Majestic Wine PLC
(“Company” or “Group”)

Full Year Results for the 52 weeks ending 1 April 2019

A Pivotal Moment

- In advanced discussions regarding potential sale of Majestic Retail and Commercial (“Majestic”) - expected to be finalised over the summer months
- Group revenue grew +6.3% to £506.1m, accelerating as Naked Wines (“Naked”) continues to invest in customer acquisition
- Naked growth plan on track
    - Naked underlying[(1)(6)] revenue growth rate accelerated to 14.5% (FY18: 11.3%)
    - US now biggest division with sales 21% higher year on year
    - New customer investment[(6)] of £19.1m, an increase of £5.0m on last year
    - Repeat customer sales retention[(6)] of 81% (FY18: 83%)
    - Repeat customer contribution[(6)] increased by £6.0m to £39.8m with margin improved to 26.1% (FY18: 25.2%)
    - Forecast payback on new customer investment on target at 4.0x (FY18: 4.7x)
- Majestic Retail (“Retail”) solid in a tough market
    - Underlying revenue growth of 1.5% (FY18: 1.9%)
    - Adjusted EBIT[(6)] reduced to £11.3m (FY18: £13.3m) due to gross margin decline
- Group Adjusted PBT[(6)] of £11.3m lower than FY18 (£17.2m) as a result of the accelerated investment in Naked growth and lower Retail profitability year on year
- Reported loss before tax of £8.5m impacted by £11.1m store impairment charge
- Balance sheet robust: Net Debt of £15.5m, 0.8x Adjusted EBITDA[(6] (FY18: £8.4m, 0.35x Adjusted EBITDA) despite high levels of investment in the year and high working capital due to Easter timing and Brexit contingency planning
- Final dividend suspended, to be replaced with a special dividend equal to the final FY18 payment, contingent on completion of Majestic sale
- Board strengthened with US expertise in anticipation of Naked’s next phase of growth with proposed appointment of John Walden as Chairman elect and the appointment of Nick Devlin as COO

		FY19	FY18	% YoY	FY19 Underlying (1),(6)	FY18 Underlying (1),(6)	% YoY Underlying (1),(6)
Reported revenue	£m	506.1	476.1	+6.3%	505.1	477.5	5.8%
Adjusted EBIT (2),(6)	£m	12.1	18.2	-33.8%	12.1	18.1	-33.4%
Adjusted PBT (3),(6)	£m	11.3	17.2	-34.5%	11.3	17.1	-34.2%
Adjusted EPS (4)	p	14.7p	23.9p				
(Loss)/profit before tax	£m	(8.5)	8.3				
Basic EPS	p	(13.3p)	10.9p				

Final dividend per share	p	-	5.2p
Free cash flow (5),(6)	£m	1.9	24.9
Net debt (6)	£m	(15.5)	(8.4)

To provide a meaningful comparison with last year, operating performance commentary is stated on an underlying basis (unless otherwise stated). A full reconciliation between our reported numbers and these underlying measures is provided in the financial review.

Rowan Gormley, Group Chief Executive, commented:

"A pivotal moment:

We are at a crossroads in the Company's history. As laid out in March, we have taken the difficult but important decision to focus on Naked and exit from Majestic. As at the date of this announcement, our intention is to sell the business and we are at an advanced stage with multiple bidders. A further update will be provided if and when negotiations conclude at which point we will seek shareholder approval to move ahead. If we are unable to complete the process over the summer, in time for the important Christmas and New Year season, we will continue to run the two businesses independently of each other and look to restart the process in 2020.

It is important to point out that this is a decision we have made from a position of strength.

- The Group grew sales by over 6% despite a tough UK market
- Although underlying profits fell, the biggest cause was a decision to increase investment in new customer acquisition in Naked - which will drive future growth
- And I am delighted to report that our Commercial business, under a new team, has returned to growth after two years of contraction
- Our balance sheet remains strong with leverage of only 0.8x adjusted EBITDA

So why exit Majestic?

Majestic is a great business, with brilliant people and strong customer loyalty. It is also a much better business than it was four years ago with

- Revenue that's 20% higher with online sales up by more than 50%
- Wide scale cost efficiencies implemented to help mitigate FX and inflationary headwinds
- A growing subscription business
- A national fulfilment facility

However Naked has the greater potential for growth, and will deliver the best results for our shareholders, customers, people and suppliers over time. Although we have several options to realise value from Majestic, the cleanest and best for customers, staff and shareholders currently looks to be an outright sale at this time.

Majestic Wine started life with a disruptive model that challenged the status quo. Now is the right time to do it again under the Naked brand."

Majestic Wine PLC will host an analyst and investor briefing on Thursday 13 June 2019 at 9am at the offices of Instinctif, 65 Gresham Street, London, EC2V 7NQ. To attend please contact the Investor Relations Team on the details below.

A webcast will be made available after the meeting on our investor website: http://majesticwineplc.co.uk/investor-centre/results-centre/

Notes:

(1) Underlying movement (a) includes en primeur revenues in year of order not year of fulfilment, and (b) is calculated using constant FX rates for translation of the comparative period

(2) Adjusted EBIT is operating profit adjusted for amortisation and impairments of acquired intangibles and goodwill, acquisition costs, share based payment charges, impairment to the Retail store estate, restructuring costs, net fair value movement through P&L on financial instruments and adjusting en primeur results to reflect profits on orders rather than on wine fulfilment

(3) Adjusted PBT is defined as Adjusted EBIT less net finance charges

(4) Adjusted EPS is calculated by excluding the effect of the adjusted items described in note (2) above from the (loss) / profit for the period

(5) Free cash flow is defined as cash generated from operations less capital expenditure and excluding cash adjusted items

(6) This is an alternative performance measure. See details at the end of this document

For further information, please contact:

Majestic Wine PLC

Rowan Gormley, Chief Executive Officer	**Tel: 01923 298 200**
James Crawford, Chief Financial Officer	**Investor.relations@majestic.co.uk**

Investec (NOMAD & Broker)

David Flin / Carlton Nelson / David Anderson	**Tel: 0207 597 5970**

Instinctif Partners (PR Agency)

Damian Reece / Guy Scarborough	**Tel: 0207 457 2020 or 07931 598 593**

About Majestic Wine PLC:

Majestic Wine PLC is a quality wine specialist, with operations in the UK, USA and Australia.

Our goal is to try to beat the market by investing in customer relationships, rather than stores. We do that through:

- Investing in business models that compound, i.e. that get stronger with growth
- Investing with discipline, because we are able to test new opportunities before we roll them out
- Using data and technology to continuously improve - every quarter we double up on our best performing investments, and cut the worst

Our divisions:

1. Naked - Naked's customers in the UK, USA and Australia crowd fund independent winemakers in exchange for preferential prices on exclusive wines
2. Retail - The UK's largest specialist wine retailer. We help people find wines they will love by employing highly engaged, well trained people equipped with state of the art tools and unique wines
3. Commercial - A specialist on-trade supplier. We help our customers make more money from their wine list by offering national pricing and scale but local delivery and training
4. Lay and Wheeler - A specialist fine wine merchant. We are a trusted guide for people who love fine wine, supplying the world's finest wines with a personal service

Chairman's statement

The future is Naked

Overview

It's an incredibly exciting time as we are about to begin a new chapter in the long history of our Group. The Board has decided that shareholders' interests are best served if we are to focus all of our capital and energies into delivering the long term potential of Naked.

Through many years of dedicated and focused hard work, we are in the enviable position of owning two businesses with the potential to be long term winners.

Since 2015 we've evolved the Majestic Retail estate into a differentiated and scaled customer centric model. In the last three years we've:

- Refocused the business to be customer focused, not store focused
- Driven sales online
- Dramatically improved sales retention
- Successfully launched a subscription business
- Introduced Franchise Lite to address underperforming stores

At the same time we've accelerated investment in Naked and, in doing so, dramatically increased future value. In the last three years we have:

- Almost doubled Naked in size
- Built a loyal and profitable repeat customer base
- Built a 200 strong winemaker portfolio, producing 1,000 wines in 17 countries
- Built robust infrastructure able to deliver market leading service levels

The Board believes that both businesses have good long term potential, but with only finite resources and capital, we are unable to maximise both. It has become clear that we need to focus our energies and capital behind the business with the greater potential for growth and which will in turn deliver the greatest value for shareholders.

