

FY24 Results Presentation

28th August 2024

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Today's Presenters



Rowan Gormley

Non-Exec Chairman



Rodrigo Maza

Group CEO



James Crawford

Group CFO

FY24 Overview by the Non-Executive Chairman

Foundations laid

- Costs rightsized
- Cash being realised from inventory
- Long term funding facility in place

Focus on profitable growth

- Back to basics - re-instilling disciplines
- Innovation - new team with new skills to solve acquisition challenge
- And a new leader.. Rodrigo Maza



FY24 Highlights

James Crawford
Group CFO

FY24 Highlights – Progress made amidst a challenging period

Revenue trend
£290.4m
(13)%

- (18)% H1
- (9)% H2
- 17% fewer active Angels

Adj EBIT
£5.0m
(66)%

- £(16.5)m repeat cont
- +£11.0m costs

Operating G&A
£(35.9)m
(11)%

- (13)% H1
- (11)% H2
- Exit run rate c.£30m p.a.

Adj Items
£(16.8)m
(45)%

- Inventory provision
- Goodwill impairment

Total Inventory
£144.9m
(11)%

- £15.4m lower YoY
- £7m provision in year

Net Cash
£19.6m
+92%

- Inventory
- Loan note
- Angel funds and payables reductions

Note: on a 52-week constant currency basis

Agenda

Improving cash and liquidity

- ✓ Cash and liquidity
- ✓ Cost actions
- ✓ Inventory management

Solid Core

- Repeat customer sales KPIs steady
- Mix and discounting drives margins down
- Recruitment remains challenging

Looking forward

- FY25 guidance and drivers

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Cash generation from adjusted profits and inventory

	FY23	FY24	Change YoY
	£m	£m	£m
Adjusted EBIT	17.4	5.0	(12.4)
Add back depreciation and amortisation*	3.3	3.0	(0.3)
Intangible assets previously capitalised under former accounting policy	0.3	-	(0.3)
Add back IFRS 2 charges	1.6	0.4	(0.3)
Adjusted EBITDA + SBP	**22.6**	**8.4**	**(13.3)**
Working capital movement			
Inventories	(29.4)	14.9	44.3
Angel funds and other deferred income	(6.2)	(1.8)	4.4
Trade and other receivables	3.5	(5.7)	(9.2)
Trade and other payables	(14.5)	(3.5)	11.0
Repayments of principal under lease liabilities	(1.3)	(2.0)	(0.7)
Working capital movement	**(47.9)**	**1.9**	**49.8**
Pre-tax operating cash flow	**(25.3)**	**10.3**	**36.5**

* Excludes adjusted item amortisation of acquired intangibles

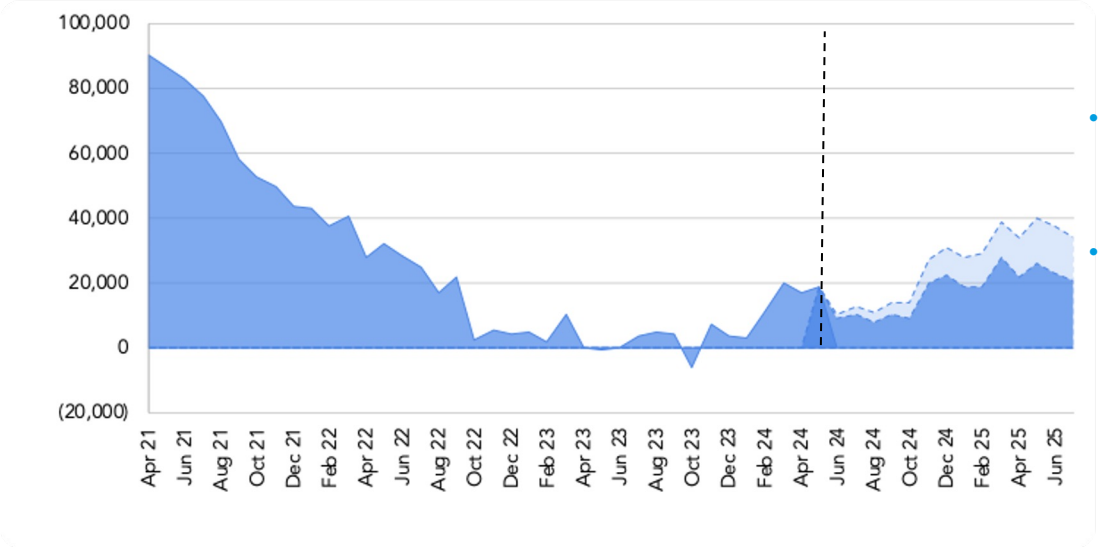
SBP: Share based payments

Cash drivers show positive impact of changes made

- Inventory now dropping
- Corresponding drop in payables
- Angel funds reflect improving retention and customer quality

We are exiting the period of low liquidity

Net cash by Month
Apr 21 to Jul 25
£'000s



- After a year of low cash levels we are now rebuilding
- Peak FY25 will be the next step up as as further inventory is sold

New credit facility improves liquidity and flexibility

Prior facility:

Insufficient usable liquidity:

- Covenanted to hold $20m cash
- Significant exclusions and reserves

Cash holding mitigates risk of Angel fund outflows but not visible to stakeholders

EBITDA covenant limited ability to invest through P&L and / or take losses to clear excess stock



New 5 year facility:

PNC: Tier 1 bank

Same headline size, $20-30m more usable liquidity

- Higher advance rate
- No min cash holding requirement
- Reduced exclusions

Single "springing" FCC Covenant

- Only tested when <$12m liquidity remaining
- Likely requires lower EBITDA delivery

"See "headline terms" slide in appendix for further detail

Year-end position gives adequate liquidity headroom

End FY24 proforma liquidity

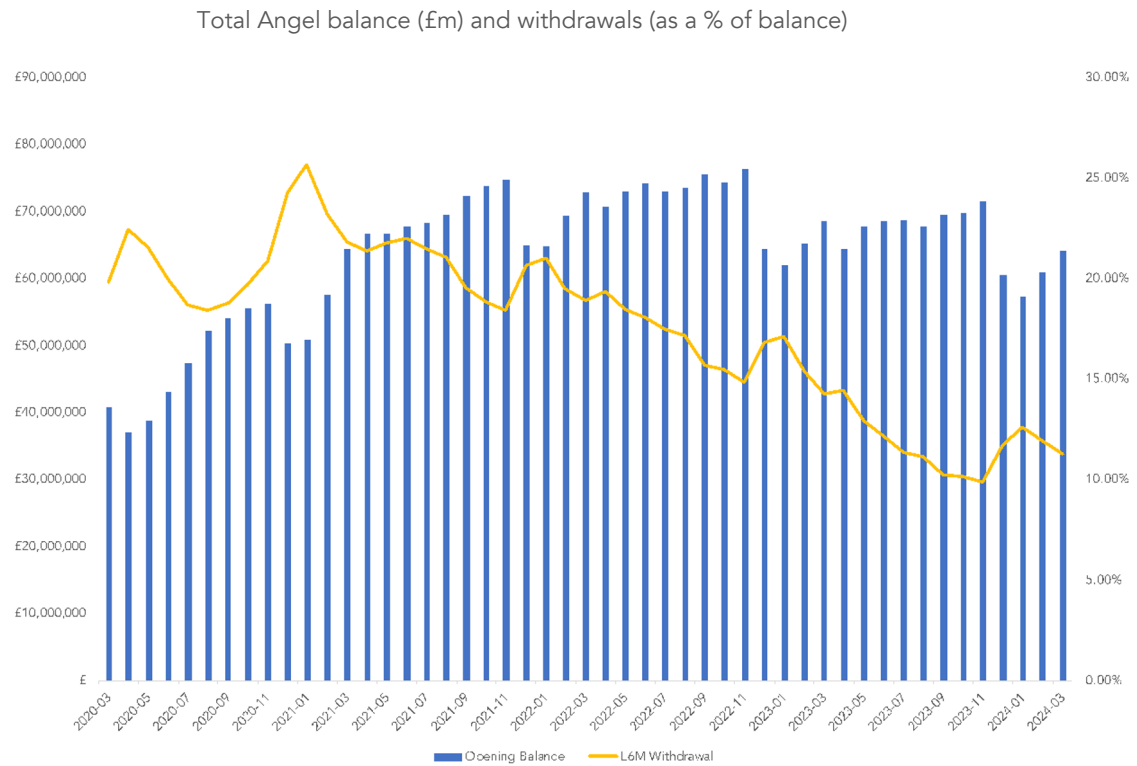


Supports:

