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What is Naked Wines

• Launched 2008
• FY19 sales of £178.4 million
  – US £75.6 million
  – UK £71.8 million
  – Australia £31.0 million
• Stand still EBIT of £10 million
• 1,000 wines from 200 winemakers in 17 countries
• 18 million ratings from >500k customers
The US opportunity

US DTC wine market is $3bn and has doubled over the last 7 years
- 3 tier regulation means
  - Margins are high and will likely stay that way
  - Amazon conflicted out

We are to wine what Netflix is to movies
- We don’t just buy and sell wine - we create original content that gives us better margins and higher loyalty than our competitors
- As a side benefit, as a winery, we can sell direct to 96% of the US wine drinking population

At a group level, Naked Wines PLC
- Made £10m in FY 2019 on a standstill basis
- Sales are growing at 15% pa
- Payback on new customer investment = 4x
- Retention over 80%
3 things to know about the US DTC wine market

1. **Growth in value ($ billion)**
   - 2011: 1.25%
   - 2012: 9.9%
   - 2013: 15.5%
   - 2014: 8.1%
   - 2015: 18.5%
   - 2016: 15.5%
   - 2017: 11.6%
   - 2018: (data not shown)

2. **Average price per bottle ($)**
   - 2010: $35.00
   - 2011: $35.00
   - 2012: $36.00
   - 2013: $37.00
   - 2014: $38.00
   - 2015: $39.00
   - 2016: $39.00
   - 2017: $40.00
   - 2018: $39.70

Amazon conflicted from operating an Amazon-style model in this space, because 3 Tier regulation prevents them from operating in the DTC market as long as they own Whole Foods.

What problem does Naked Wines solve?

In this $100 bottle of Napa Cab ... there is only $10 of Napa Cab

We can sell the same $10 of Napa cab for $25 – and still make >50% margins
Our model gives us a structural price/quality advantage

1. Our 500k+ subscribers generate £100m+ cash subscriptions per year, and 18 million ratings

2. We use this money to back independent winemakers to make wine exclusively for us

3. Because our winemakers don’t need to waste time and money selling - we get their wines at preferential prices

4. Which means that we can offer our customers better wines for less money than our competition
One important thing about our model

We are NOT a wine retailer.
Like Netflix, we produce original content, so...

1. We are regulated as a winery
   We can ship direct to 43 States - retailers can only ship to 14 legally

2. We access 3 levels of GP
   We can beat our competitors on price AND make > 50% GP because we are accessing GP of the winemaker, distributor and wholesaler

3. We own our brands
   One of the reasons that retention is strong is because customers become loyal to our exclusive wines and winemakers

Like Netflix, we use our subscription cash flow and customer data to make superior product at a lower risk and lower cost than our competitors. And because we own it, customers remain loyal.
The proof is in the tasting...

We work with some of the best winemakers in the world.

Vivino ratings back up our promise - of all the Napa Cabs on Vivino rated 4.3 out of 5 and below...

- The average price was $100.11
- The highest price is close to $400
- And our wine is $33
The proof is in the tasting...

Nakedwines.com voted as the #1 US wine club by USA Today

Nakedwines.com is the market leader in Pennsylvania - the most recent major state to open to DTC

<table>
<thead>
<tr>
<th>Winery</th>
<th>% sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAKEDWINES.COM INC</td>
<td>11.0%</td>
</tr>
<tr>
<td>WINE INSIDERS</td>
<td>8.6%</td>
</tr>
<tr>
<td>LAITHWAITES</td>
<td>5.4%</td>
</tr>
<tr>
<td>WOLF BASS/WINDSOR</td>
<td>2.8%</td>
</tr>
<tr>
<td>FIRSTLEAF</td>
<td>2.4%</td>
</tr>
<tr>
<td>WINE ACCESS</td>
<td>2.3%</td>
</tr>
<tr>
<td>TREASURY WINE ESTATES AMERICAS COMPANY</td>
<td>1.9%</td>
</tr>
<tr>
<td>FN CELLARS LLC</td>
<td>1.7%</td>
</tr>
<tr>
<td>WINC</td>
<td>1.6%</td>
</tr>
<tr>
<td>HALL WINES LLC</td>
<td>1.5%</td>
</tr>
<tr>
<td>1-800 WINESHOP.COM, INC</td>
<td>1.5%</td>
</tr>
<tr>
<td>VINTAGE WINE ESTATES INC</td>
<td>1.5%</td>
</tr>
<tr>
<td>HUNEEUS VINTNERS LLC</td>
<td>1.1%</td>
</tr>
<tr>
<td>HARLAN ESTATE WINERY INC</td>
<td>1.0%</td>
</tr>
<tr>
<td>JACKSON FAMILY WINES INC</td>
<td>1.0%</td>
</tr>
<tr>
<td>KB WINES LLC</td>
<td>1.0%</td>
</tr>
<tr>
<td>GIFT SERVICES INC</td>
<td>1.0%</td>
</tr>
<tr>
<td>PETER MICHAEL WINERY</td>
<td>0.9%</td>
</tr>
<tr>
<td>DUCKHORN WINE COMPANY</td>
<td>0.9%</td>
</tr>
<tr>
<td>STAGS LEAP WINE CELLARS LLC</td>
<td>0.9%</td>
</tr>
</tbody>
</table>
Profitable - and growing...