After carefully weighing the options, the Board's decision is clear. Of the two businesses, Naked operates in much larger and faster growing markets, it has a disruptive model that will benefit from the consumer shift towards online, and we have first mover advantage and a more defendable competitive position. That is why the Board has taken the decision to focus on Naked and release value from Majestic. We now believe that a sale of Majestic, rather than a merger of both businesses, is the best way to maximise value for our shareholders.

As always, the Board has shareholders' best interests in mind when considering these options and the decision to focus on Naked was not one taken lightly. The criteria that any plan has to meet in order to get Board support remains as we stated in April 2018 and is equally applicable to the Naked growth plan as ever:

1. We need to be sure that we can maintain our targeted returns on investment in growing the base of customers
2. We must be able to identify clear milestones to allow us to course correct if returns deteriorate
3. We invest in a control environment commensurate with the investment plans

Whilst we remain in the process of completing the realisation of value from Majestic we have suspended the dividend. If a sale of Majestic completes we will pay a special dividend in place of the final.

Performance
FY19 was a year of further progress in which we continued to make underlying improvements in the Majestic businesses while investing for growth in Naked.

Reported revenue of £506.1m was up 6.3% in the year (FY18:2.3%). We reported a loss before tax of £8.5m, a significant reduction from the £8.3m profit before tax delivered in FY18, reflecting the investment in growth in Naked, weaker Retail trading and a non-cash impairment charge relating to the Retail store estate of £11.1m. Adjusted PBT was £11.3m (FY18: £17.2m).

Naked Wines continues to deliver reliable growth and future value generation with underlying sales growth of 14.5% in the year (FY18: 11.3%). We delivered strong growth in each of the Naked markets but we're particularly pleased with the 21% sales growth in the US, proving that our accelerated investment in customer acquisition is effective.

Majestic Retail has delivered a solid performance in a challenging environment, with underlying sales growth of 1.5% (FY18: 1.9%). The improvements and growth initiatives we've implemented are showing signs of success. Customised and targeted marketing is delivering year on year customer growth, a large and growing proportion of sales are now placed online, and we've built on the successful launch of our subscription business, Concierge, which is a source of dependable and recurring revenue. However gross margins were again lower year on year and this drove a reduction in profitability for the business.

Majestic Commercial returned to growth with sales up 1.8% (FY18: (5.6%)) and improved profitability. The new leadership, restructured operations and improved processes have delivered higher sales to new customers and improved retention.

Lay & Wheeler is once again contributing to growth with reported sales up 22.7% (FY18: (1.1%) and significantly improved profitability.

Board changes

Katrina Cliffe was appointed to the Board as an Independent Non-Executive Director on 20 May 2019. Katrina adds a wealth of experience and a complementary skill set through her other Board positions and previous management experience across the financial and retail sectors.

Alongside these results we are announcing two further changes to the Board, which will balance the composition towards the US market, our biggest growth opportunity.

Firstly, Nick Devlin, President of the US Naked Wines business will join the board in the new position of Group COO. Nick has done tremendous work with the US business in the last two years, driving our ambitious growth agenda in a structured and efficient way, and we look forward to him having the same impact on the rest of the Group.

Secondly, due to other commitments I will be stepping down as Chairman at the AGM in August and leaving the Board six months later after a period of transition. Taking my place is John Walden, who brings a wealth of retail experience across both online and face to face channels, as well as significant US experience to guide our continued growth into that market.

I am delighted to welcome Katrina, Nick and John to the Board.

Outlook

The Board is confident that we are well on track to create a group focused on Naked Wines with a process to sell Majestic well advanced. We are also confident that continued investment in customer acquisition by Naked will create sustainable future value. As a result we are on a path to becoming a single brand business with the potential to mature with substantial profitability.

Chief Executive Review

Going for growth

Dear shareholders, suppliers and staff,

The short story

This is a momentous time in your company's history. We have taken the difficult, but strategically important decision, to focus your company on Naked Wines. At the time of writing, having tested two routes to achieve this over the past three months it is looking likely that we will be selling all of Majestic Retail and Commercial, and through a separate transaction, Lay and Wheeler.

So, for this report, I will focus on this decision, and what it means to you as shareholders, before I report on the 2019 financial year.

Why are we doing this?

We have had a difficult decision to make. We have two great companies, Naked and Majestic. Both of them have the potential for growth - and we only have the resources to do one well. If we tried to back both to be long term growth engines we risk delivering neither.

In the end we chose Naked because

- It is established in the big and fast growing US market
- It is a digital business
- It is differentiated and defendable

What happens next?

If we are successful in selling Majestic in the coming months then

- We will remain a quoted company
- The name will be changed to "Naked Wines PLC", subject to shareholder approval
- The sale proceeds will be used to
  - Pay off our debt
  - Accelerate growth in Naked Wines
  - And we intend to return any surplus to shareholders
- We will be one company, with one brand and a single focus

If we don't complete a sale over summer, we intend to continue to run Majestic independently through the important Christmas and New Year season before restarting the process in 2020.

A deeply heartfelt thank you

I want to thank from the bottom of my heart, the wonderful people of Majestic Wines, who have done an amazing job of delighting our customers, at the same time as we have implemented radical changes, all with great cheerfulness and engagement. You are a wonderful group of people and have faced into the uncertainty of the past few months with the dedication and commitment that has made the last four years a pleasure.

Update on 2019 financial year

As a Group we delivered another year of strong progress. Group revenue of £506.1m was up 6.3% on last year and comfortably surpassed our target of £500m. Both overall revenues and repeat customer contribution at Naked continued to show strong growth as we increased investment to build a base of loyal and profitable customers. In a relatively resilient performance against a challenging backdrop, Retail grew revenue 1.5% but suffered reduced profitability.

	Underlying			
	Revenue £m	% YoY	Adj. EBIT £m	% YoY
Naked Wines	178.4	14.5	6.7	(22.4)
Majestic Retail	267.7	1.5	11.3	(15.1)
Majestic Commercial	44.1	1.8	2.5	3.2
Lay & Wheeler	14.9	2.4	1.2	22.8

Key drivers of performance in 2019

1. Naked generated £6.0m more contribution from its repeat customers, who we call Angels. Our investment in new customer acquisition is proving to be effective as we are finding more customers and better customers who spend more with us each year

2. We increased our new customer investment by £5.0m to £19.1m to drive future growth. Naked is a subscription business so we have to continually acquire new customers to drive growth. On average our investments are generating pay back of 4x so it's a great place to deploy capital

3. We delivered 1.5% sales growth in Retail but this translated into a gross profit that was lower by £2.0m as we maintained competitive pricing and used tactical discounts to both retain existing and acquire new customers

4. Our fixed costs investment in Naked and central items increased by £5.4m year on year

As a result, our Group adjusted EBIT (on an underlying basis) reduced by £6.0m year on year to £12.1m.

In addition, we have recognised a non-cash charge of £11.1m reflecting impairment of the Retail store estate due to the weaker profitability of the business and a further £1.0m of cash restructuring charges as we have started to reduce the capacity in our store estate.

Combining this with the £7.7m of other adjusting items (FY18: £8.9m) and £0.8m of finance expenses has resulted in the Group reporting a statutory pre-tax loss of £8.5m for the financial year (FY18: £8.3m profit).

Operational performance as measured in the following KPIs remains strong.

	Naked Wines	**Retail**	**Commercial**	**L&W**
Product availability	FY19: 91% FY18: 90%	FY19: 86% FY18: 86%	FY19: 90% FY18: 90%	FY19: n/a FY18: n/a
Team retention	FY19: 91% FY18: 94%	FY19: 80% FY18: 81%	FY19: 69% FY18: 71%	FY19: 100% FY18: 100%
Wine quality (buy it again)	FY19: 91% FY18: 91%	FY19: 92% FY18: 89%	FY19: n/a FY18: n/a	FY19: n/a FY18: n/a
Proportion of 5-star service ratings	FY19: 90% FY18: 90%	FY19: 86%* FY18: 89%	FY19: n/a FY18: n/a	FY19: n/a FY18: n/a

* Now includes web orders. Excluding these for comparison to FY18 this was 90%

Naked firmly on track

In our ten year history, Naked has delivered remarkable and sustained growth. We've continued to grow in our most mature market - the UK; we've entered, disrupted and grown rapidly in the US, and we are leveraging our experience and marketing techniques in Australia.

In that time, the business has consistently delivered very healthy underlying trends. We've generated attractive returns on our investments in building a loyal and profitable base of repeat customers.

We've done that in the following ways:

1. We've successfully built a customer acquisition machine
Over ten years we have developed and refined the best ways to tell new customers about our business. As a result we have been able to increase our investment in customer acquisition by more than 20% a year for the last five years, up to £19.1m in FY19.

