

Investor Meet Company Presentation

23rd January 2023

Disclaimer

This presentation (the "Presentation") has been produced for discussion purposes only. The information contained in the Presentation is not intended for any other use. The Presentation is being made only to, and is only directed at, persons to whom it may lawfully be communicated ("relevant persons"). Any person who is not a relevant person should not act or rely on the Presentation or any of its contents. The Presentation does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase, any shares or other securities in Naked Wines plc (the "Company"), nor shall it or any part of it, or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares and other securities of the Company.

All aspects of the Presentation must be independently confirmed by any recipient of the Presentation and must be considered in the context of more fulsome and independently-obtained information that may be required for any decision regarding the Presentation's subject matter. The financial information referenced in the Presentation does not contain sufficient detail to allow a full understanding of the Company's results. For more detailed information, the entire text of the results announcement for the half year results for the period ending 2 October 2023 can be found on the Investor Relations section of the Company's website (www.nakedwinesplc.co.uk). Any recipient of the Presentation should determine, in consultation with its own legal, tax, regulatory, accounting and other pertinent advisors, all economic risks and merits, as well as legal, tax, regulatory and accounting characteristics and consequences, of any transaction as it pertains to them. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is provided in relation to any aspect of the Presentation. The Company accepts no responsibility for, and expressly disclaims all liabilities relating to, any loss, whether direct or indirect, or any other kind of damage, resulting from reliance upon or use of information contained in the Presentation.

Certain statements included or incorporated by reference within the Presentation may constitute "forward-looking statements" in respect of the Company's operations, performance, prospects and/or financial condition. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Nothing in the Presentation should be construed as a profit forecast. All forward-looking statements relating to the Presentation are qualified in their entirety by this cautionary statement.

No party makes any representation, whether express or implied, with respect to the completeness or accuracy of the Presentation, or for the fitness of the information in the Presentation for any purpose.

Nothing in the Presentation shall be construed by any party as a binding or legally enforceable commitment, contract or offer to contract with respect to its subject matter. The Presentation neither imposes any obligation, nor grants any rights with respect to, any service or transaction referenced in the Presentation, nor does it impose on any party a duty or obligation to conclude any such agreement or commitment.

The Presentation is to be construed as of the date of its creation and is subject to change at any time without notice. No party has any obligation to update any information contained in the Presentation at any time.

Any person receiving the Presentation is deemed to have accepted these legal notices and the fact that such notices apply even if the Presentation in any way is shown to be erroneous, incomplete or based upon incorrect or incomplete facts, interpretations or assessments or assumptions, irrespective of any responsibility of the Company. To the extent permitted by law, all legal considerations arising from the Presentation shall be governed by English law.


naked wines
James Crawford
Group CFO

About Us

Naked Wines supports independent winemakers who make exclusive wines at preferential prices



We pass these preferential prices on to our customers and customise our recommendations based on customer reviews

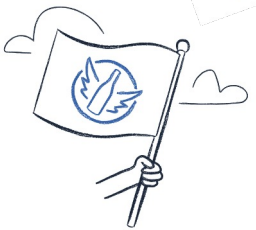
This helps inform our Angels' decision-making process and provide a more meaningful customer experience overall compared to the traditional wine purchasing channels



Our mission: To disrupt the wine industry for the benefit of our customers, winemakers and our people.

