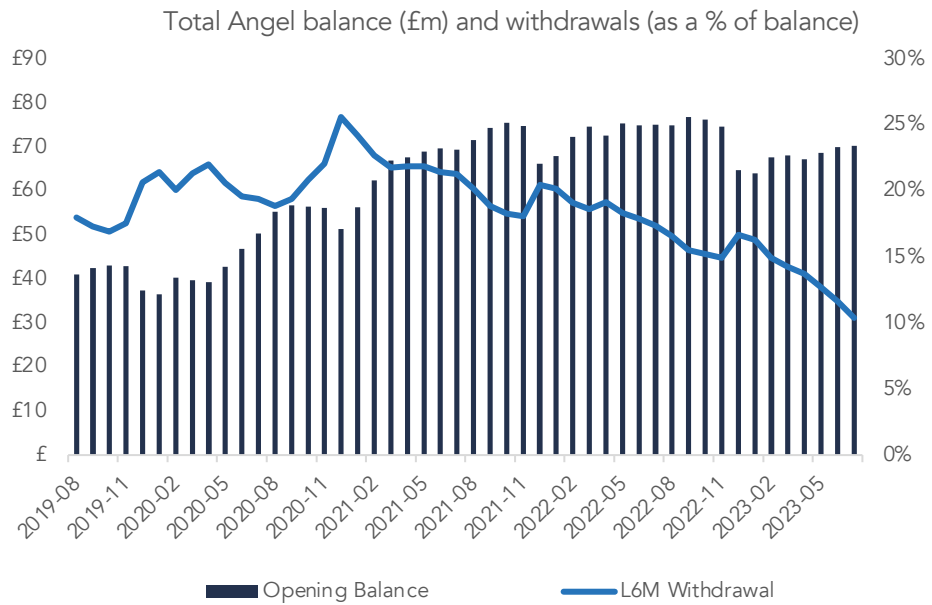
Both our baseline and downside scenarios forecast destock and liquidity improvements over the next 12 months



- Inventory reduction will generate cash
- Anticipate substantial increase in liquidity during H2'24 and FY25
- Destock plan strikes balance between winemaker relationships management and customer value

Angel funds and ABL are stable while we work through excess stock

Angel balances remain predictable, with low withdrawals:



Credit facility secure with revised covenants:

- Facility transferred with SVB sale to First Citizens
- Amended in September 2022 and August 2023
- New covenants to enable us to achieve commitment and cost reductions
  - Exclusion of up to $3.5m of cash costs related to restructuring
  - From Q1 FY25 move to rolling 12M EBITDA requirement of £4m vs £1m quarterly
- £38m+ facility capacity as of end F23 in addition to £10m net cash
- Provides required liquidity to bridge to destock, enabling us to work with winemakers to solve the excess

In Summary…

- Trading is tough
  - Especially new customer recruitment
  - Positive trends in subscriber retention and spending patterns

- We have taken, and continue to take actions necessary to:
  - To cut costs
  - To cut commitments
  - To address our funding

- We have a profitable and cash generative business

Which gives us time to rebuild our customer acquisition levels



FY24 Outlook and beyond

Nick Devlin
Group CEO

The Next Stage



Summary: We expect to be profitable and cash generative, despite trading conditions

Why?

We don't have a sales problem, we have *a new customer problem*

This determines ultimate scale for Naked; not our ability to be profitable

We've taken steps needed to "right-size" inventory against conservative demand plan

Substantial cash generation from unwind to end FY25 under all demand scenarios

£10m of savings from SG&A & Variable costs already secured

More opportunities being pursued; we are committed to aligning cost base to scale

Commitments: We are committed to ensuring inventory levels back in line by end of FY25

Commitments & Inventory Reduction

- Inventory intake and commitment reduction on schedule from "Pivot to Profit" plan
- However, more aggressive action required given:
  - Q1 trading below our initial plan
  - Global wine market oversupply reducing secondary bulk sales
- We have worked rapidly to replan our supply globally to the end of FY25
  - Commitments reduced, against conservative demand plan, to ensure excess inventory turned into cash by end of FY25
  - Where possible commitments rebalanced across the group to most efficiently serve customer demand
- We will act further if necessary

Costs: £10m target for FY25 cost savings secured; opportunity to deliver further savings being pursued