- Operating cash balances
- Working capital cycle
- Downside trading protection
- Security for Angel balances

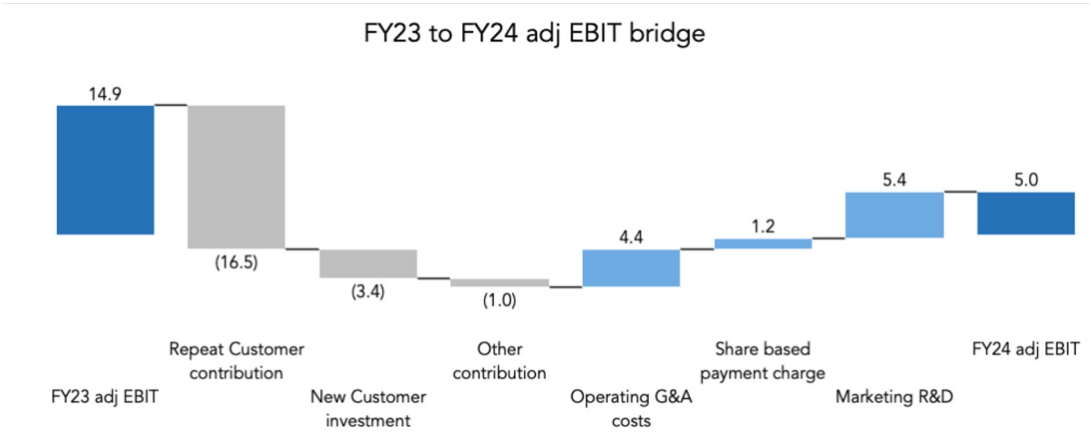
Future cash generation should provide investment optionality

Angel fund redemptions remain stable



- Continued downward trend on redemption rate
- "Wine Genie" subscribers carry no balance

Adjusted EBIT delivered through cost actions

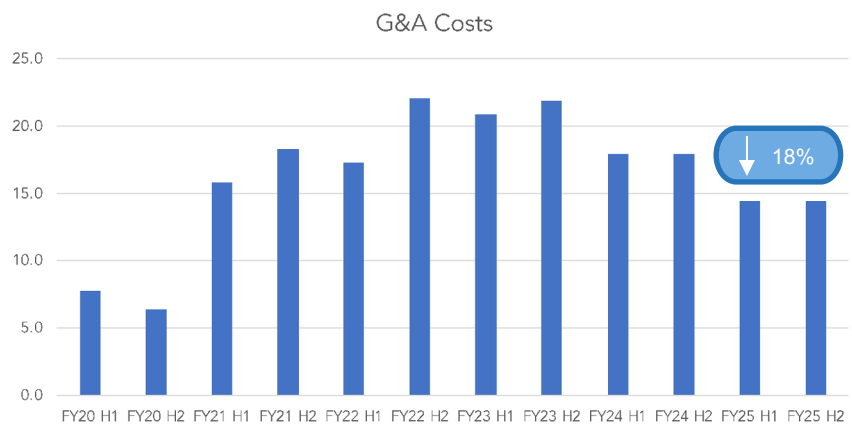


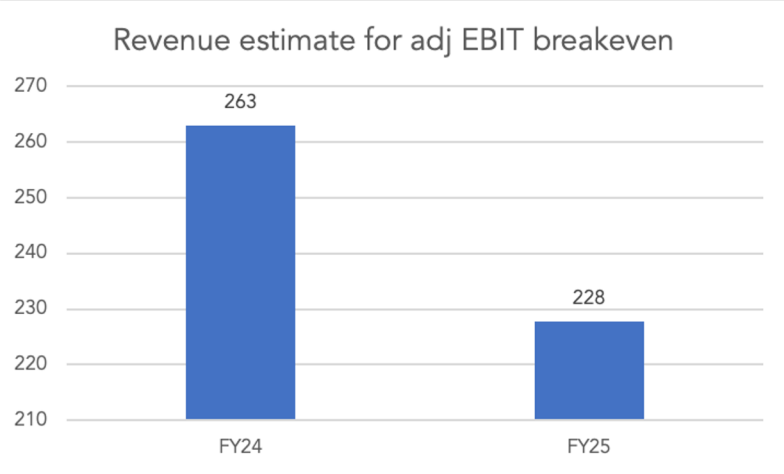
Underinvestment in growth in FY23 flattered profitability

- Significant driver of repeat contribution decline
- Investment rate increasing again, within guardrail

Cost reductions support profitability

Further cost actions have reduced our reliance on sustained sales levels

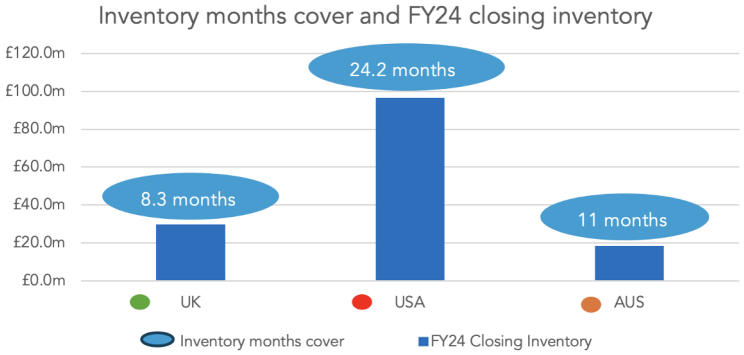




Scenario analysis shows that cost actions taken will underpin profitability in the event of further revenue decline, while ensuring we have the resource to undertake Return to Growth initiatives

UK and Australia inventory on track, US project continues





*Between April 2022 and March 2024, c. £13m of inventory was written off which is reflected in these balances

- Stock reduction of c.£20m expected over FY25 peak trading
- Inventory intake will be below COGS through FY27
- Long-term inventory target <50% of sales
- US team continues to review options for accelerated disposal
    - Balance between taking losses and generating cash

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Solid Core

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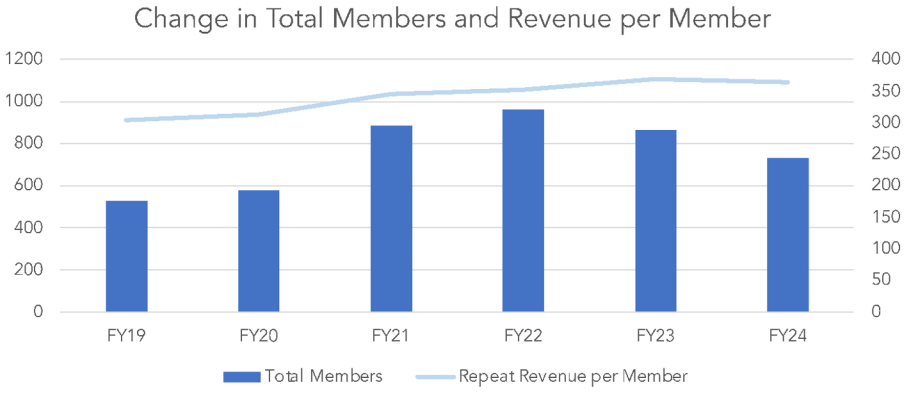
- Mix and discounting drives margins down
- Recruitment remains challenging