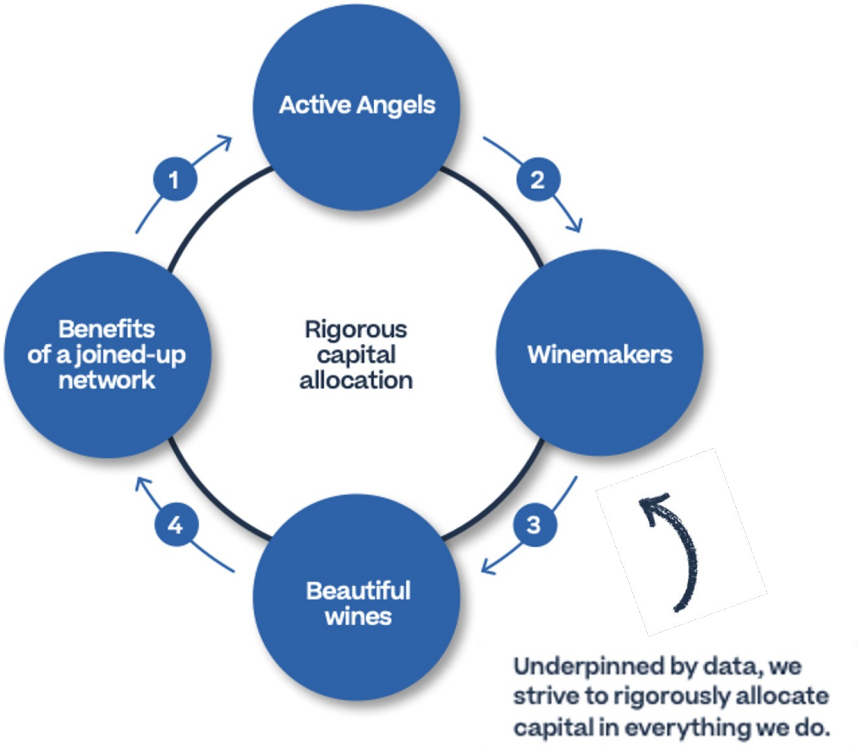


Our purpose: Connect everyday wine drinkers with the world's best independent winemakers, building meaningful connections and providing an elevated value proposition to both



Our ambition: Shaping our value proposition to both consumers and winemakers while building brand awareness and enhancing both the quality of our offerings and the overall user experience.