Cost Base	Opportunity	Size of Prize	Secured to Date	
Supply Chain	UK Warehouse	£3m (FY25)	100%	One-time costs of delivery in FY24; savings begin April 2024
	US 3PL Structure	£6m	50%	Revised contract structure agreed to deliver £3m savings in FY25 at current volumes
	Packaging	£2m	50%	Procurement & design led savings
Office Costs	Reduce Space	£1m	25%	Global opportunity. Timing dependent on sub-lease / lease break points
SG&A Headcount	Reduced Roles	£3m	100%	Workforce reduction of 12% of non-customer service heads executed in FY23

Additionally reducing cased stock will drive further warehousing savings through FY24 and FY25

Guardrails: We've put in place a series of guardrails to ensure we don't repeat our mistakes

- Base mid-term around planning assumption of 5% sales growth from FY25 onwards - a base level that we need to create sustained value
- Create a hard link between scale & SG&A levels consistent with a business achieving at least 5% EBIT margins -> means long-term SG&A set as a % of sales
- Group Inventory levels to be back in line by end FY25 -> And an ongoing link to member base size embedded in commitments policy
- We will maintain consistent annual new customer investment, at ~£25m / year
    - This year allocate as best we can to maximize cash performance
    - Future years growth to come from improving quality and retention vs increasing investment levels
- Cash - once we restore cash levels we test any investments against the value available from buy back of company shares provided the share price is < NPV

Distil key lessons of where we went wrong in 2021

Aim to create simple focus on how best to invest

Guardrails: Guardrails will deliver profits and cash generation whether or not we can fix our customer acquisition problem

New customer acquisition assumption	Implied Payback	FY26 Sales	FY26 EBIT	FY24-26 Cumulative Operating Cashflow
Structurally harder than pre-COVID	1.5 - 1.75x	~£280-300m	~£10m	~£70m
Return to long-term target	~2x	~£310-330m	~£15m	~£90m
Improves in line with realised rates FY17-20	~2.5x	~£330-350m	~£20m+	~£100m+

Sales: So how big is the new customer acquisition problem?

The bad...

- We are not recruiting enough new members to maintain our member base
- Payback levels have fallen vs pre-pandemic in key acquisition channels, notably social

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... the good

- Improving member retention rates mean that the gap to close is shrinking
- Our plans to restore new member LTV are working -> we now are focussed on driving more efficiency from our spend

We have been testing more substantial changes to our acquisition approach since October 2022; we have seen promising initial results but cannot be sure until we test at scale (currently underway)...

Even if we do not succeed in sorting new customer acquisition, we have taken and continue to take out enough cost to ensure that we remain profitable and cash generative.

What are we going to do about it: We are not waiting around for the economy to recover



Optimising current Channels

We are taking steps to:

- Drop our low-payback partners,
- Reprice our marginal partners,
- Revise internal clarity & focus,

Whilst moving to a more sensible and stable marketing budget, which:

- De-risks inventory planning,
- Makes optimisation easier.



Increase TAM

We are taking steps to increase TAM and customer quality by expanding the potential range of relationships:

- Testing alternatives to one-size-fits-all,
- Early signs are encouraging,
- Need to be tested to scale over peak,
- Will have hard data at half-year.



Reducing variable costs & covering COGS inflation

We are cutting variable costs across the group whilst also taking steps to manage the impact of COGS inflation.

The combined impact results in better paybacks.

What have we learned from this?



We thought Covid changed the world, and didn't have a contingency in case we were wrong

To prevent this from happening again, we have introduced new guardrails outlined today



We followed sales down, rather than getting ahead of the curve

We have right sized our cost base and our commitments, to ensure not just survival, but that we exit this a leaner and tougher business



We overcompensated by cutting new customer investment too sharply

We have set a stable level of investment to ensure that we maintain the customer base in bad times and increase efficiency in good times