Looking forward

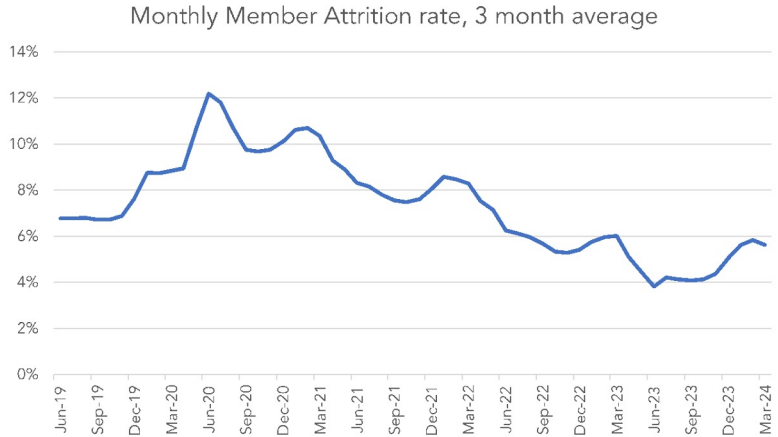
- FY25 guidance and drivers

Repeat customers are performing well

Revenue per member is stable…

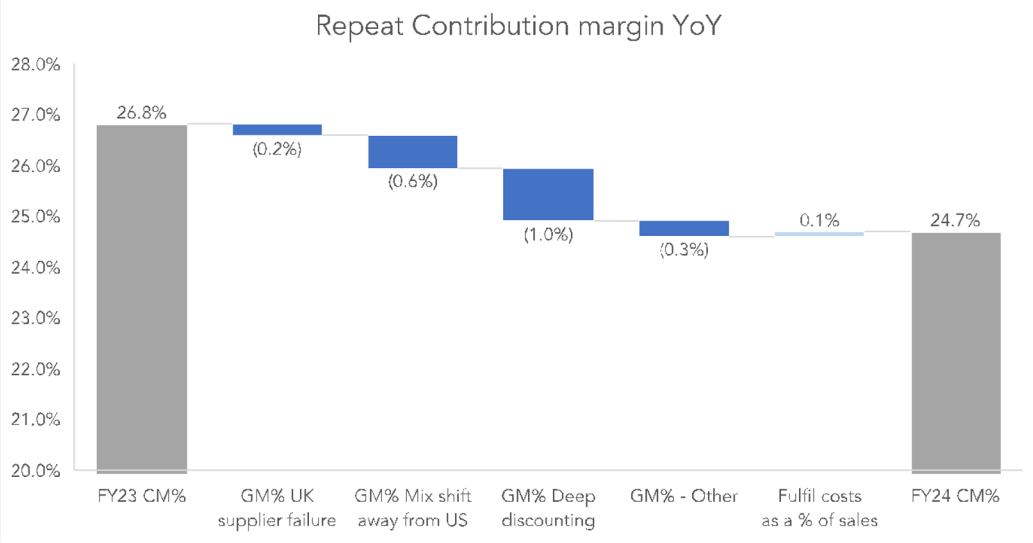


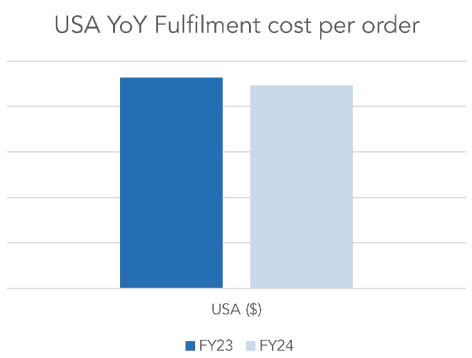
…as are attrition rates

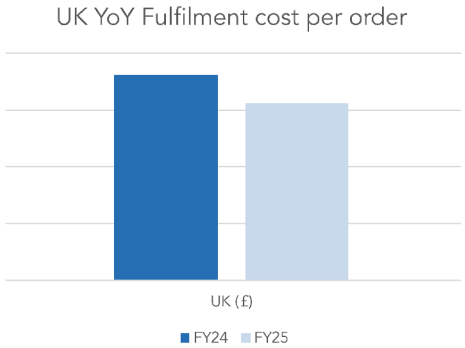


Although trading has been disappointing, the sales decline is due to lower customer numbers, which in turn is due to lower new customer recruitment. The existing customer base is healthy.

Repeat contribution margin reductions driven by gross margins. Fulfilment cost improvements taking shape



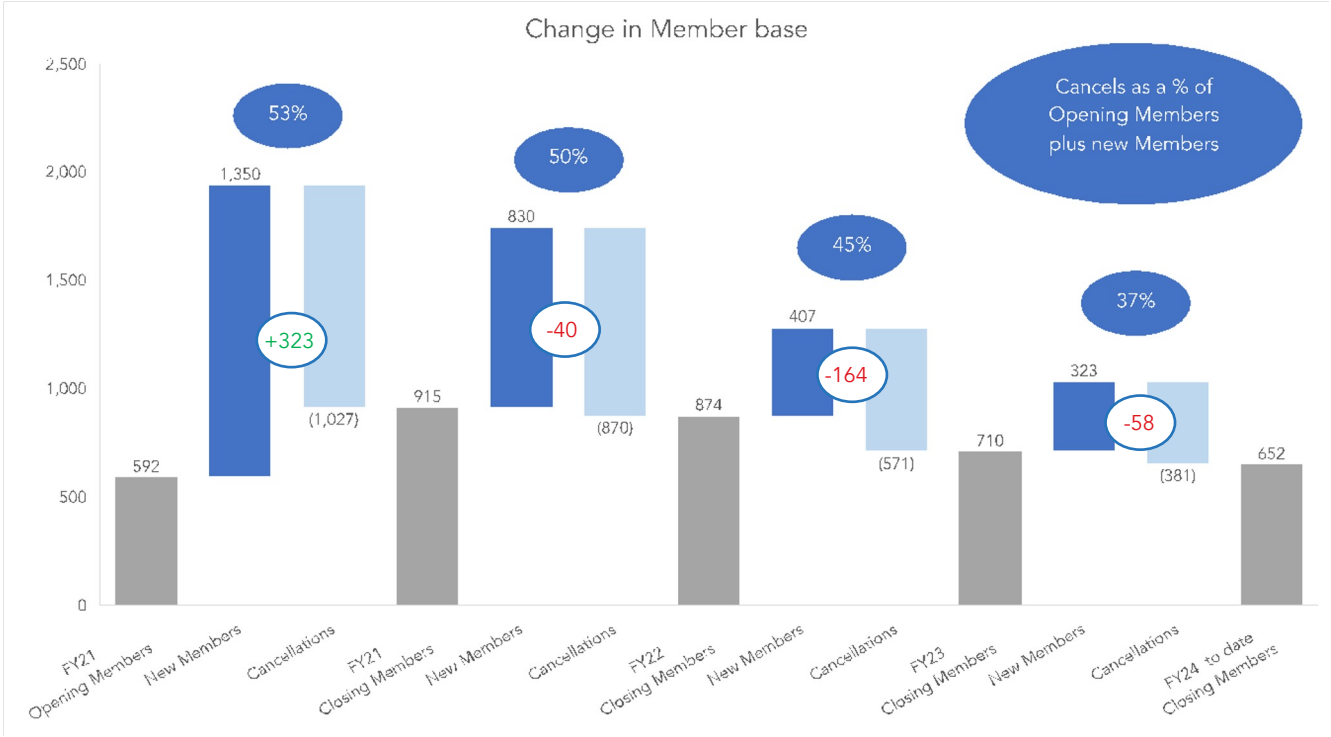




Gross margin drivers

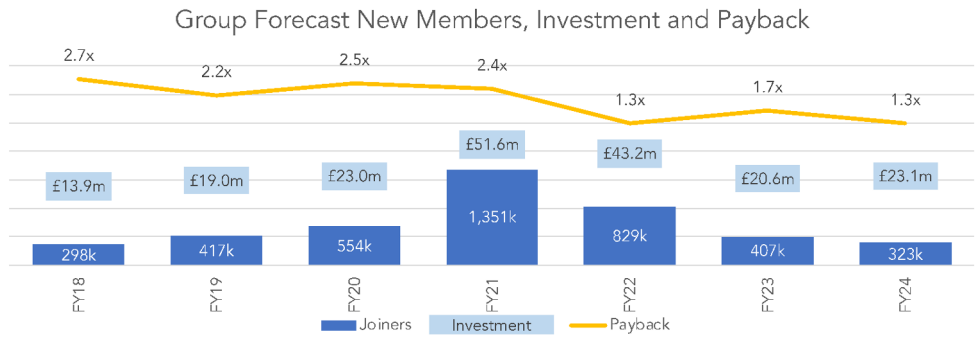
- Mix shift towards lower margin UK
- Stock clearance activity
- One off supplier failure

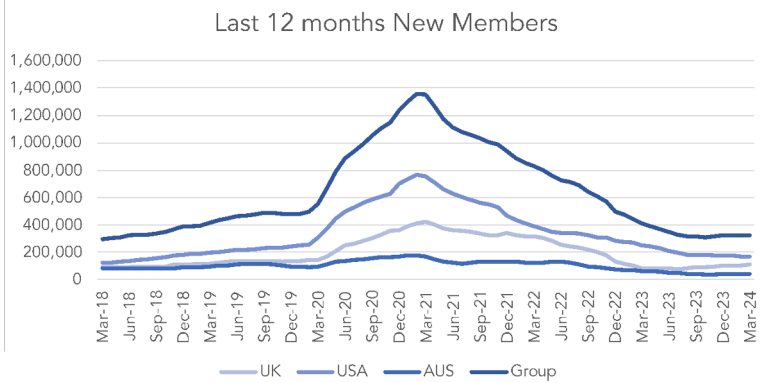
Customer base continues to decline as recruitment challenges persist, but balance of gains and declines moderating