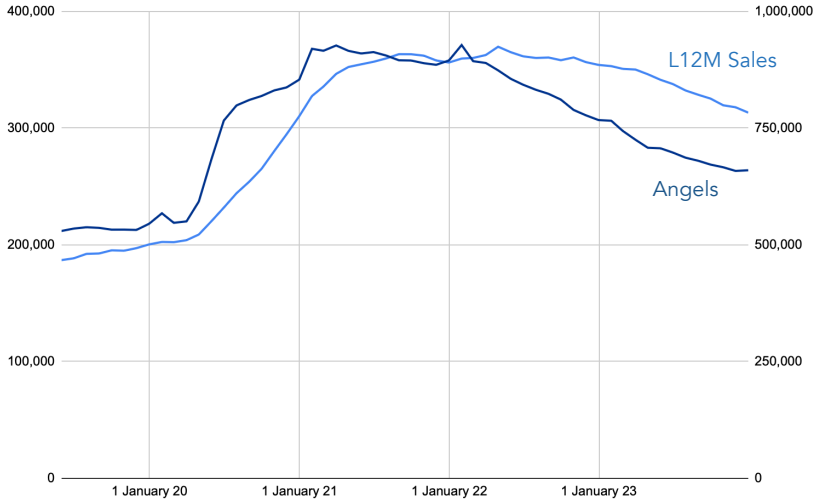
Our virtuous circle

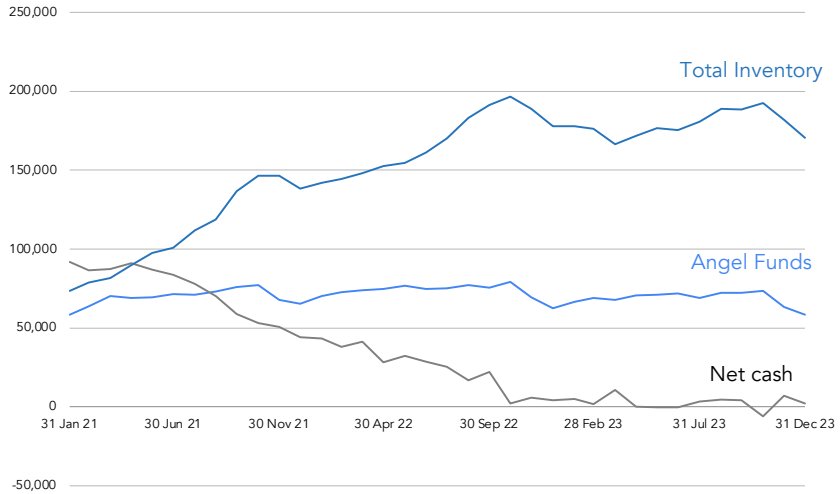


Working together harmoniously for the benefit of all

1. Our Angels generate a stream of cash and product data
2. We use this money to back independent winemakers to make wine exclusively for us; the data enables them to make better wine
3. Winemakers focus on creating beautiful wines and we handle the rest – resulting in preferential prices
4. Building a bigger, better business unlocks scale economies

Current challenges borne out of pandemic growth







HY24 Results and Strategy

Strategy to get Naked back on track by…

Strengthening the balance sheet

- Rightsizing inventory and commitments to winemakers
- Release £40-50m of cash from inventory
- Renegotiate lending facilities

Making the profit sustainable

- £3m out of costs, £10m+ to come
- Ensure profitability at lower sales level
- Stabilise the customer base

Profitable growth

- Rebuild paybacks to enable growth at pre-pandemic levels

Where are we?

The good news...

- Moving towards cash generation
- £40-50m of cash release to come from inventory
- Costs coming down, £10m+ more to come
- Existing customer base strong: Sales per customer up YoY, attrition rates down

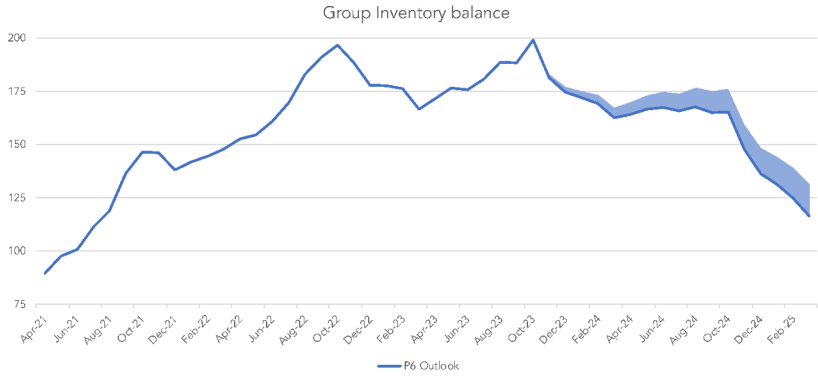
&

... the bad

- New customer acquisition remains tough

Cash consumption moderated, entering cash generation period

	FY24 H1 £m	FY23 H1 £m
Operating loss	**(8.7)**	**(0.2)**
add back: Depreciation and Amortisation	1.6	2.0
Add back: Impairment	11.5	-
Add back: Other non-cash charges	(0.7)	2.7
Change in inventory	(19.8)	(50.9)
Change in payables	3.8	18.5
Change in Angel funds and other deferred income	8.5	3.6
Other working capital movements	0.2	1.5
Operating cash flow	**(3.6)**	**(22.8)**