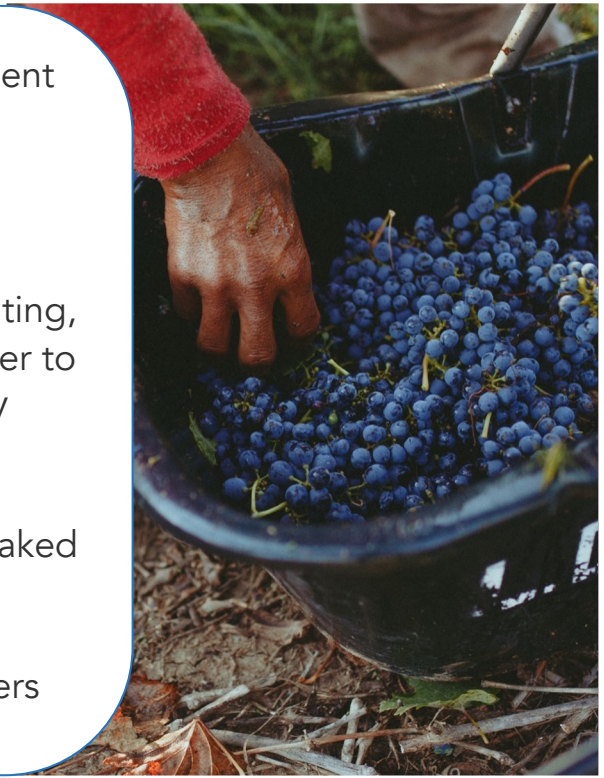
Personally committed to making this work

I have led Naked through a period of rapid growth and subsequent volatility - I am personally committed to resolving our current challenges and seeing Naked realise it's potential:

- High degree of confidence that we can rapidly rebuild to a profitable and cash generative business - albeit not very exciting,
- High degree of confidence that we can get a definitive answer to the question 'Can Naked fulfil it's potential to become a very substantial business?'

We recognise mistakes have been made and I want to ensure Naked does not repeat them, hence committing to guardrails.

I am determined to do whatever it takes to reward all stakeholders for their support and their patience.




naked wines
Q&A



Appendices

Income statement shows growth in revenue and adj. EBIT

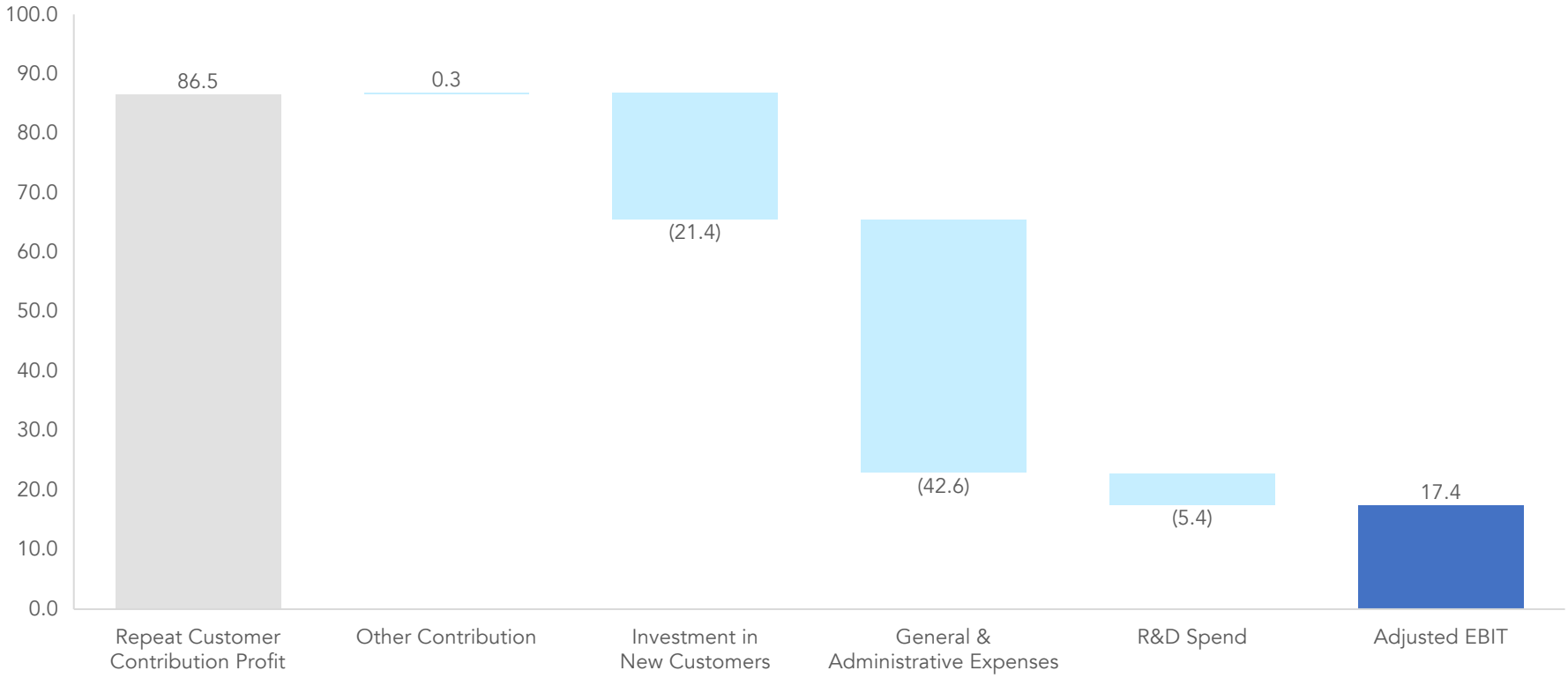
	As reported			52 week comparable		
	FY23 £m	FY22 £m	YoY %	FY23 £m	FY22 £m	YoY %