- Net reduction in members dropping
- % rate of reduction is dropping

Lower customer recruitment remains the key challenge





Negative drivers:

- Tested non-subscription in Aus (now stopped)
- Tough trends in marketing conversion
- Accepting low marginal paybacks to liquidate stock

Positive drivers:

- Improvements in digital creative
- Lowered payback thresholds to drive cash
- Refocused team on core partner marketing process

As we start to lap the pivot to profit we see:

- UK trends showing increase
- Stabilisation at group level

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Guidance driven off underlying trends

£m	FY25
Revenue	240 - 270
Revenue trend (%)	(16)% - (4)%
Repeat contribution	54 - 65
New customer investment	(22) - (25)
G&A	(29) - (31)
Adj EBIT exc inventory liquidation	3 - 8
Inventory liquidation losses	(2) - (5)
Adj EBIT inc inventory liquidation	(2) - 6
Finance charges	(1.5) - (2)
Closing net cash excluding lease liabilities	25 - 35

Notes:
1) This guidance is provided based on FX rates of 1 GBP = 1.27 USD and 1.85 AUD

Assumes (at market level):

- Flat trends in customer recruitment and retention
- No changes to annual revenues per member
- Known cost base (SG&A and fulfilment)
  - Includes impact of revised warehousing arrangements
- Sell through of inventory based on demand PLUS bulk disposals generating losses of £2-5m
  - Sales of provisioned stock treated as adjusted items
  - Other inventory liquidation transactions will NOT be adjusted going forward

Risks / Opps:

- Impact of strategic initiatives, customer recruitment environment
- Pace of inventory liquidation, bulk market conditions



Strategic Review

Rodrigo Maza

Group CEO

Working through our key priorities...



Robust Foundations

- ✓ Cost Structure
- ✓ Banking Facility
- ✓ Surplus Inventory



Proud to Be Naked

- ✓ Management System
- ✓ People Cycle
- Winemaker Success



Return to Growth

- Acquisition
- Personalisation
- Retention

About me…

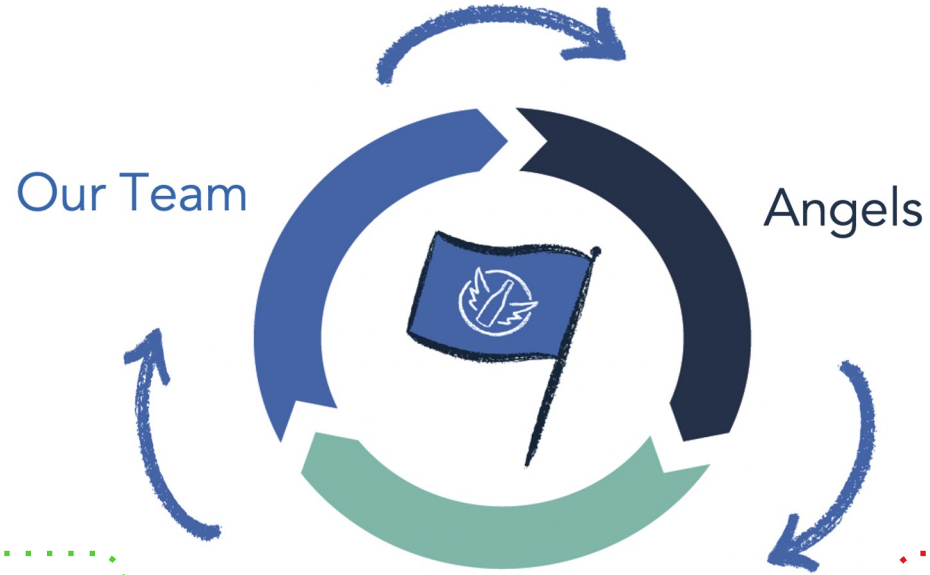


Simple Strategy
Consistent Execution

Effective Exploration
AND Exploitation

Commitment to
Customer Centricity

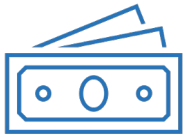
About Naked...



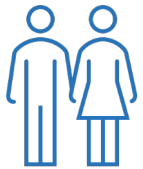
Business Model: **Success!**
Strong Retention

Brand: **Miss!**
Weak Acquisition

Our objective…



Acquisition Diversification
(Optimise Voucher, Launch Earned & SEO)



Product Personalisation
(Choose Subscription Type, Frequency, Spend)



Content-Led Retention
(Enhance Onboarding, Deliver Value beyond Deals)



Payback
1.3x → 2.0x
(Pre-COVID Levels)

&

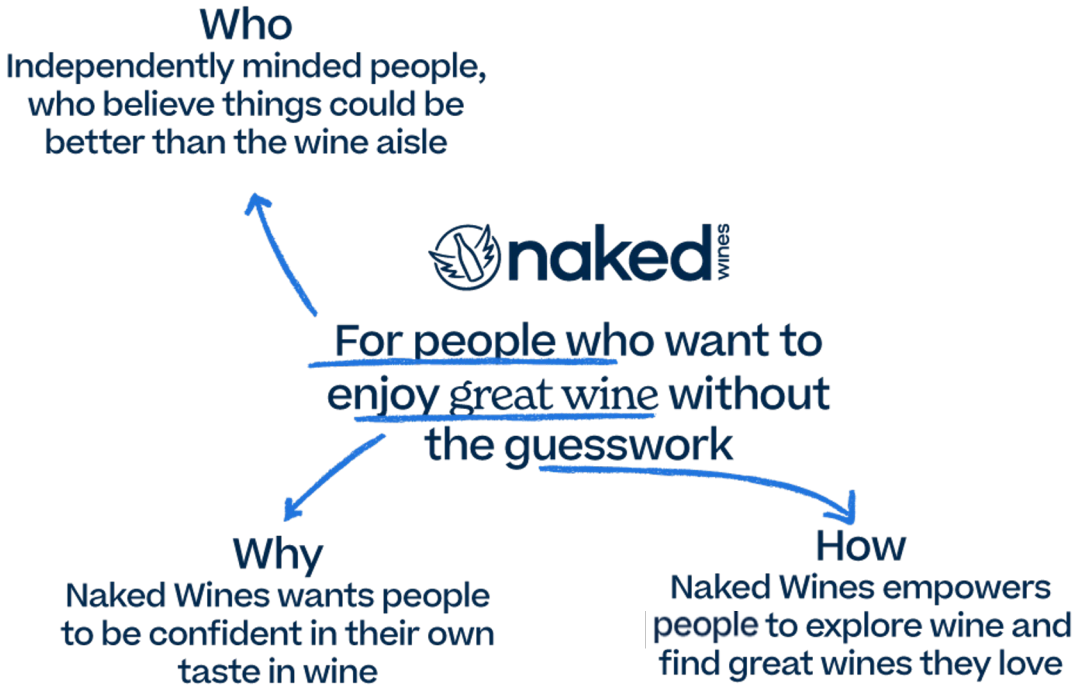
Opportunistic Inventory Clearance





Enterprise Value Growth

Customer Value Proposition…



Customer Value Proposition… it's landing!

"Naked Wines care about people and wine. Great wines are always available at seriously reduced prices, usually about a third off the market price, sometimes much more. Naked support the growers and winemakers and their communities …

★★★★★ by John Fisher

Rated 4.6 / 5 | 12,089 reviews ★Trustpilot

"I love everything about Naked Wine subscription. It may take a little research to find "your" winemakers, but once you do, you can't beat the prices and service. And there's no risk in trying new wines …"

★★★★★ by Susan Wigley

Rated 4.5 / 5 | 2,643 reviews ★Trustpilot

"Superior Winemaking!! – All of the wines I have purchased from Naked Wines have been excellent and very affordable. It is obvious to me that these winemakers are diligent and proud of their craft! "

★★★★★ by Frederick Petrie

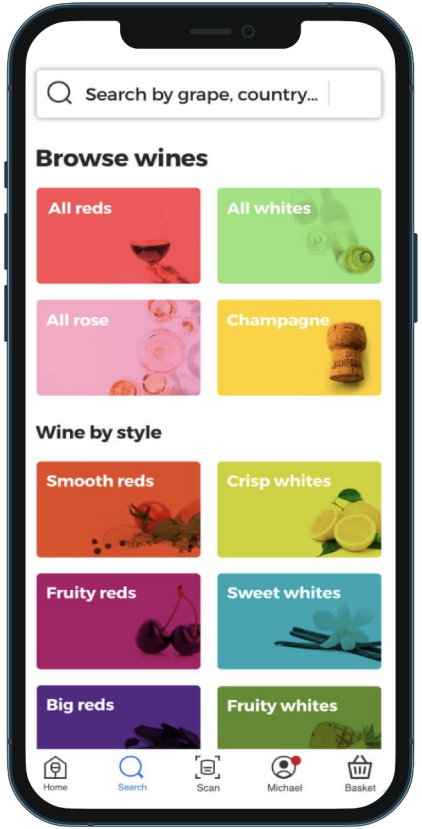
Rated 4.5 / 5 | 2,643 reviews ★Trustpilot

Ren Rojas
With Naked Wines nothing holds me back because I know that if I absolutely don't like it I will have lost nothing by trying it.