Cash drivers showing trend of changes

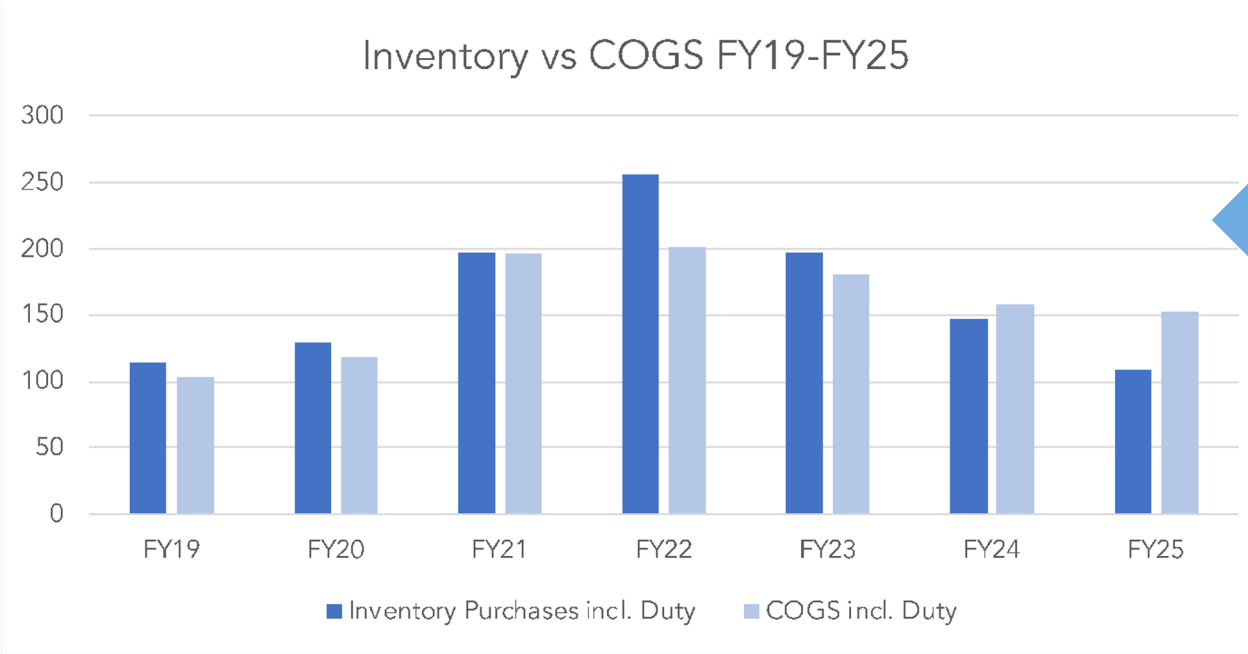
- Much lower stock build
- Corresponding drop in payables
- Angel funds reflect improving retention and customer quality

Cash generation in sight as trends forecast to continue

- Inventory commitments reduced below COGS
- Main driver will be H2 FY25 (peak sales)

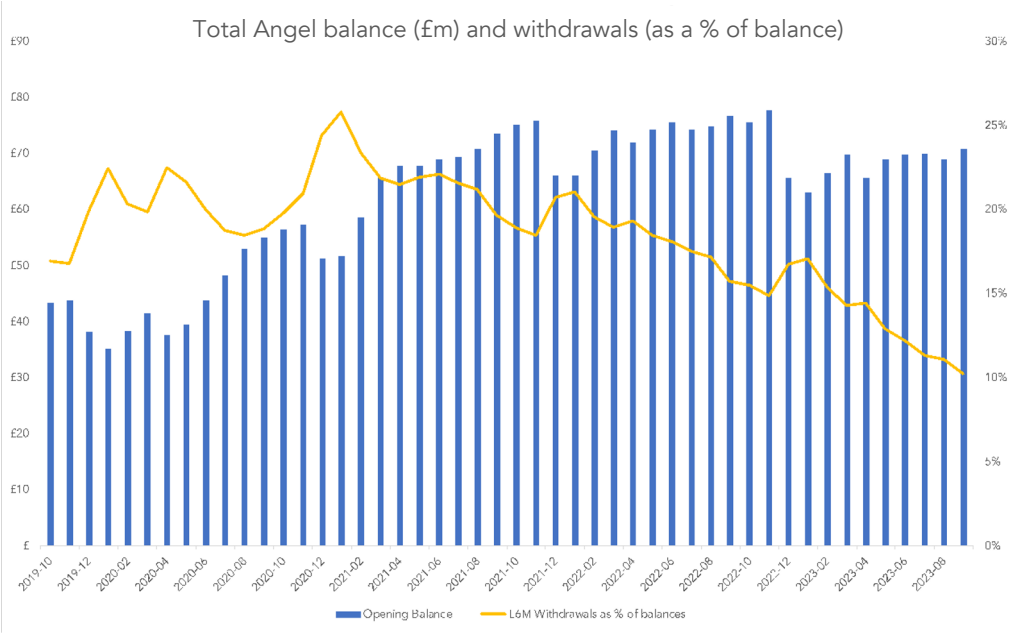
£40-50m of cash to be released from inventory by end FY25