2. Our investments have proven to be effective
We are gaining loyal and profitable customers and we are not paying too much to find them. Our payback, measured as the 20 year return on each £1 spent on customer acquisition, is forecast to be 4x, the target we have set ourselves over the midterm. We're achieving this through our test and learn approach to optimise returns over time through continuous measurement and refinement of our activities. One of the best examples of that is that we are now spending less on promotional discounting and more on targeted marketing, which we've found is a better way to sign up high quality customers.

3. Our product and service is getting better all the time
The best way to ensure we keep our customers is to make them happy. We give our Angels exactly what they want – great wines at affordable prices and all backed up with industry leading service. Our customers rate 91% of our wine sales as something they would buy again and give 90% of our customer service interactions a 5* satisfaction rating.

We've made further great progress on this front this year:

- We've continued to grow the number of excellent winemakers we work with
- Our wines are great value and great quality – we have the awards to prove it
- Operational capability is better than ever (and better than most!). This year, we've built out our distribution capability with the addition of a fourth distribution centre in the US so we now cover the breadth of the country and can deliver to the vast majority of Angels within 48 hours

Retail & Commercial resilient

The Retail operations delivered a resilient top line performance achieving 1.5% sales growth amidst weak consumer confidence and political and economic uncertainty. Growth in online sales together with our subscription business, Concierge, offset the impact of having no Easter - a peak period - in this financial year.

However, the top line growth came at the expense of profitability as continued competitive intensity and aggressive pricing put pressure on gross margins. Operating efficiency gains and continued cost control helped to offset increased distribution costs and inflationary headwinds, however the net result was lower adjusted EBIT year on year.

Commercial returned to growth after an extended period of decline. With a new team and refined processes in place, the business delivered both top line growth of 1.8% (FY18: 5.6% decline) and EBIT improvement of 3.2% year on year.

Both Retail and Commercial sales take place through our stores. Having reassessed the portfolio against current trading patterns we have taken a charge for impairment of our store estate of £11.1m. (FY18: £0.4m)

Lay & Wheeler delivered reported revenue growth of 22.7% due to high levels of en primeur shipments. Underlying revenue was 2.4% higher year on year and EBIT growth of 22.8% was achieved through a combination of margin improvement and cost control.

<u>The future is Naked</u>
An investment machine

In the very near future we intend to have one business model, operating under one brand which is well funded and a clear focus on growth. With renewed focus on a single goal we have reappraised the Naked opportunity and have decided that now is the time to put more fuel in the engine.

What gives us the confidence to do that? The short answer is that the economics of a subscription business with loyal customers who behave predictably give us long term contribution growth in exchange for upfront investment.

If we continue to invest at the current rate, maintain current retention levels and achieve the targeted payback, the future repeat contribution will continue to scale. That's if we maintain the current rate of investment. We think we can go faster.

As growth investment drives future contribution, we want to increase the rate of investment to maximise future value. We believe we have the model, the experience and the opportunity to accelerate investment, at our targeted payback, and in doing so dramatically increase future contribution and value.

<u>Summary</u>
Our future is Naked. Strategically we intend to exit Majestic, with promising progress being made to achieve this over the summer. We will then be starting a new chapter in our Group's history. We'll operate a much simpler business with one brand and one business model. We're well-resourced, have a clear focus on growth, and we believe we can accelerate investment to build a bigger, more profitable business in the longer term.

<u>Chief Financial Officer's Investment Review</u>

After pausing for breath in 2018 to focus on greater productivity, I'm pleased to say that in 2019 we've been able to accelerate our investments for growth across multiple areas of our business.

<u>Investing for future growth</u>

Naked Wines new business
We increased our investment in new customer acquisition for Naked Wines to £19.1m in line with our strategy announced in April 2018. This drove an increase in sales to new customers of 18%. Overall forecast payback achieved was 4.0x in line with our target.

Within this spend we have already identified certain business partnership activities which deliver low returns which we will stop running if they cannot be repriced to acceptable levels.

This investment is so critical that we report a set of KPIs relating to it as follows:

		FY19	FY18
Sales to new customers	£m	25.5	21.6
Investment in new customers (= new customer contribution)	£m	(19.1)	(14.1)
New to repeat customer sales conversion	%	183%	168%
Repeat customer sales	£m	152.9	134.3
Repeat customer contribution	£m	39.8	33.8
Repeat customer sales retention	%	81%	83%
Forecast payback	Ratio	4.0x	4.7x

Action and implication
In FY20 we have a target to grow our new customer investment level by a further c. £7.0m whilst maintaining payback discipline. To achieve this we have:

- Added resource, in particular in the US, to identify bigger strategic partnership opportunities
- Developed new tools to track partner distributed marketing materials to assess partner operational effectiveness and identify optimisation opportunities
- Implemented a number of changes to our customer on boarding journey to eliminate discounts driving immediate enhancements in LTV and payback

Digital Marketing
A growing portion of our new customer investment is deployed digitally. We grew our digital new customer acquisition investment in Naked Wines to £3.5m (FY18: £1.6m). As we analyse these customers we see that they are our highest value customers, testament to the targeting algorithms that digital marketing is supported by. As a result we have continued to increase the scale of the digital marketing resources.

Action and implication
In FY20 we are forecasting that we will step up our digital investment in Naked Wines to £4-5m. We will also commit about 10% of this to test and learn, to explore new digital channels and executions.

Retail Subscriptions
We now have almost 35,000 customers subscribed to our ‘Concierge’ proposition and it continues to deliver customers with a higher annual spend and improved retention, driving a 48% uplift in their profitability and an early indication that forecast payback is c.10x on the cost of acquiring them.

During the year we launched new features to the service

- Premium: A more premium and profitable range of wines
- Double up: The ability to quickly reorder the same case
- Lock It In: A regular case of your favourite wine with our best price guaranteed

About 6% of our subscribers are now signed up to our premium proposition and this figure is growing each month. This premium option has the added benefit of a 44% higher contribution than standard customers as picking, packing and shipping costs remain the same. Early data on customers who ‘Lock It In’ are showing 26% uplifts in spending, with the benefit being through more non-subscription spending as much as the subscription.

Action and implication
It is clear that there is appetite for a subscription service from Majestic customers and that adding subscription to the Majestic proposition enhances customer LTVs. Furthermore, early in FY20 we tested migration to Naked subscriptions with Majestic customers and those results give us confidence that we could execute that strategy should we wish to.

Retail Partnerships
Retail partnerships, where we advertise our business to other company’s customers, have been successful in acquiring new customers into the business. This year we invested £0.9m driving nearly 100,000 incremental customer visits to store. However the data shows us that these customers, on average, tend to be materially lower value than unprompted customers as they have lower tendency to repeat shop and therefore spend considerably less as repeat customers. While our models of customer value suggest payback of 3.9x from this activity, because of the weaker spending behaviour we are not yet fully confident in the long term value forecast for these customers so will only repeat activities where customers are delivered at minimal cost and therefore deliver very fast payback.

Action and implication:
We will continue to drive traffic through selected partnerships, however we will ensure that we are only doing so when the incremental footfall is not disruptive to the core store operation e.g. avoiding the Christmas peak period.

Retail promotional plans
Our range is now 57% exclusive products and own label and we want to continue to grow this as we are able to offer customers superior value when we manage the full supply chain while achieving better margins ourselves - a profitable win-win! Over the last year we invested £0.4m of gross margin in short term price support to drive adoption of our exclusive products growing participation significantly year on year. Early signs on the top five lines that we have the most data on indicate a net benefit of c. £0.2m per year, indicating a two year payback on the investment in developing these products

Action and implication
We intend to continue to drive switching to own label and Majestic exclusives, ensuring that as we achieve greater scale we also realise cost savings through the supply chain.

Lay & Wheeler Fine Wine Discovery Club
We have been trialling the FWDC for c. 2 years now. In FY18 we slowed the rate of investment pending review of the long term customer performance. Having done this we believe that payback on the investment to date may be considerably higher than originally expected due to better long term customer retention, higher rates of additional purchasing and conversion to our Cellar Circle product which tends to drive higher spending levels and engagement.

Action and implication:
With confidence in the longer term customer value we will start to test higher levels of investment, not only in FWDC but also directly into Cellar Circle.

Online “product management” team
We spent in excess of £0.5m on a team tasked with rigorously optimising our web properties element by element. They have generated some significant improvements in our customer conversion funnel and basket

completion rates, as well as trialling some innovative features with less success. Such is the nature of test and learn!