David Dellar
Love these independent winemakers. Well done for bringing them to the public.

Sue Stamp
A great concept and a great company - provides an opportunity to try new wines and support small producers - and customer service is excellent.

Tracey Jordison Gollagher
Love this company and the monthly payment system. Great wines. Easy to use website and to order.



Growth Levers…

Acquisition

Get the right customers through the door… for the right reasons!

Personalisation

Get customers into the relationship that's right… for them!

Retention

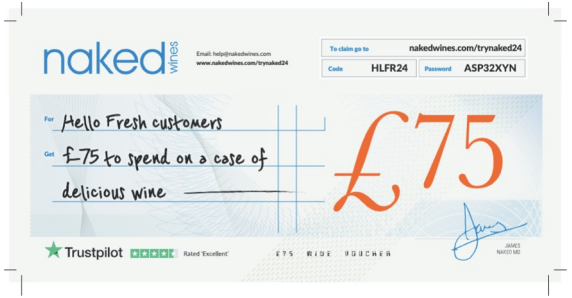
Effectively onboard customers and deliver value… beyond deals!

Voucher… presenting our CVP in a compelling way



- New parcel creative presents Naked as a solution to a user problem
- Tests are at early stages of data collection in US and AUS
- Directional improvements to sign up conversion rates (50-100% improvements), though lower response rates

Before:



SEO… still early days but showing promising signs

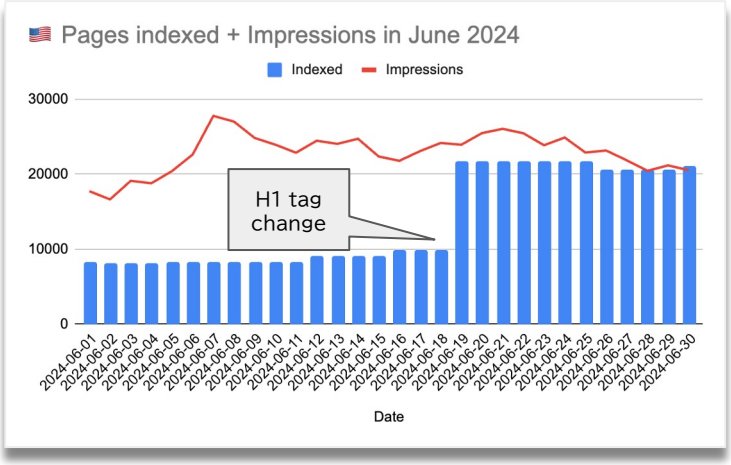
Technical SEO: A single update to page titles doubled the number of pages being indexed by search engines.

↑103%

Average no of pages indexed per day

↑13%

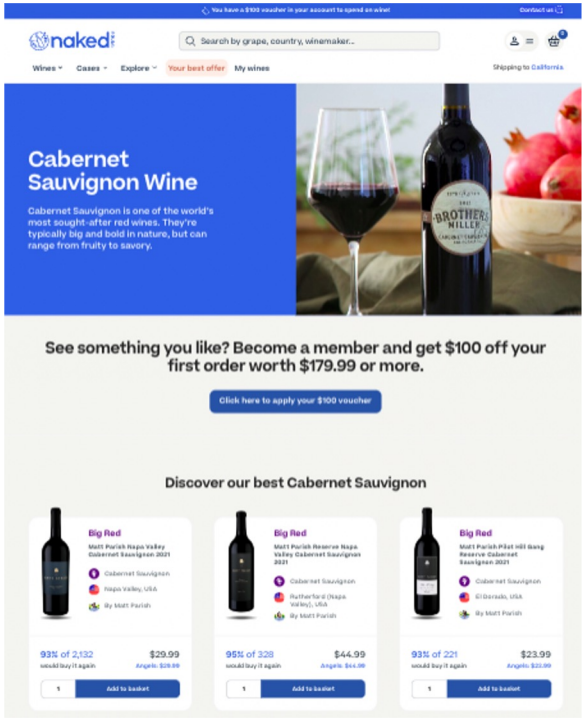
Average impressions per day



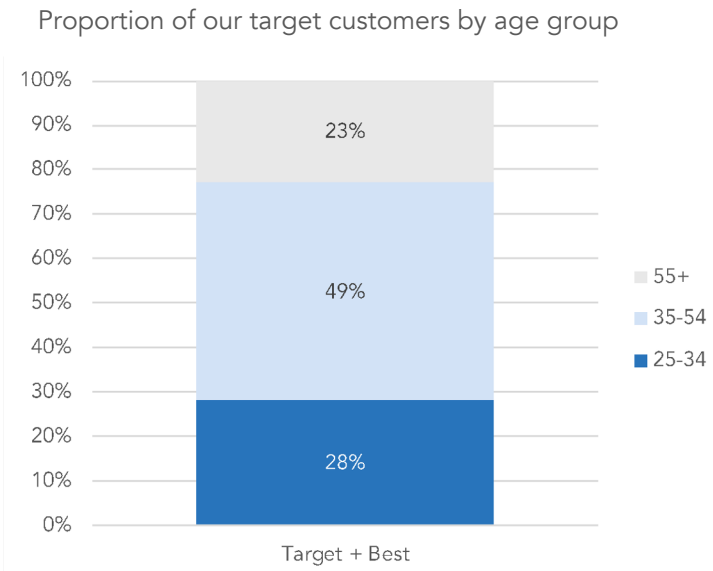
All US search volume (impressions) from indexable pages. Source: Google Search Console

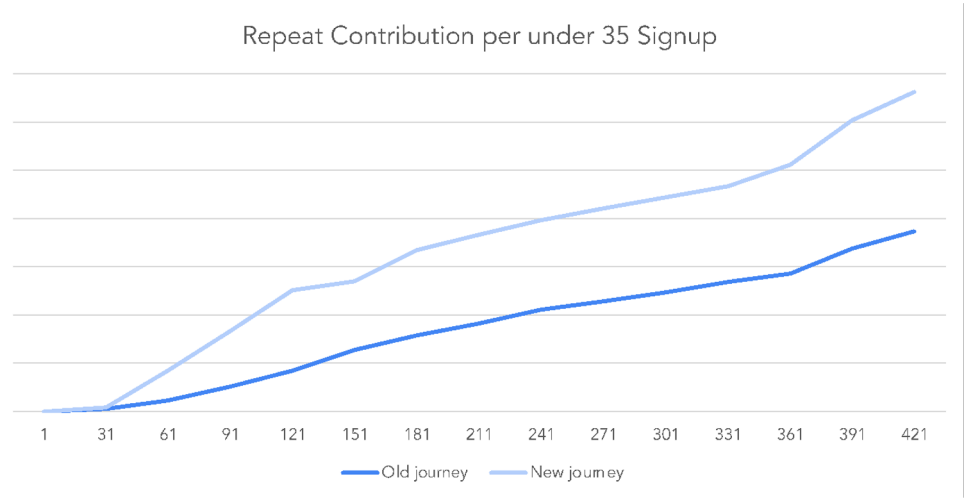
Content SEO: Targeting high volume keywords to meet high intent customers where they are, and bring our CVP to life.