Group inventory balance (£m)



£40-50m cash released from inventory over 2 years

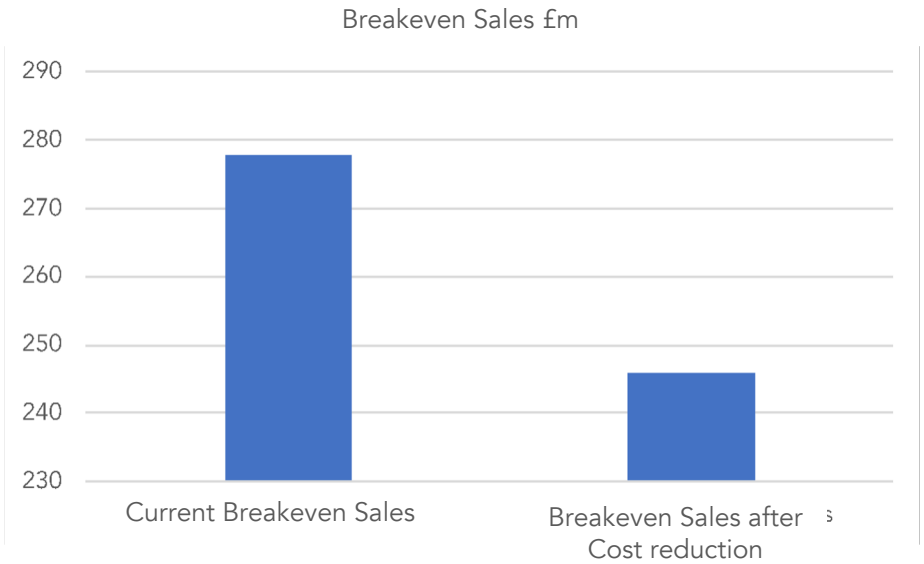
Angel fund redemptions remain stable, ABL replacement commenced



Process commenced to replace ABL

- Debt advisor appointed
- Preliminary view that replacement on improved terms may be available

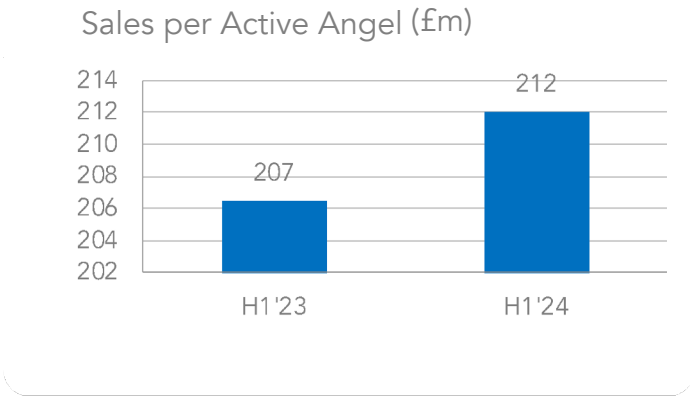
Taking actions on cost to reduce our reliance on sustained sales levels