Action and implication:
The team will continue their work focused on a large testing plan around the different elements of the Naked Wines proposition.

Controls / Compliance
We have invested in control and compliance in a number of areas; most notably the US where we have ambition to be materially bigger. As such we have built out a dedicated regulatory compliance team as well as adding resource across finance and analytics. We also added resource into our Plc team to support the ever-changing regulatory landscape, with big projects this year including development of our sustainability policy and preparation for IFRS16. Within the retail business we spent £2.0m replacing our EPOS system to ensure compliance with latest security standards, as well as having a platform to further build our customer experience on.

Action and implication
We will continue to invest to ensure we have the right processes and controls to manage the increasing scale of our business units, especially in the US where we operate in a complex regulatory environment.

<u>Driving productivity:</u>
Store operations: van fleet
Action taken:
Using the data from our telematics implementation in FY18 we have investigated ways to consolidate our van network without impacting our customer experience. We have modelled what an alternate van network could look like which maximises van utilisation and reduces the cost per drop significantly.

Action and implication
With the concept proved to be a source of significant savings we are now finalising the execution plan for this initiative.

Store operations: staff

Action taken:
We continue to invest in our store estate to improve both our customer experience and store productivity. This year we refurbished and fully shelved 74 stores, part shelved all others and have begun to 'winefy' the estate - an initiative designed to engage the customer in their wine flavour profile and help them navigate the world of wine more effectively. Shelving and revised labour modelling has resulted in labour costs held flat in the face of increased transaction volumes and inflationary pressure due to reduced merchandising effort. The early data from our “winefy” experience suggests that customers who build a profile are showing 10-20% higher values, albeit we need to see how this develops over an extended period.

Action and implication
We will continue to roll out shelving across the estate, aiming to install it in an additional 20 stores by half year, to drive efficiency in the staffing model.

Financial Review

1. Group Overview

	Reported £m	Adjusted items £m	Adjusted £m	Impact of FX £m	Underlying £m
Year ended 1 April 2019					
Revenue	506.1	(1.0)	505.1	-	505.1
EBIT	(7.7)	19.8	12.1	-	12.1
PBT	(8.5)	19.8	11.3	-	11.3
Year ended 2 April 2018					
Revenue	476.1	1.6	477.7	(0.2)	477.5
EBIT	9.3	8.9	18.2	(0.1)	18.1
PBT	8.3	8.9	17.2	(0.1)	17.1

Group Overview

The Group grew reported revenue by 6.3% to £506.1m delivering on the target to achieve Group sales of at least £500m that we set in 2015 at the start of the transformation plan. On an underlying basis we delivered an increase of 5.8% to £505.1m. Underlying revenue growth has accelerated vs the 4.0% rate seen in FY18 as we increased Naked Wines investment in customer acquisition, growing underlying sales by +14.5% in this division (FY18: +11.3%)

The Group generated a statutory loss before tax of £8.5m, a significant reduction from the £8.3m profit reported in FY18.

On an adjusted underlying basis our profit before tax of £11.3m reflected a 34% underlying reduction vs. FY18.

The main drivers of our reduced profitability are:

Adjusted EBIT:

- Retail adjusted EBIT reducing by £2.0m as gross margin pressure outweighed the sales growth we achieved, and our focus on costs which maintained a flat cost base despite significant inflationary pressures
- Naked Wines adjusted EBIT (on an underlying basis) £1.9m lower year on year, the net of:
  - £5.0m increase in the level of investment to acquire new customers.
  - Contribution from repeat customers increasing by £6.0m as a result of the investment in prior years in customer acquisition
  - Fixed costs increasing by £2.9m
- Our central cost base increasing by £2.4m as we invested in control and compliance resource across staff costs, IT systems and legal and professional support.

Statutory loss before tax:

- £11.1m impairment to the Retail store estate. This non-cash write-off of assets is based on our expected cash flows from each store in future, compared to the carrying value of the store. We have reduced the expectation of future cash flows based on the weaker profit margins we are experiencing in Retail and by reflecting that our stores are no longer necessary to fulfil our online orders due to our centralised fulfilment arrangements.

Taxation

Despite the reduction in statutory profit in the current year our income statement tax charge has remained level at £0.9m (FY18: £0.9m). The negative statutory effective tax rate of -10.7% is principally the result of the impact of the £11.1m impairment of fixed assets charge in the UK Retail business which is not a deductible expense. It is also affected by the increased profitability and effect of prior year tax charges in our overseas trading businesses. The adjusted effective tax rate(6) this year of 17.3% (FY18 12.1%) does not benefit from a number of one off credits which reduced the rate in FY18.

(Loss)/earnings per share

As a result of the reduction in profitability our statutory loss per share has reduced to -13.3p. Under the guidance set out in IAS 33, *Earnings per share*, no diluted loss per share is reported. On an adjusted basis earnings per share have declined from 23.9p to 14.7p due to the decline in adjusted profit after tax and the increase in the weighted average number of shares in issue.

Cash flow and Net debt

Our net debt increased by £7.1m year on year to £15.5m. The major drivers of this were an increase in net working capital and an increase in capex largely absorbing adjusted EBITDA with dividend, tax and interest outflows totalling £7.7m.

Our working capital increased by £10.6m, a combination of:

- Investment in inventory at Naked Wines, in particular the US to support our continued future growth. We grew stock levels by £9.1m, offset by £2.7m of additional customer funds
- Higher stock levels in the UK due to the later timing of Easter year on year and to allow us to carry additional stock of c. £8m as mitigation to supply disruption in the event of a disorderly Brexit, which largely unwound in the first periods of FY20;
- We estimate a normalised year end working capital position would have been c. £8m lower

We also incurred

- Higher capital expenditure this year of £7.0m (FY18: £3.8m) as we replaced the EPOS system in the Retail estate and rolled out shelving to more stores, whilst continuing to invest in our new accounting system
- Tax and interest payments of £2.7m
- Payment of dividends totalling £5.2m

The closing net-debt balance represents 0.8x adjusted EBITDA (FY18: 0.3x) which remains well within our covenant leverage limits.

Dividend

In March we announced that the final dividend for the year would be reviewed in light of our decision to focus on Naked Wines and to exit from Majestic. As the exit process is still ongoing, the Board has taken the decision to suspend the dividend. Should a sale of the Majestic business take place, the Board intends to pay a special dividend to the level of the FY18 final dividend (5.2p).

Guidance

Our near-term outlook is highly dependent on the potential sale of the Majestic business and we expect to give an update over the summer months. We anticipate focusing the Group on increasing levels of investment in new customers in Naked Wines. We believe that we can increase this investment by a further £7m in FY20 while maintaining our 4x payback. We would also expect similar levels of new to repeat customer sales conversion and repeat sales retention as previous years.

Our fixed cost base across Naked and the central costs totalled £23.6m in FY19. We expect these will show an underlying increase in the order of 10-15%. Should we sell Majestic we would expect to eliminate £1-1.5m p.a. of our central cost base, reflecting our desire to refocus the central team fully onto the significant growth opportunity the business represents.

2. Business Unit Highlights

Naked Wines

Year ended 1 April 2019

	£m	Impact of FX £m	Underlying £m	Analysed as "New" £m	Analysed as Repeat" £m
Revenue	178.4	-	178.4	25.5	152.9
Contribution	20.7	-	20.7	(19.1)	39.8
Adjusted EBIT	6.7	-	6.7	n/a	n/a

Year ended 2 April 2018

	£m	Impact of FX £m	Underlying £m	Analysed as "New" £m	Analysed as "Repeat" £m
Revenue	156.1	(0.2)	155.9	21.6	134.3
Contribution	19.8	(0.1)	19.7	(14.1)	33.8
Adjusted EBIT	8.7	(0.1)	8.6	n/a	n/a

We increased investment in new customers by £5.0m to £19.1m (FY18: £14.1m) supporting growth in revenue to new customers of +18.0%.

Our sustained investments in new customers translated to repeat customer revenue growth of +13.9%. This growth, plus the improvement in repeat customer contribution margin to 26.1% (FY18: 25.2%) brought FY19 repeat customer contribution to £39.8m, £6.0m higher than FY18.

Combining £5.0m higher new customer investment, £6.0m higher repeat contribution and £2.9m higher fixed costs, adjusted EBIT decreased by £1.9m in the year to £6.7m (FY18: £8.6m)

We focus on two critical measures of performance for Naked Wines:

1. Repeat customer sales retention: In FY19 this was 81%, marginally lower than in FY18 (83%). This was impacted in H1 (78%) in particular by the timing of Easter this year, but recovered well in H2 (83%) giving us confidence that loyalty remains high.