Revenue	354.0	350.3	1%	343.7	373.2	-8%
Cost of sales	(205.7)	(208.6)	-1%	(181.7)	(219.8)	-17%
Gross profit pre inventory provision	148.3	141.7	5%	162.0	153.4	6%
Inventory provision	(10.3)	-	n/a	-	-	n/a
Gross profit	138.1	141.7	-3%	162.0	153.4	6%
Contribution profit	69.9	79.1	-12%	81.2	85.4	-5%
Advertising costs	(17.7)	(34.1)	-48%	(16.9)	(37.1)	-54%
General and administrative costs	(53.1)	(43.1)	23%	(48.0)	(44.8)	7%
Analysed as:						
Operating G&A	(41.1)	(38.9)	6%	(41.1)	(40.4)	2%
Marketing R&D	(5.4)	(3.0)	80%	(5.4)	(3.3)	64%
Share based payments	(1.5)	(1.1)	36%	(1.5)	(1.1)	36%
Software as a Service costs	(2.3)	-	n/a	-	-	n/a
Restructuring costs	(1.5)	-	n/a	-	-	n/a
Other adjusted items	(1.3)	(0.1)	n/a	-	-	n/a
	(53.1)	(43.1)	23%	(48.0)	(44.8)	7%
Impairment of goodwill, property, plant and equipment and right-of-use assets	(18.2)	-	n/a	-	-	n/a
Profit on disposal of asset held for sale	4.8	-	n/a	-	-	n/a
Operating profit	(14.3)	1.9	-853%	16.3	3.5	366%