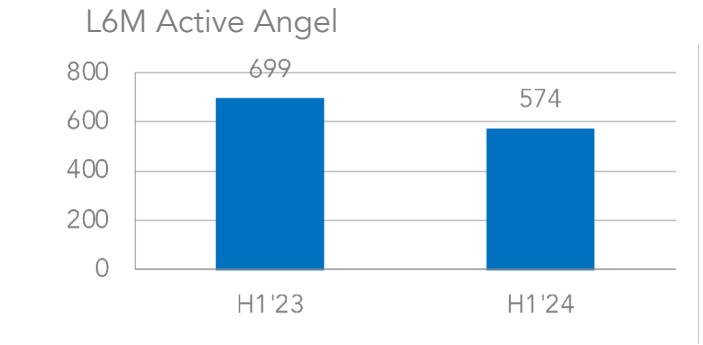


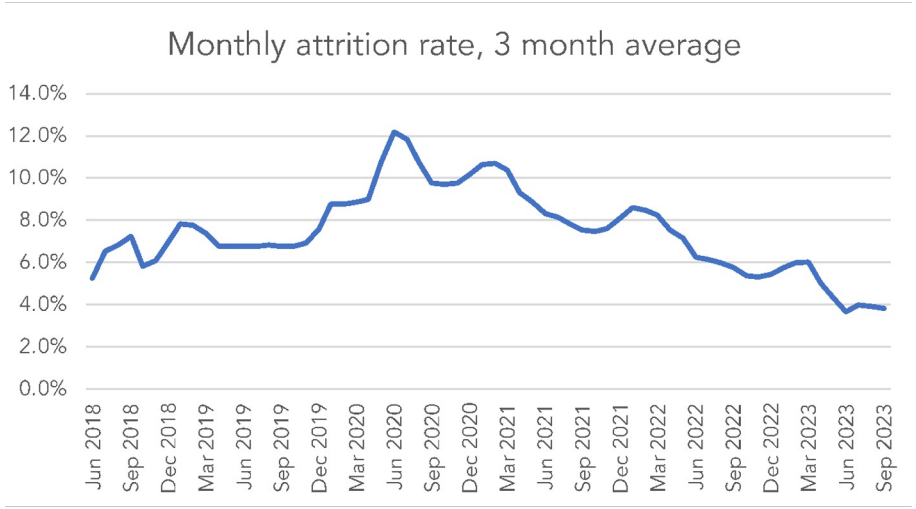
Business as configured at end H1 required nearly £280m of sales to remain profitable at adjusted EBIT level