2. Forecast payback on investment in new customers: In FY19 this was 4.0x compared to 4.7x for the investments made in FY18. This is in line with our targeted payback based on our growing investment. The reduction year on year reflects our willingness to invest more aggressively while remaining disciplined about returns.

   Because we get more data about the Angels we have acquired over time, we can also refine our expectations on payback of older cohorts of Angels. The following table shows how our payback assessment is changing over time for the Angels acquired in each financial year. As you can see, recent history has shown payback expectations in line with the initial estimates.

		Payback measurement in		
		Year 1	Year 2	Year 3
Investment Year	FY17	4.5	4.9	4.5
	FY18	4.7	4.6	
	FY19	4.0		

Majestic Retail

Year ended 1 April 2019

	£m	Impact of FX £m	Underlying £m	Analysed as "New" £m	Analysed as Repeat" £m
Revenue	267.7	-	267.7	53.5	214.2
Contribution	21.7	-	21.7	2.2	19.5
Adjusted EBIT	11.3	-	11.3	n/a	n/a

Year ended 2 April 2018

	£m	Impact of FX £m	Underlying £m	Analysed as "New" £m	Analysed as Repeat" £m
Revenue	263.8	-	263.8	55.9	207.9
Contribution	24.6	-	24.6	4.5	20.1
Adjusted EBIT	13.3	-	13.3	n/a	n/a

Revenue increased 1.5% vs FY18 driven by our repeat customer base (+3%). New customer sales declined by 4.3% as we sourced more new customers year on year but with the mix moving towards discounted partnership activity. Overall, this is a resilient sales performance in a flat market which had no Easter falling in the financial year. Gross margin fell to 21.8% (FY18: 22.9%) resulting in gross profit being £2.0m lower year on year. The gross margin reduction is a combination of mix shift into lower margin products, and heavier discounts where we have driven footfall to grow the customer base. Our distribution costs, predominantly store operating costs and fulfilment costs, increased by £0.9m (2.8%) reflecting the continued shift of business online and towards national fulfilment, including third parties. Continued focus on admin cost control resulted in a £0.8m reduction year on year. As a result of these movements adjusted EBIT for the Retail division declined by £2.0m year on year to £11.3m (FY18: £13.3m).

Majestic Commercial

Year ended 1 April 2019

	Reported £m	Underlying £m
Revenue	44.1	44.1
Adjusted EBIT	2.5	2.5

Year ended 2 April 2018

	Reported £m	Underlying £m
Revenue	43.4	43.4
Adjusted EBIT	2.4	2.4

The performance of Commercial improved in the year with sales returning to growth of +1.8% (FY18: 5.6% decline) while growing gross margins by +0.3% points resulting in gross profit of £7.9m (FY18: £7.7m). With operating costs growing at 3.5% the gross profit growth led to adjusted EBIT 3.2% higher year on year at £2.5m (FY18: £2.4m).

The improved performance has come as a result of two key changes:

- In the first half, the team reworked their approach to securing new accounts resulting in higher levels of sales to new customers, offsetting the continuing high levels of account losses being seen due a mix of competitive activity and business failures
- In the second half, the team then improved their processes around management of existing accounts and improved repeat customer retention. As a result H2 sales growth was an impressive +5% vs. FY18.

Lay & Wheeler

Year ended 1 April 2019

	Reported £m	En Primeur £m	Underlying £m
Revenue	15.9	(1.0)	14.9
Adjusted EBIT	1.2	-	1.2

Year ended 2 April 2018

	Reported £m	En Primeur £m	Underlying £m
Revenue	12.9	1.6	14.5
Adjusted EBIT	0.9	-	0.9

Lay & Wheeler reported revenue was 22.7% higher year on year, driven by high levels of en primeur shipments. Underlying revenue, that recognises en primeur at time of order rather than dispatch, was 2.4% higher year on year. This resulted in adjusted EBIT growth of +22.8% through a combination of gross margin improvement through mix movements and managing to a flat cost base.

Central Costs

Central costs grew from £7.2m in FY18 to £9.6m this year, as a result of the planned investments into resources supporting growth (digital marketing, online product management, business intelligence) and controls and compliance (finance, legal).

GROUP INCOME STATEMENT

For the year ended 1 April 2019

	Note	Year ended 1 April 2019 £'000	Restated * Year ended 2 April 2018 £'000
Revenue	*3*	**506,144**	476,134
Cost of sales		(366,990)	(349,032)
Gross profit		**139,154**	127,102
Distribution costs		(65,612)	(58,806)
Administrative expenses		(82,071)	(59,850)
Other operating income		821	846
Operating (loss)/profit		**(7,708)**	9,292
Net finance charge		(787)	(994)
(Loss)/profit before taxation		**(8,495)**	8,298
Analysed as:			
Adjusted profit before taxation		**11,251**	17,184
Adjusted items:	*4*		
- Non-cash charges relating to acquisitions		(5,229)	(8,018)
- Other adjusted items		(14,517)	(868)
(Loss)/profit before taxation		**(8,495)**	8,298
Taxation	*5*	(905)	(901)
(Loss)/profit for the year		**(9,400)**	7,397
(Loss)/earnings per share	*6*		
Basic		(13.3p)	10.9p
Diluted		(13.3p)	10.1p

* Restatement due to the impact of adoption of IFRS 15

The results are all derived from continuing operations.

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 1 April 2019

	Share capital	Share premium	Capital reserve - own shares	Capital redemption reserve	Currency translation reserve	Retained earnings	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 3 April 2017 as reported	5,309	20,505	(17)	363	3,838	84,574	114,572
Adoption of IFRS15	-	-	-	-	-	(860)	(860)
At 3 April 2017 restated *	5,309	20,505	(17)	363	3,838	83,714	113,712
Total comprehensive income for the year	-	-	-	-	(1,352)	7,397	6,045
Shares issued	54	484	-	-	-	(43)	495
Share based payment charges - ongoing	-	-	-	-	-	607	607
Share based payment charges - acquisition related	-	-	-	-	-	3,800	3,800
Dividends paid	-	-	-	-	-	(3,993)	(3,993)
Deferred tax on share based payment	-	-	-	-	-	235	235
At 2 April 2018 restated *	5,363	20,989	(17)	363	2,486	91,717	120,901
Total comprehensive income/(losses) for the year	**-**	**-**	**-**	**-**	**215**	**(9,400)**	**(9,185)**
Shares issued	**48**	**127**	**-**	**-**	**-**	**(44)**	**131**
Share based payment charges - ongoing	**-**	**-**	**-**	**-**	**-**	**909**	**909**
Share based payment charges - acquisition related	**-**	**-**	**-**	**-**	**-**	**1,499**	**1,499**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(5,188)**	**(5,188)**
Deferred tax on share based payment	**-**	**-**	**-**	**-**	**-**	**84**	**84**
At 1 April 2019	**5,411**	**21,116**	**(17)**	**363**	**2,701**	**79,577**	**109,151**

* Restatement due to the impact of adoption of IFRS 15

GROUP BALANCE SHEET
As at 1 April 2019

	Note	1 April 2019 £'000	Restated * 2 April 2018 £'000
Non-current assets			
Goodwill and intangible assets		**45,153**	48,126
Property, plant and equipment		**54,301**	65,032
En primeur purchases		**897**	2,390
Prepaid operating lease costs		**647**	1,640
Deferred tax assets	5	**2,259**	2,243
		103,257	119,431
Current assets			
Inventories		**119,464**	97,434
Trade and other receivables		**18,132**	16,280
En primeur purchases		**4,296**	3,779
Cash and cash equivalents		**19,093**	15,618
		160,985	133,111
Total assets		**264,242**	252,542
Current liabilities			
Trade and other payables		**(66,363)**	(59,579)
En primeur deferred income		**(5,564)**	(4,824)
Deferred Angel and other income		**(39,657)**	(32,817)
Bank overdraft	7	**(12,096)**	(8,837)
Provisions		**(2,344)**	(1,724)
Deferred lease inducements		**(397)**	(657)
Bond financing	7	**(99)**	(2,445)
Financial instruments at fair value		**(3,011)**	(897)
Current tax liabilities		**(123)**	(246)
		(129,654)	(112,026)
Non-current liabilities			
En primeur deferred income		**(1,068)**	(2,822)
Deferred lease inducements		**(1,502)**	(1,672)
Provisions		**(203)**	(917)
Bank loan	7	**(22,444)**	(12,793)
Deferred tax liabilities	5	**(220)**	(1,411)
		(25,437)	(19,615)
Total liabilities		**(155,091)**	(131,641)
Net assets		**109,151**	120,901
Shareholders' funds			
Called up share capital		**5,411**	5,363
Share premium		**21,116**	20,989
Capital reserve - own shares		**(17)**	(17)
Capital redemption reserve		**363**	363
Currency translation reserve		**2,701**	2,486
Retained earnings		**79,577**	91,717
Equity shareholders' funds		**109,151**	120,901

The financial statements were approved by the Board and authorised for issue on 12 June 2019 and were signed on its behalf by James Crawford.