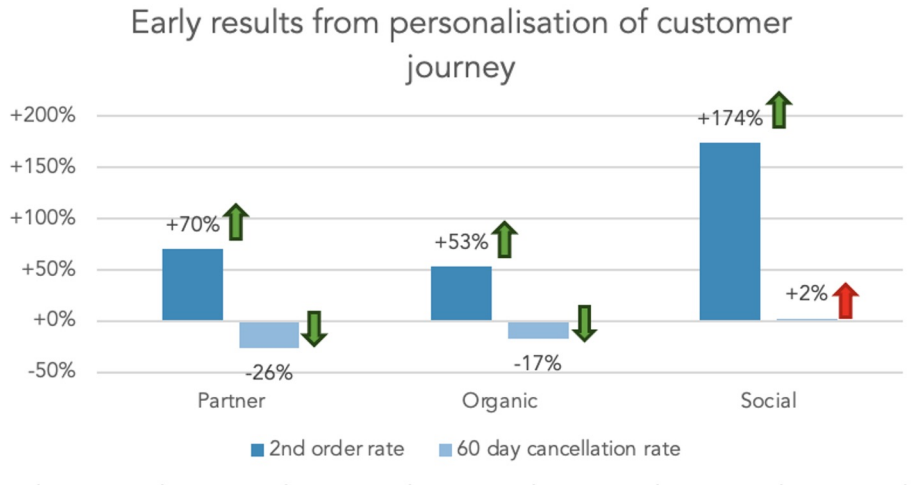
Wine Genie… better fit for those less confident around wine





Personalisation… bringing orders in while reducing cancellations

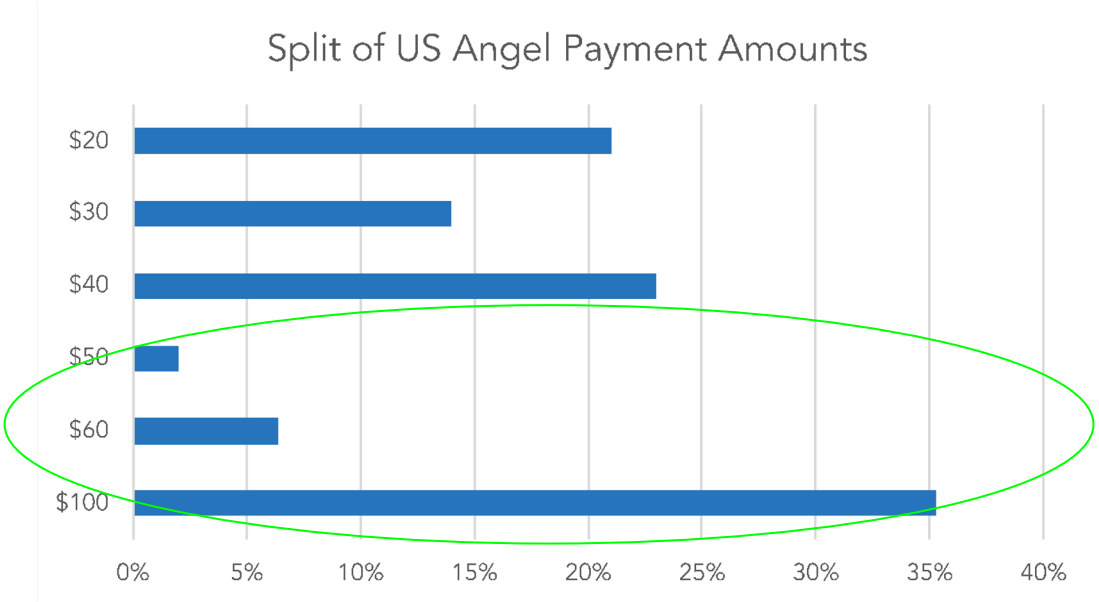
This is VERY early data from a pilot of a radically different new customer journey enabling a customer to personalise their subscription…



It's unusual to see lower cancellation combined with higher order rates - we need to see how this ages out and drive conversion higher, but it's a promising signal that personalisation can work for our customers.

Personalisation… letting customers choose is driving our LTV

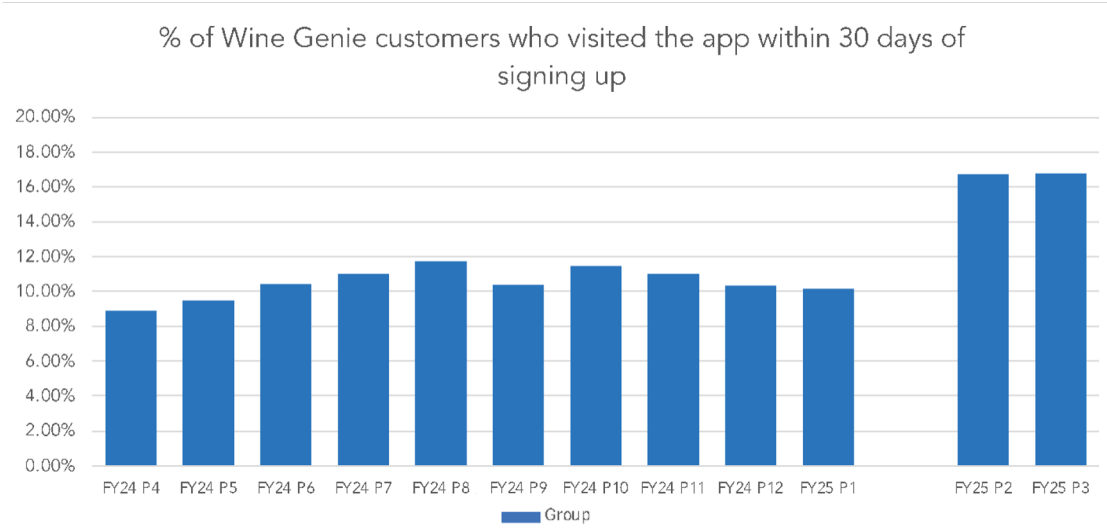
Historically we have brought all Angel customers onboard on a standard $40 subscription. We are now seeing signs we can bring in customers who are more likely to be higher spending



- Historically 100% of customers were subscribed at $40 monthly contribution
- Historical evidence that higher monthly contributions leads to higher lifetime values
- Potential that lower monthly payments for the right people leads to greater loyalty
- Taken traffic that does not want a subscription and monetised through a profitable order vs investing in a discounted order to drive an (unwanted) subscription

Onboarding… channeling customers to retention-driving actions





Clear set of indicators of future customer value identifiable in our data:

- App usage
- Engagement with winemakers
- Wine ratings
- Referring a friend

Example result: +50% uplift achieved in 30 day app usage following initial testing

Our timeline...

Testing:
Now

Results:
End FY25

Forecast:
FY26

Our commitment…

Transparent & Scientific

Impactful Testing, Clear and Consistent Comms

Focused & Disciplined

Guardrails on SG&A, MKT Investment, Capital, Stock

Responsible & Pragmatic

Open to Alternative Paths to Value Creation

Our thanks…

CFO Succession





James has been with the Company for over 10 years, as both CFO and Managing Director.

During his tenure, Naked has grown annual revenues from £40m to £290m – his leadership and expertise has played a valuable role in navigating the Group through periods of challenges.

James has successfully laid the foundations for our future, by negotiating our improved credit facility, streamlining our cost base and managing our inventory levels post covid, which has now provided us with a sturdy platform for the future of Naked Wines.

Wrapping up…

- Robust financial foundations in place
- Systems embedded
  - to ensure focus and alignment on top priorities
  - to embed a high-performance culture
  - to drive Winemaker engagement
- Fully focused on getting back to sustainable growth:
  - Customer Value Proposition crystallised
  - Tests active to recruit right customers in for the right reasons (Acquisition)
  - Tests active to bring customers into the relationship that best suits them (Personalisation)
  - Tests active to effectively on-board customers and drive long-term engagement and activation (Retention)
- Ambitious experimentation agenda to continue throughout the year
  - Results at the end of FY25
  - FY26 Forecast will incorporate the findings
- We'll be scientific & transparent; focused and disciplined; and responsible & pragmatic in our approach