Analysed as:			
Adjusted EBIT	17.4	2.0	770%
Adjusted items	(31.6)	(0.1)	n/a
Operating profit	(14.3)	1.9	-853%

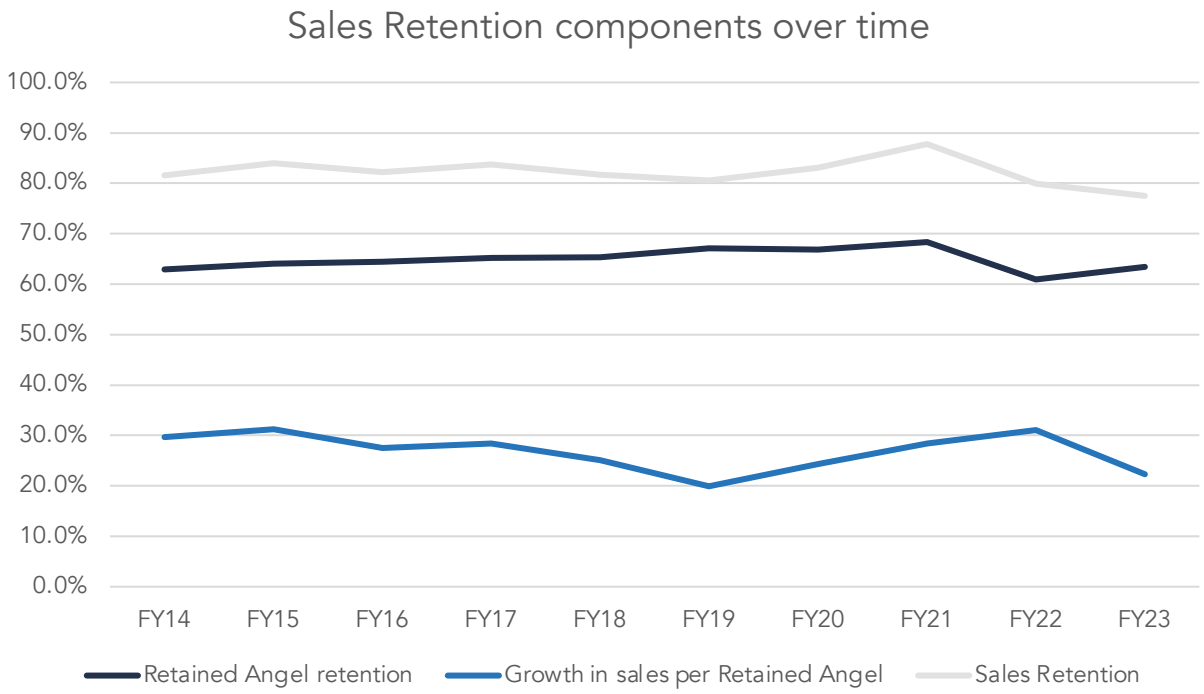
Payback progression

Cohort	Age at reporting date	Latest 5 year (Forecast)	Original Forecast	Vs Original Forecast	Payback to date
FY16	85-96 months	3.1x (Actual)	3.1x	0.0x	4.1x
FY17	73-84 months	2.5x (Actual)	2.0x	0.5x	3.1x
FY18	61-72 months	2.7x (Actual)	2.1x	0.6x	2.8x
FY19	49-60 months	2.2x	1.8x	0.4x	2.2x
FY20	37-48 months	2.5x	2.6x	(0.1x)	2.0x
FY21	25-36 months	2.4x	3.0x	(0.6x)	1.7x
FY22	13-24 months	1.4x	1.5x	(0.1x)	0.6x
FY23	0-12 months	1.7x	n/a	n/a	0.3x