* Restatement due to the impact of adoption of IFRS 15

	Note	**Year ended 1 April 2019 £'000**	Year ended 2 April 2018 £'000
Cash generated by operating activities			
Cash generated by operations	*8*	**7,946**	28,670
UK income tax paid		**(1,729)**	(2,035)
Overseas income tax paid	-	**(379)**	-
Net cash from operating activities		**5,838**	26,635
Cash flows from investing activities			
Purchase of property, plant and equipment		**(5,472)**	(2,921)
Purchase of intangible fixed assets		**(1,518)**	(869)
Purchase of prepaid lease assets		**(53)**	-
Proceeds from sale of non-current assets		**31**	2
Net cash from investing activities		**(7,012)**	(3,788)
Cash flows from financing activities			
Interest paid		**(636)**	(802)
Issue of ordinary share capital		**131**	495
Draw down of borrowings		**9,500**	19,500
Repayment of borrowings		**(2,346)**	(40,174)
Loan arrangement fees paid		**-**	(411)
Equity dividends paid		**(5,188)**	(3,993)
Net cash from/(used in) financing activities		**1,461**	(25,385)
Net increase/(decrease) in cash		**287**	(2,538)
Cash and cash equivalents at beginning of year		**6,781**	10,470
Effect of foreign exchange rate changes		**(71)**	(1,151)
Cash and cash equivalents at end of year	*8*	**6,997**	6,781

1 General Information

Notes to the financial statements

Majestic Wine PLC is a public limited company ("Company") and is incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The Company's ordinary shares are traded on the Alternative Investment Market ("AIM").

The address of the registered office is given on the inside back cover. The Group's principal activity is the retailing of wines, beers and spirits. The Company's principal activity is to act as a holding company for its subsidiaries.

2 Basis of preparation

The financial information set out above does not constitute statutory accounts within the meaning of section 435(1) and (2) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Standards ("IFRS"). The auditors have reported on these accounts and their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain any statements under section 498 (2) or (3) of the Companies Act 2006.

The financial statements of Majestic Wine PLC for the year ended 1 April 2019 were authorised for issue by the Board of Directors on 12 June 2019 and the balance sheet was signed on behalf of the Board by James Crawford, Chief Financial Officer.

The financial information presented in this document has been prepared in accordance with International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union as they apply to the financial statements of the Group for the 52 week period ending 1 April 2019.

The Group's financial reporting year represents the 52 weeks to 1 April 2019 and the prior financial year, 52 weeks to 2 April 2018.

The Group implemented the new accounting standards IFRS 9 and IFRS 15 on a fully retrospective basis in the year. Their implementation has not had a material impact on the financial statements.

3 Segmental reporting

IFRS8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Board as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The Group's operating segments are organised into four distinct business units, each operating in a separate segment of the overall wine market. Retail is a customer based wine retailer, selling wine, beer and spirits from stores across the UK, and online, and also incorporates the Group's French business. Commercial is a Business to Business ('B2B') wine retailer selling to pubs, restaurants and events. Lay & Wheeler is a specialist in the fine wine market and also provides cellarage services to customers. Naked Wines is a customer funded international online wine retailer.

Performance of each operating segment is assessed on revenue, adjusted EBIT (being operating profit less any adjusted Items) and adjusted PBT (being profit before taxation less any adjusted Items). These are the financial performance measures that are reported to the CODM, along with other operational performance measures, and are considered to be useful measures of the underlying trading performance of each segment. Adjusted Items are not allocated to the operating segments as this reflects how they are reported to the Board.

The revenue and profits of the Lay & Wheeler operating segment as presented to the CODM are recognised on the receipt of orders, cash receipts and payments in relation to en primeur campaigns. The segment performance is reviewed in this way as resources utilised in generating these sales are expensed as incurred. This differs from the revenue recognition policy required under IAS 18 where revenue is recognised on delivery of the wine to the customer, which may be up to two years after the original order and payment. As a result, a reconciling item is presented between the total operating segments revenue and results and the IFRS statutory measure.

Costs relating to centralised Group functions are not allocated to operating segments for the purposes of assessing segmental performance and consequently central costs are presented as a separate segment.

Inter-segment transactions are conducted on an arm's length basis. The Group is not reliant on a major customer or group of customers.

All activities are continuing.

Year ending 1 April 2019	**Retail**	**Commercial**	**Naked Wines**	**L&W**	**Unallocated**	**Group**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Segment revenue	**267,664**	**44,132**	**178,438**	**14,896**	**-**	**505,130**
Movement in en primeur sales	-	-	-	1,014	-	1,014
Reported third-party revenue	**267,664**	**44,132**	**178,438**	**15,910**	**-**	**506,144**
Segment result - Adjusted EBIT	**11,333**	**2,512**	**6,656**	**1,151**	**(9,614)**	**12,038**
Net finance costs						(787)
Adjusted profit before taxation						**11,251**
Adjusted items:						
- Non-cash items relating to acquisitions						(5,229)
- Other adjusted items						(14,517)
Loss before taxation						**(8,495)**
Depreciation	**5,269**	**-**	**457**	**82**	**-**	**5,808**
Amortisation	**311**	**-**	**3,871**	**119**	**46**	**4,347**
Impairment of fixed assets	**11,108**	**-**	**-**	**-**	**-**	**11.108**

Geographical analysis	**UK**	**Rest of Europe**	**US**	**Australia**	**Group**
Reported third party revenue	**390,149**	**9,382**	**75,657**	**30,956**	**506,144**
Non-current assets	**97,461**	**2,991**	**2,247**	**558**	**103,257**

Year ended 2 April 2018	**Retail**	**Commercial**	**Naked Wines**	**L&W**	**Unallocated**	**Group**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Segment revenue	263,754	43,360	156,058	14,549	-	477,721
Movement in en primeur sales	-	-	-	(1,587)	-	(1,587)
Reported third-party revenue	263,754	43,360	156,058	12,962	-	476,134
Segment result - Adjusted EBIT	13,349	2,435	8,666	937	(7,209)	18,178
Net finance costs						(994)
Adjusted profit before taxation						17,184
Adjusted items:						
- Non-cash items relating to acquisitions						(8,018)

Notes to the financial statements

- Other adjusted items						(868)
Loss before taxation						8,298
Depreciation	5,120	-	353	106	-	5,579
Amortisation	332	-	3,882	106	-	4,320
Impairment of fixed assets	486	-	-	-	-	486

Geographical analysis	**UK**	**Rest of Europe**	**US**	**Australia**	**Group**
Reported third party revenue	378,826	7,812	61,481	28,015	476,134
Non-current assets	114,666	2,977	1,027	761	119,431

4 Adjusted items

The Directors believe that adjusted profit before tax and adjusted diluted earnings per share measures provide additional useful information for shareholders on underlying trends and performance. These measures are used for performance analysis. Adjusted profit is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to IFRS measurements of profit. The adjustments made to reported profit before tax are:

	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000
Non-cash charges relating to acquisitions		
Amortisation of acquired intangibles	(3,871)	(3,882)
Acquisition related share based payment charges	(1,358)	(4,136)
	(5,229)	(8,018)
Other adjusted items		
Impairment of properties	(11,108)	-
Restructuring costs	(957)	-
Fair value movement through P&L on foreign exchange contracts	(1,540)	193
En primeur adjustment	38	(289)
Share based payment charges	(950)	(772)
	(14,517)	(868)
Total adjusted items	**(19,746)**	(8,886)

5 Taxation

(a) Taxation charge

	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000
Current income tax expense		
UK income tax	**(1,638)**	(2,716)
Overseas income tax	**(354)**	(98)
Adjustment in respect of prior periods	**42**	741
Current income tax expense	**(1,950)**	(2,073)
Deferred tax expense		
Origination and reversal of temporary differences	**1,073**	1,069
Adjustment in respect of prior periods	**61**	155
Effect of change in tax rate on prior period balances	**(89)**	(52)
Total deferred tax credit	**1,045**	1,172
Total income tax charge for the year	**(905)**	(901)

Changes to the UK corporation tax rates were enacted as part of Finance Bill 2015 on 18 November 2015. These included reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A subsequent change to reduce the UK corporation tax rate to 17% from 1 April 2020 was included within Finance Bill 2016 which was enacted on 6 September 2016.