naked wines

Q&A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Cuvee Reserve Brut

Appendix

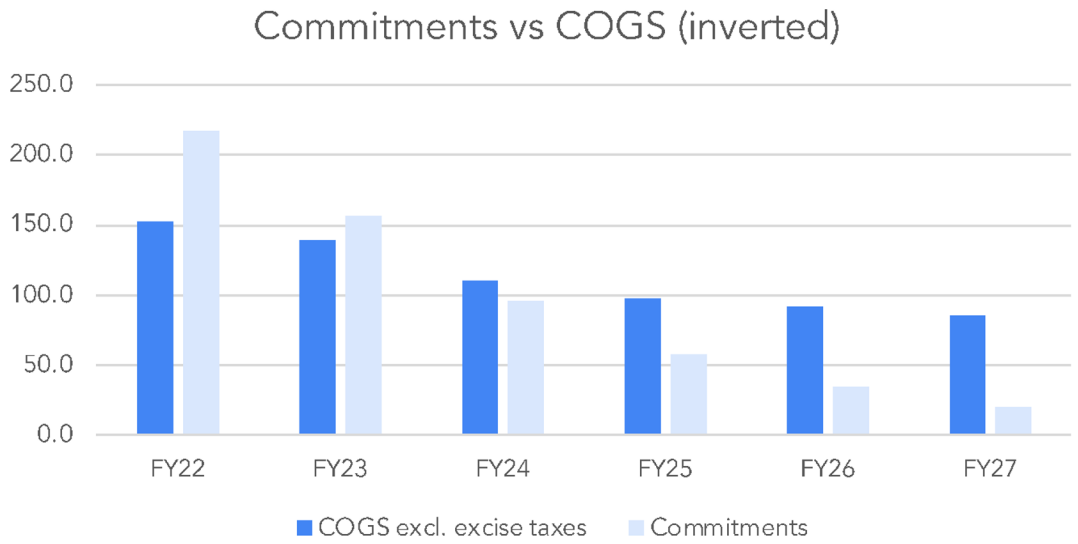
Credit Facility - Headline Terms

On 8 July 2024, the Group entered into a 60-month senior secured revolving credit facility with PNC Bank, National Association, as administrative agent and lender for up to $60m of credit based on global inventory levels. The facility is secured against the assets of the Group.

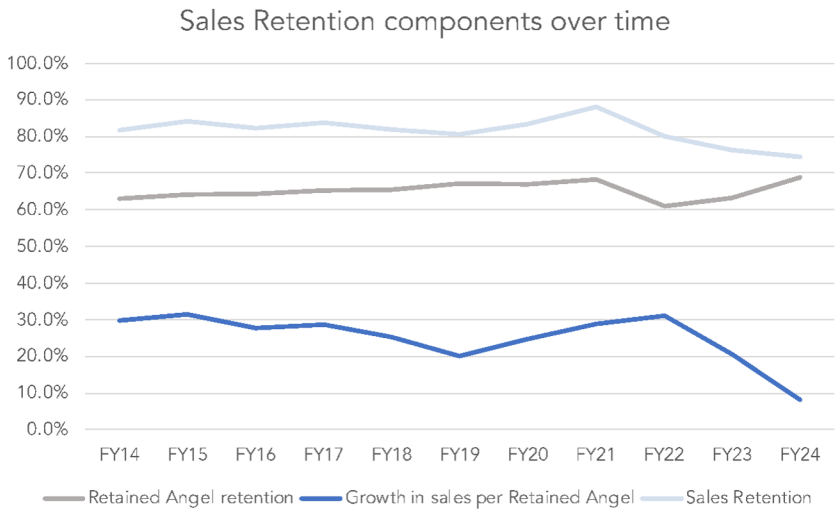
The principal terms of the new facility are:

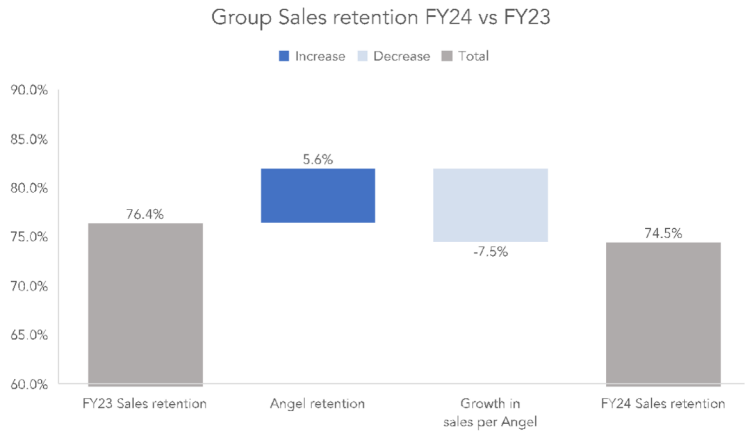
- Maximum revolving advance amount of $60m, with available liquidity based on the value of inventory held (as defined in the facility terms);
- Facility term of five years;
- Margins, depending on facility headroom, of principally the Secured Overnight Financing Rate (SOFR) plus an applicable margin of between 2.75% and 3.25% and an unused line fee; and
- A single financial performance covenant, requiring fixed charge cover of greater than 1.2x, but only tested if outstanding available liquidity (as defined in the facility terms) is less than $12m.

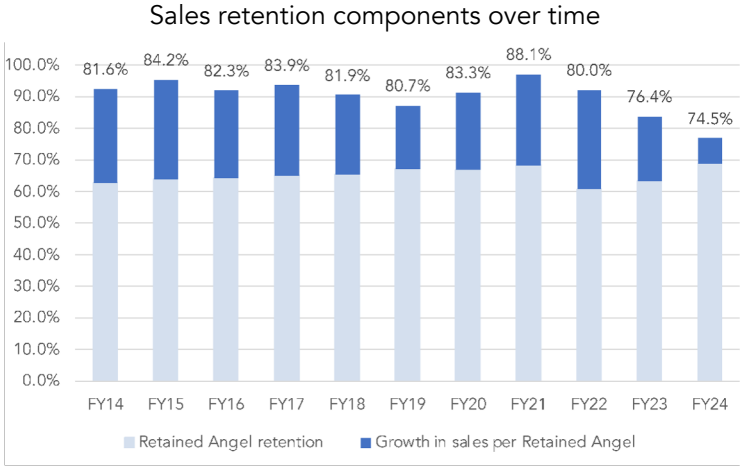
Commitments significantly lower than COGS