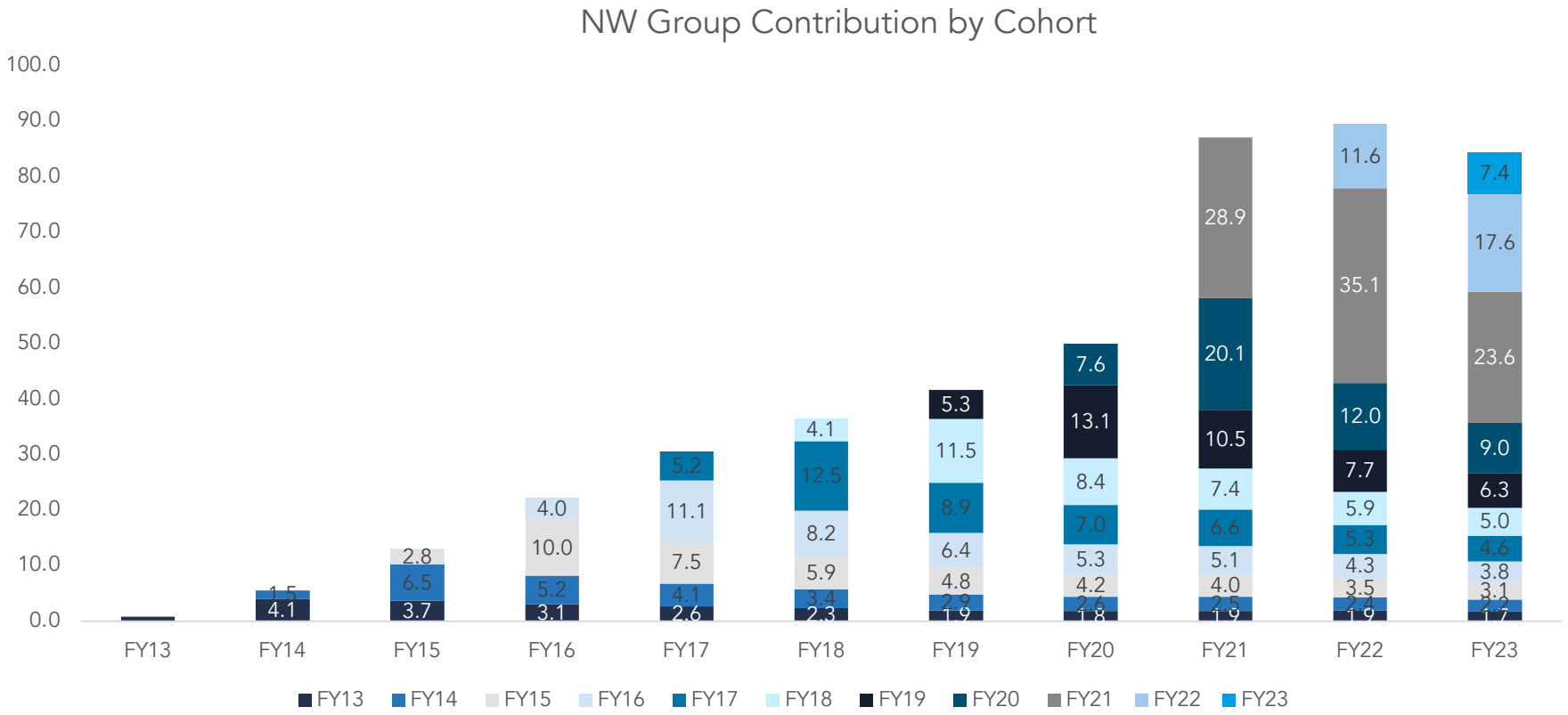
Contribution to adjusted EBIT bridge



Sales retention

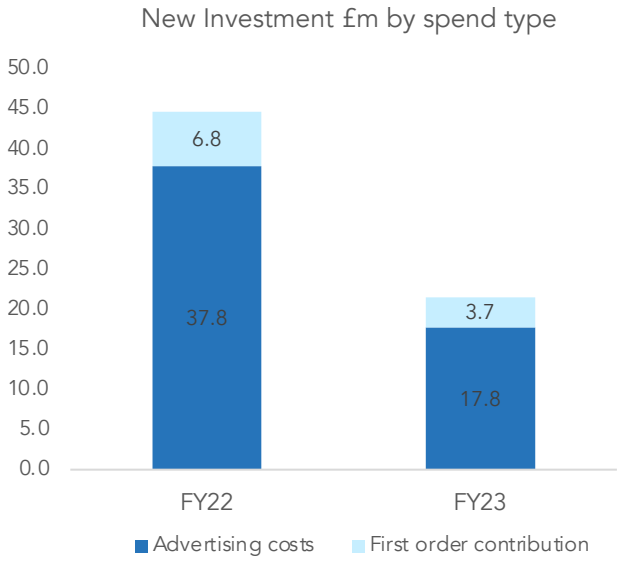


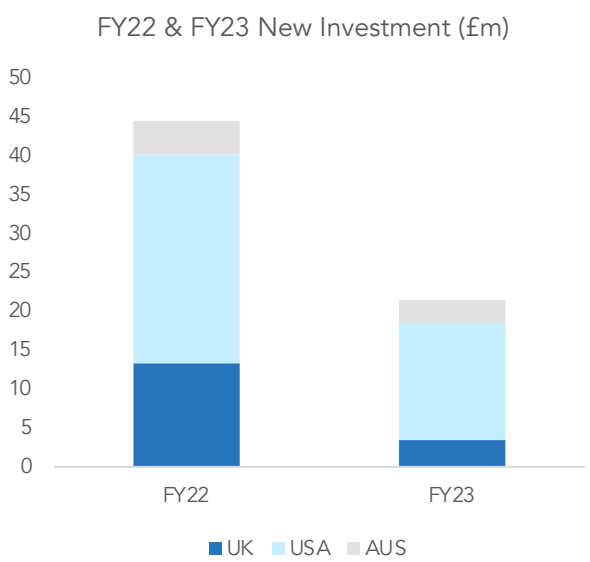
Contribution by cohort

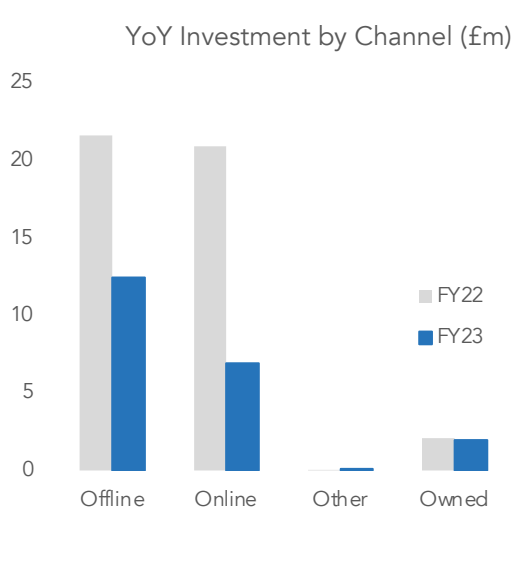


Note: Analysis excludes revenue recognition adjustments & Adjusted for constant currency.