(b) Taxation reconciliation

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19% (2018: 19%). The reasons for this are detailed below:

	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000
(Loss)/profit before taxation	**(8,495)**	8,298
Taxation credit/(charge) at the standard UK corporation tax rate of 19% (2018: 19%)	**1,614**	(1,576)
Adjustments in respect of prior periods*	**103**	896
Overseas income tax at higher rates	**(285)**	(338)
Disallowable expenditure**	**(2,022)**	(423)
Deferred tax not previously recognised***	**-**	616
Share based payments	**(226)**	(24)
Change in tax rate on prior period deferred tax balances	**(89)**	(52)
Total income tax expense	**(905)**	(901)
Effective tax rate	**-10.7%**	10.9%

Notes to the financial statements

Adjusted effective tax rate	**17.3%**	12.1%

* Adjustments in respect of 2018 relate to UK capital allowance relief realised in the current year and utilisation of prior year tax losses against current year profits in the USA and Australia.
** Disallowable expenditure mainly relates to amortisation of acquired intangibles and share based payment expenses and impairments.
*** Deferred tax in 2018 not previously recognised relates to deferred tax asset recognised on taxable losses in Australia.

(c) Taxation on items recorded in reserves

	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000
Deferred tax credit on share based payments	**84**	235
Total tax on items credited to reserves	**84**	235

(d) Deferred tax

	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000
At beginning of year	**832**	(333)
Adjustment in respect of prior years	**61**	155
Credited to the income statement in the year	**984**	1,017
Credited to reserves in the year	**84**	235
Foreign exchange	**78**	(242)
At end of year	**2,039**	832

Deferred tax assets

	Accelerated tax depreciation £'000	**Short term timing differences £'000**	**Share--based payments £'000**	**Tax losses carried forward £'000**	**Total deferred tax assets £'000**
At 3 April 2017	183	**-**	862	651	1,696
Credited to reserves in the year	-	**-**	235	-	235
Credited/(charged) to income statement	(47)	**-**	(62)	502	393
Foreign exchange	10	-	13	(104)	(81)
At 2 April 2018	146	-	1,048	1,049	2,243
Credited to reserves in the year	**-**	**-**	**84**	**-**	**84**
Credited/(charged) to income statement	**591**	**-**	**(168)**	**(631)**	**(208)**
Foreign exchange	**(10)**	**-**	**10**	**19**	**19**
Transferred from deferred tax liabilities	**-**	**121**	**-**	**-**	**121**
At 1 April 2019	**727**	**121**	**974**	**437**	**2,259**

Deferred tax liabilities

	Rolled over gains £'000	Short term timing differences £'000	Total deferred tax liabilities £'000
At 3 April 2017	(259)	(1,770)	(2,029)
Credited to income statement	49	730	779
Foreign exchange	(10)	(151)	(161)
At 2 April 2018	(220)	(1,191)	(1,411)
Credited to income statement	**-**	**1,253**	**1,253**
Foreign exchange	**-**	**59**	**59**
Transferred to deferred tax assets	**-**	**(121)**	**(121)**
At 1 April 2019	**(220)**	**-**	**(220)**

	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000
Deferred tax assets	**2,259**	2,243
Deferred tax liabilities	**(220)**	(1,411)
	2,039	832

Deferred tax on losses of £11.5m (2018: £11.5m) relating to losses in the UK, have not been recognised in these financial statements on the basis that there is insufficient evidence of suitable future taxable profits against which to recover any deferred tax asset created.

(e) Factors that may affect future tax charges
The Group's overseas tax rate is higher than that in the UK as profits earned by Les Celliers de Calais S.A.S. in France are taxed at a rate of 33.3% and profits earned by its Naked Wines subsidiaries in the United States of America and Australia are taxed at 21.0% and 30.0% respectively.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries as following the enactment of the Finance Act 2009 the Group considers that it would have no liability to additional taxation should such amounts be remitted.

6 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of the Company, excluding 1,214,671 (2018: 3,067,028) contingently returnable shares issued as a result of the acquisition of Naked Wines (which have been treated as dilutive share options), 229,009 (2018: 139,609) shares held by the Majestic Wine plc Share Incentive Plan Trust (which have been treated as dilutive share options), and 3,934 (2018: 3,934) shares held by Employee Share Ownership Trust.

The dilutive effect of share options is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. These comprise contingently returnable shares and share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the year. Share options granted over 93,415 (2018: 112,003) ordinary shares have not been included in the dilutive earnings per share calculation because they are anti-dilutive at the period end.

Adjusted earnings per share is calculated by excluding the effect of adjusted items (see note 8). This alternative measure of earnings per share is presented so that users of the financial statements can better understand the Group's underlying trading performance.

6 Earnings per share (continued)

	Year ended 1 April 2019	Year ended 2 April 2018
(Loss)/earnings per share		
Basic (loss)/earnings per share	**(13.3p)**	10.9p
Diluted (loss)/earnings per share	**(13.3p)**	10.1p
Adjusted basic earnings per share	**14.7p**	23.9p
Adjusted diluted earnings per share	**14.1p**	22.3p

	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000
(Loss)/profit for the year	**(9,400)**	7,397
Add back adjusted items:		
- Non-cash charges relating to acquisitions	**5,229**	8,018
- Other adjusted items	**14,517**	868
Adjusted profit after taxation	**10,346**	16,283

	Year ended 1 April 2019	Year ended 2 April 2018
Weighted average number of shares in issue	**70,518,556**	68,051,900
Dilutive potential ordinary shares:		
Employee share options and contingently returnable shares	**3,055,750**	5,036,886
Weighted average number of shares for the purpose of diluted earnings per share	**73,574,306**	73,088,786
Total number of shares in issue	**72,137,402**	71,499,086

If all the Company's share option schemes had vested at 100% the Company would have 74,750,580 issued shares.

Notes to the financial statements

7 Bank and other borrowings

	1 April 2019 £'000	2 April 2018 £'000
Current		
Bank overdrafts	**12,096**	8,837
Customer bond finance	**99**	2,445
Total bank and other borrowings due within one year	**12,195**	11,282
Non-current		
Revolving credit facility	**23,000**	13,500
Debt issuance costs	**(556)**	(707)
Total bank and other borrowings due within one year	**22,444**	12,793
Total bank and other borrowings	**34,639**	24,075

The Group's revolving credit facility during 2019 was £60m, which is due to mature in December 2022. Interest has been charged at a margin of 1% above LIBOR, the rate being dependent on the Group's leverage (being net debt/EBITDA).

Banking covenants are in place and are tested quarterly. The covenants tested are the Group's leverage and fixed charge cover.

8 Notes to the cash flow statement

	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000
Cash generated by operations		
Operating (loss)/profit	**(7,708)**	9,292
Add back:		
- Depreciation and amortisation	**10,155**	9,899
- Loss on disposal of fixed assets	**485**	28
- Impairment of intangible assets	**25**	-
- Impairment of property, plant and equipment	**10,287**	447
- Impairment of prepaid operating leases	**796**	39
- Fair value movement on foreign exchange contracts	**2,114**	(193)
- En primeur movement in income statement	**(38)**	289
- Share based payment charges	**2,408**	4,407
Operating cash flows before movements in working capital	**18,524**	24,208
Increase in inventories	**(21,038)**	(2,425)
Increase in customer funds in deferred income	**6,058**	4,137
Increase in trade and other receivables	**(1,699)**	(130)
Increase in trade and other payables	**6,101**	2,880
Cash generated by operations	**7,946**	28,670

Notes to the financial statements

Cash and cash equivalents

	1 April 2019 **£'000**	2 April 2018 £'000
Cash and cash equivalents		
Cash and cash equivalents	**19,093**	15,618
Bank overdraft	**(12,096)**	(8,837)
Total cash and cash equivalents	**6,997**	6,781