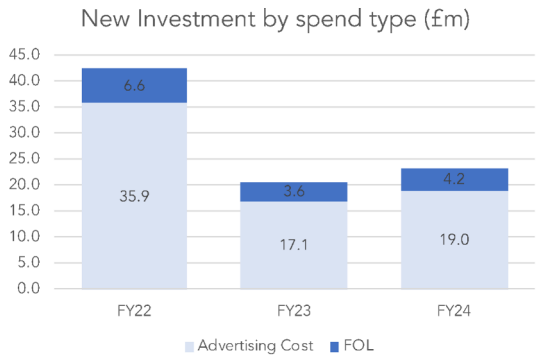
Sales Retention

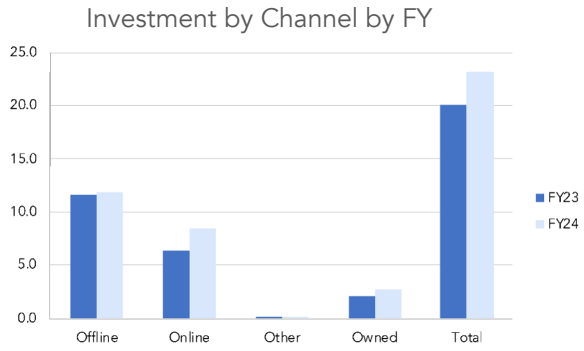


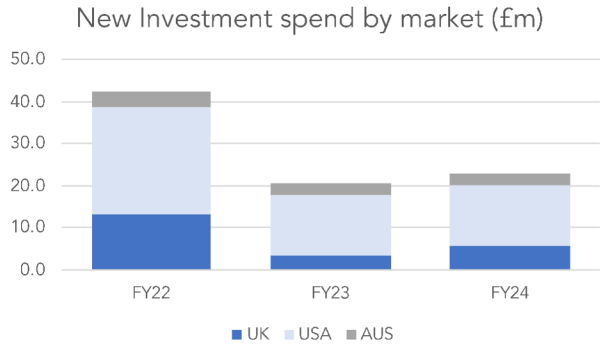


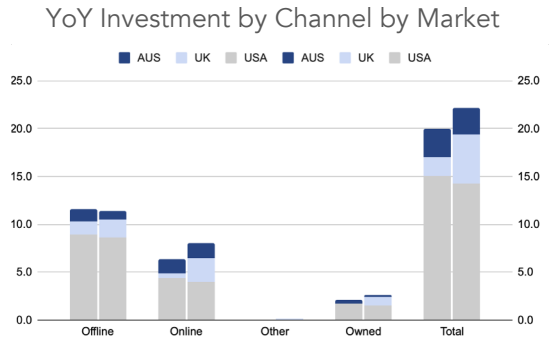


Investment trends

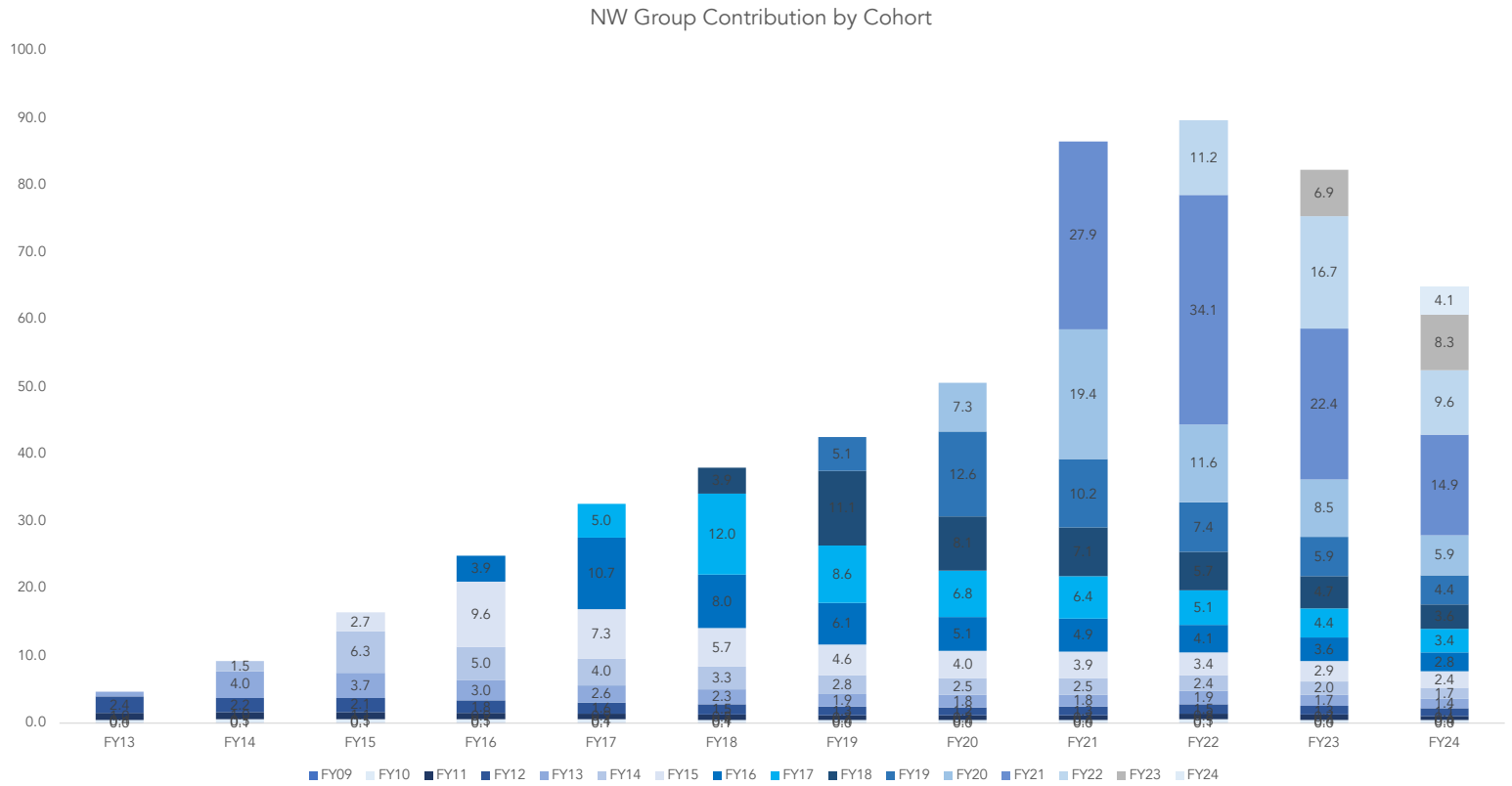








Contribution by cohort



Payback progression

Cohort	Age at reporting date	Latest 5 year (Forecast)	Original Forecast	Vs Original Forecast	Payback to date
FY16	97-108 months	3.1x (Actual)	3.1x	0.0x	4.4x
FY17	85-96 months	2.5x (Actual)	2.0x	0.5x	3.3x
FY18	73-84 months	2.7x (Actual)	2.1x	0.6x	3.0x
FY19	61-72 months	2.2x (Actual)	1.8x	0.4x	2.4x
FY20	49-60 months	2.5x	2.6x	(0.1)x	2.2x
FY21	37-48 months	2.4x	3.0x	(0.6x)	2.0x
FY22	25-36 months	1.3x	1.5x	(0.2x)	0.9x
FY23	13-24 months	1.7x	1.7x	0.0x	0.8x
FY24	0-12 months	1.3x	n/a	n/a	0.2x

Income Statement

Group (£m)	52-week comparable		
	FY24	FY23	YoY%
New Customer sales	23.6	25.2	(6)%
Repeat Customer sales	264.1	305.2	(13)%
Other Revenue	0.8	3.0	(73)%
Total Sales	**288.5**	**333.4**	**(13)%**
Investment in New Customers	(23.3)	(20.0)	17%
Repeat Customer Contribution	65.3	81.7	(20)%
Repeat Customer Contribution margin	24.7%	26.8%	(210)bps
Other contribution	(0.7)	0.2	(450)%
General and administrative costs	(36.3)	(47.2)	(23)%
Adjusted EBIT	**5.0**	**14.9**	**(66)%**

Balance Sheet

Group (£m)	Reported		
	FY24	FY23	YoY%
Total non-current assets	**14.5**	**41.1**	
Inventory	144.9	165.7	(13)%
Cash and cash equivalents	31.9	39.5	
Other current assets	10.4	5.6	
Total current assets	**187.2**	**210.8**	
Trade and other payables	(38.7)	(42.4)	(9)%
Angel Funds and other deferred income	(68.3)	(71.3)	(4)%
Borrowings	(12.3)	-	n/a
Other current liabilities	(3.4)	(5.9)	
Total current liabilities	**(122.7)**	**(119.6)**	
Total non-current liabilities	**(2.2)**	**(33.6)**	
Net assets	**76.8**	**98.7**	

Working Capital Analysis

Group (£m)	Impact in the year				
	FY23	FX adj	Net movement in non-cash inventory provision	Underlying movement	FY24
Net cash excluding lease liabilities	10.3	0.1	-	9.2	19.6
Inventory excluding advances to winemakers	165.7	(3.5)	(2.4)	(14.9)	144.9
Angel Funds and other deferred income	(71.3)	1.2	-	1.8	(68.3)
Trade and other payables	(42.4)	0.3	-	3.4	(38.7)

Country Segmental data - US

US Segment (£m)	52-week comparable		
	FY24	FY23	YoY%
New Customer sales	14.2	16.1	(12)%
Repeat Customer sales	114.2	138.0	(17)%
Other Revenue	0.8	3.0	(73)%
Total Sales	**129.2**	**157.1**	**(18)%**
Investment in New Customers	(14.5)	(13.9)	4%
Repeat Customer Contribution	36.7	47.0	(22)%
Repeat Customer Contribution margin	32.1%	34.1%	(190)bps
Other contribution	(0.7)	0.2	(450)%
General and administrative costs	(11.4)	(12.3)	(7)%
Adjusted EBIT	**10.2**	**21.0**	**(52)%**

Country Segmental data - UK

UK Segment (£m)	52-week comparable		
	FY24	FY23	YoY%
New Customer sales	6.3	6.0	5%
Repeat Customer sales	118.1	129.2	(9)%
Total Sales	**124.4**	**135.2**	**(8)%**
Investment in New Customers	(5.8)	(3.4)	71%
Repeat Customer Contribution	20.7	24.9	(17)%
Repeat Customer Contribution margin	17.5%	19.3%	(170)bps
General and administrative costs	(6.3)	(6.9)	(7)%
Adjusted EBIT	**8.5**	**14.6**	**(42)%**

Country Segmental data - Australia

Australia Segment (£m)	52-week comparable		
	FY24	FY23	YoY%
New Customer sales	3.1	3.0	3%
Repeat Customer sales	31.8	37.9	(16)%
Total Sales	**34.9**	**40.9**	**(15)%**
Investment in New Customers	(3.0)	(2.7)	11%
Repeat Customer Contribution	7.8	9.9	(21)%
Repeat Customer Contribution margin	24.5%	26.1%	(160)bps
General and administrative costs	(3.0)	(3.3)	(6)%
Adjusted EBIT	**1.8**	**4.0**	**(55)%**

Country Segmental data - Central

Central (£m)	52-week comparable		
	FY24	FY23	YoY%
General and administrative costs	(15.6)	(24.7)	(37)%
Adjusted EBIT	**(15.6)**	**(24.7)**	**(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.