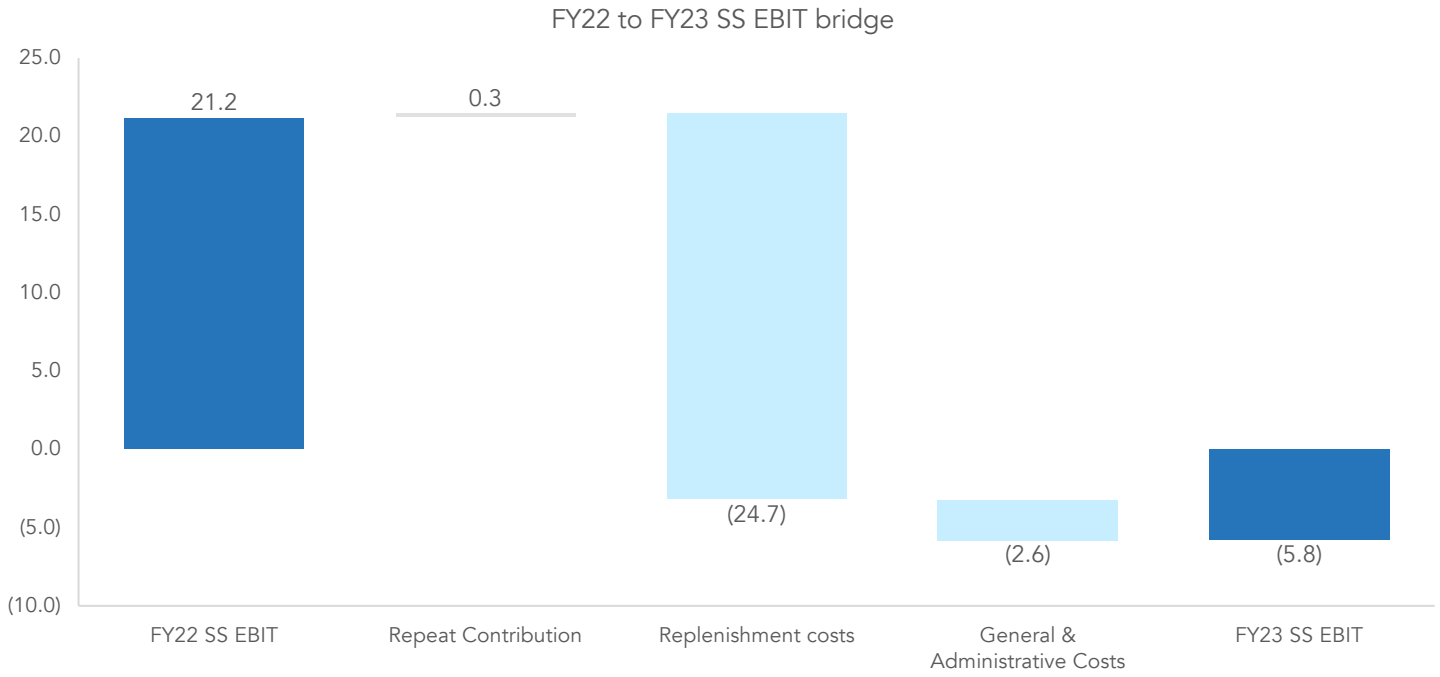
Investment trend has been downwards, most notably in digital channels







Standstill EBIT



Country Segmental Data - US

US Segment (£m)	52- week comparable		
	FY23	FY22	YoY%
New Customer sales	16.8	19.8	-15%
Repeat Customer sales	144.1	157.0	-8%
Other Revenue	3.2	1.3	146%
Total Sales	**164.1**	**178.1**	**-8%**
Investment in new customers	(14.4)	(26.3)	-45%
Repeat Customer Contribution profit	49.1	52.7	-7%
Repeat Customer Contribution margin	*34.1%*	*33.6%*	
Other contribution	0.2	0.1	100%
General and administrative costs	(12.8)	(16.5)	-22%
Adjusted EBIT	**22.1**	**10.0**	**121%**

Country Segmental Data - UK

UK Segment (£m)	52- week comparable		
	FY23	FY22	YoY%
New Customer sales	6.0	11.3	-47%
Repeat Customer sales	129.2	135.6	-5%
Total Sales	**135.2**	**146.9**	**-8%**
Investment in new customers	(3.4)	(13.5)	-75%
Repeat Customer Contribution profit	24.9	28.2	-12%
Repeat Customer Contribution margin	*19.3%*	*20.8%*	
General and administrative costs	(6.9)	(6.6)	5%
Adjusted EBIT	**14.6**	**8.1**	**80%**