With cost actions just taken this will reduce to under £250m

Repeat customers are performing well

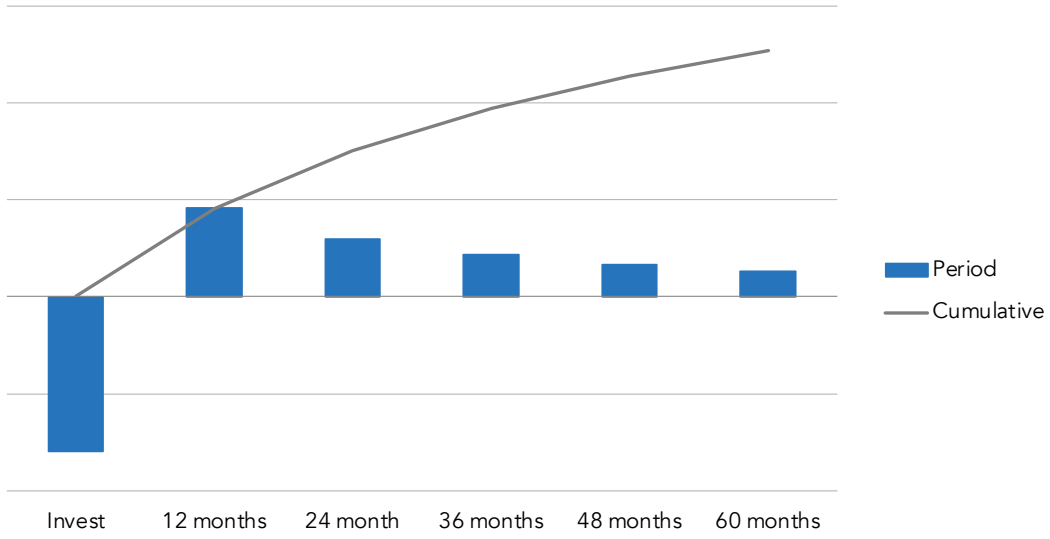






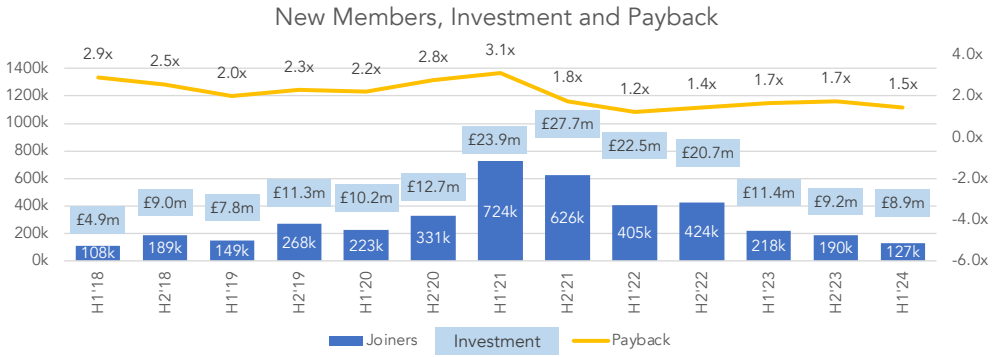
Although trading has been disappointing, ALL of the sales decline is due to lower customer numbers, which in turn is due to lower new customer recruitment. The existing customer base is healthy.

Customer recruitment is undertaken against a well established investment model



- Upfront investment in new customers = Marketing plus profit / loss on first order
- Lifetime value = sum of profits over 5 years from subsequent orders
- Historically delivered >2x payback (LTV / Investment) on new customers
- Economics more challenging in recent times due to increased fulfilment costs and tougher marketing environment

Lower customer recruitment remains the key challenge

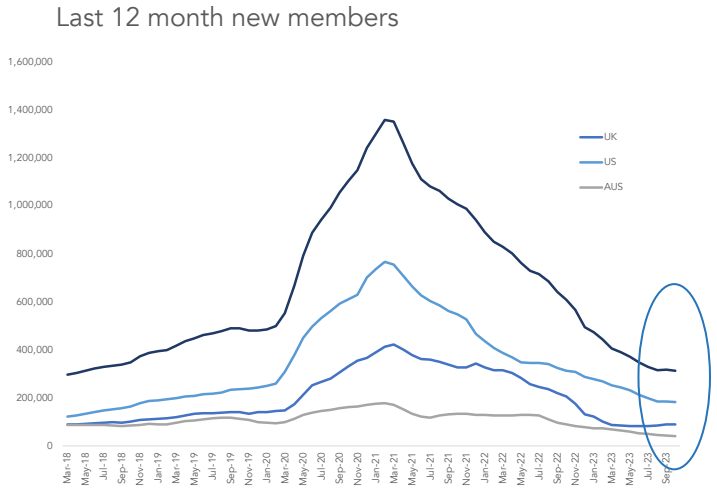


Positive drivers:

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

Negative drivers:

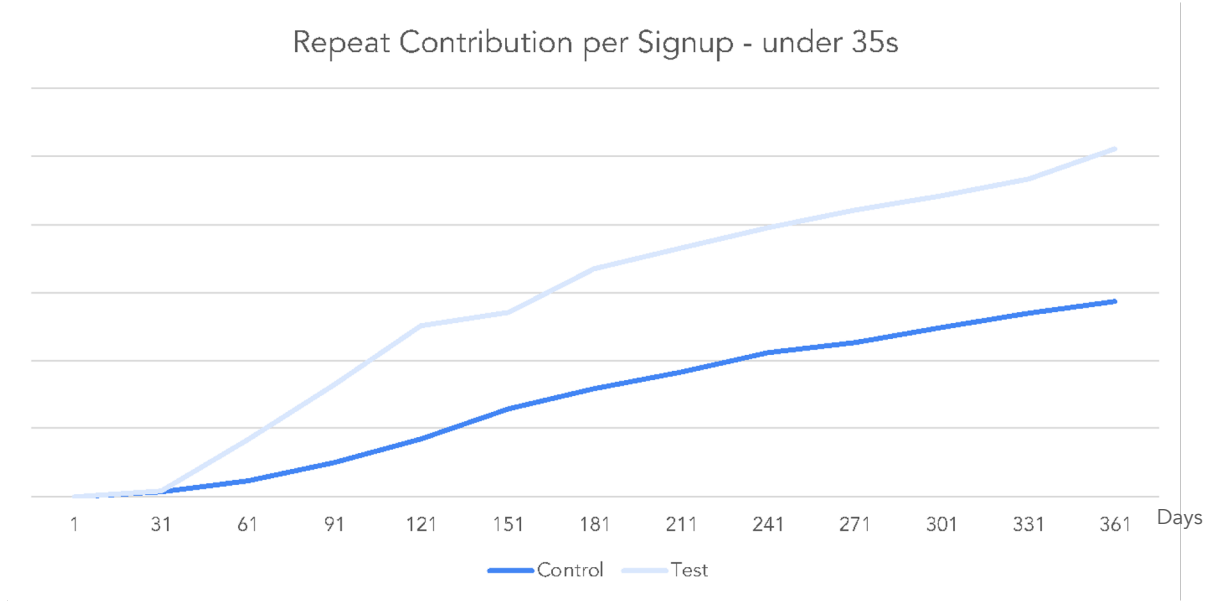
- Tested non-subscription in Aus (now stopped)
- Tough trends in marketing conversion