Analysis of movement in net borrowings

	At 2 April 2018 £'000	Cash flows £'000	Non-cash movements £'000	**At 1 April 2019 £'000**
Cash and cash equivalents	15,618	3,546	(71)	**19,093**
Bank overdrafts	(8,837)	(3,259)	-	**(12,096)**
Net cash and cash equivalents	**6,781**	**287**	**(71)**	**6,997**
Borrowings - revolving credit facility	(13,500)	(9,500)	-	**(23,000)**
Borrowings - customer funded bond	(2,445)	2,346	-	**(99)**
Gross borrowings net of cash	**(15,945)**	**(7,154)**	**-**	**(23,099)**
Debt issuance costs	707	-	(151)	**556**
Total net borrowings	(8,457)	(6,867)	(222)	**(15,546)**

Alternative performance measures (APMs)

Underlying movement	a) includes en primeur revenues in year of order not year of fulfilment; (b) is calculated using constant FX rates for translation.
EBIT	Operating profit as disclosed in the Group income statement.
Adjusted EBIT	Operating profit adjusted for amortisation of acquired intangibles, acquisition costs, share based payment charges, impairment of goodwill, restructuring costs, fair value movement through P&L on financial instruments and adjusting en primeur results to reflect profits on orders rather than on wine fulfilment.
Adjusted EBITDA	Adjusted EBIT plus depreciation and amortisation, but excluding any costs included in our adjusted items e.g. amortisation of acquired intangibles.
Operating Costs	Defined as administrative expenses less other operating income excluding adjusted items
Adjusted PBT	Adjusted EBIT less net finance charges. Group reconciliation is found in the financial review
Free cash flow	Cash generated by operating activities less capital expenditure and before adjusting items and taxation. A reconciliation of this metric is provided below.
Net Debt	Borrowings less cash and debt issuance cost.
Return on Investment	A measure of the money we subsequently earn from investment in new customers. This measure is akin to a yield on an upfront capital investment, defined as the annual contribution per repeat customer less the cost of replenishment, all divided by the cost per repeat customer. Note that we are phasing this measure out and replacing it with lifetime return, but is still currently used as part of our remuneration policy.
Investment Measures	
Investment in new customers (also referred to as new customer contribution)	The contribution earned from sales to new customers.
New customer sales	Revenues derived from transactions with customers who meet our definition of a new customer. A reconciliation of this metric for Majestic Retail and Naked Wines is provided in the financial review.
Lifetime Payback	The ratio of the future contribution we expect to earn from the customers recruited this year to the investment we made recruiting them. We calculate this by reviewing the level of sales and contribution generated in the current year from new customers and compare this to a reference level based on historic behaviour of all new customers, then projecting forwards to a 20 year lifetime to estimate the payback ratio. 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 in the financial review
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 this metric Majestic Retail and Naked Wines is provided in the financial review.
Repeat customer contribution	The profit attributable to those sales after fulfilment and service costs. A reconciliation of this metric Majestic Retail and Naked Wines is provided in the financial review.
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 till and website data the population who were active 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. This APM replaces customer retention as it gives a better indicator of our retention rates
Fixed costs	Administrative costs by division excluding marketing spend.
Definitions	
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. A reconciliation of this metric Majestic Retail and Naked Wines is provided in the financial review.
Repeat customer	A customer that has bought from one of our businesses more than once, recently. For Naked Wines these are "Angels" who have subscribed. For Majestic they are people who have shopped with us at least once within the last 12 months, with that shop not being their first time.
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 shopping with us at some point or cannot be identified.
Adjusted effective tax rate	Defined as the current year's tax change divided by the adjusted profit before tax.

Alternative performance measures (APMs)

Additional unaudited information

To provide a meaningful comparison with last year, further analysis is presented below on an underlying(6) basis which means:

- En primeur revenues are included in year of order, not year of fulfilment
- Calculated using current period foreign exchange rates for re-translation of the comparative period.

1. Reported and underlying results by segment

	Reported		Underlying	
	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000	Year ended 1 April 2019 £'000	Year ended 2 April 2018 £'000
Retail				
Revenue	267,664	263,754	267,664	263,764
Gross profit	58,463	60,420	58,463	60,423
Distribution costs	(31,239)	(30,384)	(31,239)	(30,385)
Admin costs	(15,891)	(16,687)	(15,891)	(16,689)
Adjusted EBIT	**11,333**	**13,349**	**11,333**	**13,349**
Commercial				
Revenue	44,132	43,360	44,132	43,360
Gross profit	7,949	7,694	7,949	7,694
Distribution costs	(3,160)	(3,059)	(3,160)	(3,059)
Admin costs	(2,277)	(2,200)	(2,277)	(2,200)
Adjusted EBIT	**2,512**	**2,435**	**2,512**	**2,435**
Lay & Wheeler				
Revenue	15,910	12,962	14,896	14,549
Gross profit	4,234	4,042	4,234	4,042
Distribution costs	(1,156)	(1,198)	(1,156)	(1,198)
Admin costs	(1,927)	(1,907)	(1,927)	(1,907)
Adjusted EBIT	**1,151**	**937**	**1,151**	**937**
Naked Wines				
Revenue	178,438	156,059	178,438	155,885
Gross profit	68,470	55,236	68,470	55,305
Distribution costs	(30,057)	(24,165)	(30,057)	(24,239)
Admin costs	(31,757)	(22,405)	(31,757)	(22,491)
Adjusted EBIT	**6,656**	**8,666**	**6,656**	**8,574**
Central costs				
Administrative costs	(9,614)	(7,208)	(9,614)	(7,208)
Adjusted EBIT	**(9,614)**	**(7,208)**	**(9,614)**	**(7,208)**

Alternative performance measures (APMs)

Group				
Revenue	506,144	476,135	505,130	477,558
Gross profit	139,116	127,391	139,116	127,464
Distribution costs	(65,612)	(58,806)	(65,612)	(58,882)
Admin costs	(61,466)	(50,407)	(61,466)	(50,495)
Adjusted EBIT	**12,038**	**18,178**	**12,038**	**18,087**

2. Naked Wines forecasting metrics

	FY19 Actual	FY20	Medium-term
New customer investment	(£19m)	+£7m	+15% - 20% pa
New customer contribution margin	-75%	-80%	Variable
New -> Repeat conversion	183%	~180%	180%
Repeat Sales retention	81%	82-84%	80-85%
Repeat contribution margin	26%	25-27%	Assume flat
Payback	4x	4x	4x
Year 1 Payback	79%	~70%	~70%
Fixed cost			
- Naked BU	£14.0m		
- Central	£9.6m		
Total fixed cost	£23.6m	10% growth	50% rate of revenue growth
		Net potential annual savings £1-1.5m if Majestic sold	
Working capital		Each £1m of growth in new business requires c. £1-1.5m more working capital	
Dividend	2.0p Interim Final suspended	When cash cannot be deployed against growth investment	

3. Naked Wines historic performance (£m, unaudited, restated to constant FX rates)

	New customers		Repeat customers		
	Revenue £m	Contribution £m	Revenue £m	Contribution £m	Fixed costs £m
FY14	15	(7)	45	7	(8)
FY15	21	(8)	66	14	(10)
FY16	22	(10)	90	21	(10)
FY17	26	(15)	114	27	(11)
FY18	22	(14)	134	34	(11)
FY19	26	(19)	153	40	(14)

4. Naked Wines split by country

FY19	Revenue £m

Alternative performance measures (APMs)

UK	71.8
USA	75.6
Australia	31.0
Total Naked Wines	**178.4**

5. Fixed costs

	FY19 £m	FY18 £m	Variance £m
Naked Wines	14.0	11.1	2.9
Retail	10.4	11.3	(0.9)
Commercial	2.0	2.0	-
Lay & Wheeler	1.7	1.7	-
Central costs	9.6	7.2	2.4
Group	37.7	33.3	4.4

6. Free cash flow reconciliation

	1 April 2019 £m	2 April 2018 £m
Adjusted EBIT	12.1	18.2
Add back depreciation and amortisation *(excludes adjusted amortisation of acquired intangibles)*	6.3	6.5
Add back loss on disposal of fixed assets	0.5	-
Adjusted EBITDA	**18.9**	**24.7**
Working capital movement		
- Inventories	(21.0)	(2.4)
- Deferred Income	6.1	4.1
- Trade and other receivables	(1.0)	(0.1)
- Trade and other payables	5.9	2.4
Working capital movement	(10.0)	4.0
Pre-tax operating cash flow	**8.9**	**28.7**
Investments		
Capital expenditure	(7.0)	(3.8)
Pre-tax operating cash flow / "Free cash flow"	**1.9**	**24.9**
Reconciliation to statutory cash flow statement		
Free cash flow	1.9	24.9
Cash adjusted items	(1.0)	-
Capital expenditure	7.0	3.8
Cash generated by operations	**7.9**	**28.7**