Country Segmental Data - Australia

Australia Segment (£m)	52- week comparable		
	FY23	FY22	YoY%
New Customer sales	3.2	5.4	-41%
Repeat Customer sales	41.2	42.8	-4%
Total Sales	**44.4**	**48.2**	**-8%**
Investment in new customers	(2.9)	(4.8)	-40%
Repeat Customer Contribution profit	10.8	11.9	-9%
Repeat Customer Contribution margin	*26.2%*	*27.8%*	
General and administrative costs	(3.6)	(4.1)	-12%
Adjusted EBIT	**4.3**	**3.0**	**43%**

Country Segmental Data - Central

Central (£m)	52- week comparable		
	FY23	FY22	YoY%
General and administrative costs	(24.7)	(17.6)	37%
Adjusted EBIT	**(24.7)**	**(17.6)**	**37%**

Glossary of terms

Alternative performance measures	
Adjusted EBIT	Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, impairment of goodwill, restructuring costs, fair value movement through the income statement on financial instruments and revaluation of funding cash balances held and any transaction or event that management considers quantitative as well as qualitative factors such as the frequency or predictability of the item. A reconciliation to operating profit can be found on the face of the Group income statement.
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.
EBIT	Operating profit as disclosed in the Group income statement.
Free cash flow	Cash generated by operating activities less capital expenditure and before adjusted items and tax.
Net cash excluding lease liabilities	The amount of cash we are holding less borrowings at year end excluding lease liabilities.

Glossary of terms (continued)

Investment measures	
5-Year Forecast Payback	The ratio of projected future Repeat Customer contribution we expect to earn from the new customers recruited in the year, divided by the Investment in New Customers. We forecast contribution at a customer level using a machine learning algorithm that weighs several characteristics including demographics, interactions and transactions forecast over a five-year horizon. This is then aggregated to a monthly, then annual, cohort level for reporting purposes. As this is an undiscounted forward-looking estimate it cannot be reconciled back to reported financial results.
5-Year Lifetime Value (LTV)	The future Repeat Customer contribution we expect to earn from customers recruited in a discrete period of time. We calculate this future contribution using a machine learning 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 machine learning algorithms then predict the future (lifetime) value of that customer.
Investment in New Customers	The amount we have invested in acquiring new customers during the year, including contribution profit/loss from New Customer sales and advertising costs. Please note that we have updated the description of this term to elaborate on its components, however the underlying calculation has not changed.
Other Contribution	The profit or loss attributable to sales meeting the definition of other revenue.
Repeat Customer contribution	The profit attributable to sales meeting the definition of Repeat Customer sales after fulfilment and service costs.
Repeat Customer contribution margin	Repeat Customer contribution as a percentage of Repeat Customer sales.
Repeat Customer sales retention	The proportion of sales made to customers who met our definition of "repeat" last year and who placed orders again this year, calculated on a monthly basis and summed to calculate the full year retention.

Glossary of terms (continued)

Customer experience KPIs	
5* customer service	The percentage of feedback ratings received by our Customer Happiness teams that expressed 5* satisfaction on a scale of 1 to 5.
Product availability	The average percentage of products we have defined as core to the portfolio that is available to our customers throughout the year.
Wine quality - "Buy it again" ratings	The percentage of “Yes” scores given by customers in the year indicating that the customer would buy the product again.

Glossary of terms (continued)

Definitions	
AGM	Annual General Meeting
Angel	A customer who deposits funds into their 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). We often split contribution into that from new and repeat customers as they can have different levels of profitability.
DtC	Direct-to-consumer
Group	Naked Wines plc and its subsidiary undertakings
LTIP	Long Term Incentive Plan
Marketing R&D	Expenditure focused on researching and testing new marketing channels and creative approaches, with the aim of opening up significant new growth investment opportunities.
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 as a repeat customer.
New Customer sales	Revenues derived from transactions with customers who meet our definition of a new customer.
Other revenue	Revenue from stock optimisation activities.
Repeat Customer	A customer (Angel) who has subscribed and made their first monthly subscription payment.
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 of total sales to Repeat Customer sales is shown in note 6 Segmental reporting.
SIP	Share Incentive Plan
Total addressable market (TAM)	TAM represents the available market which Naked sees as a revenue opportunity which it could serve.