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

- UK trends showing increase
- Stabilisation at group level

Testing of new customer recruitment approach is showing us considerable uplifts in value of traffic in certain segments



While we have promising data for nearly 12 months, important to understand the long-term retention characteristics of these customers

Whether we fix trends in investment paybacks, we expect to be profitable and cash generative

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+

Note: The presented scenarios are indicative outcomes showing sensitivity to the specific variable of new customer investment payback, combined with the "guardrails" the business has indicated around investment levels and SG&A costs. They are not intended to constitute a profit forecast or outline all potential scenarios that the business may see in the future.

H1'24 Results (26 weeks to 2 Oct 23) - Recap

Financial highlights:

- Total revenue £132.3m, (20)% at reported currency rates vs H1'23 ((18)% constant currency)
- Adjusted EBIT £2.2m, (52)% at reported currency rates vs H1'23 ((44)% constant currency)
- Loss before tax £(9.7)m (H1'23 £(0.2)m)
- Net cash excluding lease liabilities £2.8m, total available liquidity of £48m
- G&A costs excluding adjusted items reduced by 27%, further cost reductions to come
- Inventory optimisation expected to deliver £40-50m cash inflow over next 18 months

Operational highlights:

- Continuing to drive toward sustainable cash generation and profitability
- Future inventory intake significantly reduced, purchases to end FY25 £60-70m below forecast COGS
- Repeat customers performing well with higher revenue per customer in all markets
- Lower rates of cancellation in all markets, UK customer base stabilised
- Rolling out testing at scale of revised new customer recruitment model after successful initial results

Peak Trading Period and Q4 Updates

Peak trading in line with expectations, pleasing ongoing strategic progress:

- Constant currency sales -10% versus prior year, in line with expectations, showing an improving trend from -18% during H124
  - Average repeat customer base 12% smaller
  - Sales per repeat customer 2% higher
- New customers acquired +35% on prior year with 70% increase in new customer investment
- Q3 Adj EBIT expected to be £3-5m, consistent with expectations
- Stabilisation of Q3 closing net cash position year on year at £3m (Q3 FY23: £4m)
- Total liquidity available of £45m

The Group is delivering on key initiatives including the execution of further SG&A and inventory reductions as indicated alongside half year reporting:

- Cost saving actions taken this month to reduce annual run rate of SG&A (excluding adjusted items) by a further £7m to £30-33m in FY25 (FY24 guidance £37-40m)
  - One-off cash costs of c.£3m to execute to be reported as an adjusted item in FY24
- Closing Q3 inventory levels of £163m vs £173m at end Q3 FY23

Summary: Delivering a leaner and stronger Naked

- Well established business with high levels of customer loyalty, recovering from challenges of post-covid period
- Good progress with testing an enhanced customer proposition, seeing signs of new customer acquisition coming back to life
- Moving towards a period of sustained cash generation, expected cash generation from second half of FY25
- Stabilisation of cash, and progressing of replacement credit facility with fewer constraints
- Annual run rate of SG&A meaningfully reduced, after all actions will be breakeven at c£250m sales
- Good progress on rightsizing of inventory, expect to generate £40-50m of cash from inventory over next 18 months


naked wines
Q&A