1. We could have made a profit of £10m - by limiting investment in new customer acquisition to that required to replace attrition

2. But we CHOSE to invest an additional £11m - because it adds a net (after attrition and overhead) £5m additional EBIT per year, EVERY YEAR

3. In 2019 we made an EBIT loss of £3m - by choice

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1. All figures refer to Adjusted EBIT (Not GAAP/IFRS) as defined in our results materials
2. Fixed costs are pro-forma and include both Naked Wine and Central Costs
This is supported by 10 years of returns on investment and retention

- We have invested over £70m in acquiring new customers...
- Every £1 we spend generates between £1 and £0.70 in the following year
- Which attrites at the rate of around 17% a year
- We start 2020 with an expected run-rate income stream of around £46m

Any forward looking and / or proforma financial information is purely for illustrative purposes, reflecting assumptions based on historical data and guidance. It should not be interpreted as a forecast of future performance.
We are on track to double contribution from existing customers over the next 5 years by continuing to execute as-is

- We are investing at the rate of around £26m a year at present
- That generates around £18m (£26m x 70%) of growth in repeat customer contribution
- Which more than offsets the £6.8m of attrition (17% x £40m)
- Which leads to repeat customer contribution more than doubling over 5 years

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FAQ

1. What is your target payback and why?
2. Is payback sustainable? How do you manage it?
3. What are the constraints to growth?
4. How do you influence retention?
5. How do you expect fixed costs to grow?
6. How do you protect yourself from competition?
7. So what could Naked Wines look like in the medium term?
What is your target payback and why?

- In April 2018, we announced our intention to significantly grow investment and target a payback of 4x.

- A 4x target lifetime payback means that we can:
  - Recover the initial cost of investment in around 15 months - so we can recycle our new customer investment. Measured as an IRR it comes out at around 55%.
  - Have 1x to pay for overheads.
  - Leaving 3x to drive growth.

- AND we will accept 0X on up to £1m of R&D spend a year to prove out new opportunities.
Is payback sustainable?

Yes, it is – unlike most retailers we are not suffering from decreasing marginal returns on investment

Underlying payback has fallen because:

- we have increased investment in NCA from £10m to £26m over 4 years
- we have more new unproven Partners than we have in the past
How do you manage payback?

1. **Test and learn**
   
   Before we commit to any new investment opportunity we will always seek to:
   
   - Conduct a small scale (e.g. a quarter long) test
   - Age out the customers to measure quality

2. **Continuous improvement**
   
   We are continually improving economics on our historic investments and reallocating capital
   
   - Kill deals that are outright failures - quickly if responses are poor, over time if customer quality is poor
   - Double up on the good ones
   - Reprice those in between

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**Payback on Partners**

- Payback on all US partners in 2018
- Payback on 2018 partners renewed in 2019

+13%
What are the constraints to growth?

**NOT**

**Supply**
- There is systemic worldwide oversupply of grapes
- The missing piece of the puzzle is access to market and capital
- Which we solve for winemakers

**NOT**

**Market size**
- US is 62% of world wine market GP
- DTC market growing at 13% a year for 10 years
- Amazon conflicted out

**IS**

**Discipline**
We test new investment opportunities before we commit to them
What do you do to influence retention?

1. **Deliver on our promise**
   The best way to keep customers loyal is to keep delivering on the proposition that brought them in in the first place. So we...
   - Use a continuous improvement process to remove under-performing wines, double up on the winners and improve those in between.
   - Actively refund customers for any wines they did not like - for any reason.
   - Continually seek out new exciting wines and winemakers to keep the range and message fresh.

2. **Customer powered wine selection and pricing**
   We have created a forcing mechanism to ensure we maintain value and quality by:
   - Letting customers choose which wines they want to see made by which winemakers.
   - Letting the customer choose the price.
   - Reducing the price where customer feedback says it is not delivering on our promise.
   - To the point where we would drop the wine.

3. **Relentless optimisation and innovation**
   In the last 12 months we have...
   - Introduced customer driven pricing.
   - Rebuilt our acquisition funnel.
   - Rebuilt our recommendation algorithm.
   - Added >50% capacity in the US.
   - Reduced US variable cost per case by 10%.
How do you expect fixed costs to grow

What is in fixed costs?

Fixed costs includes both
- Traditional fixed cost line items like accounting and finance
- And the salary costs of growth. Eg digital acquisition team, new business development etc

How do we expect it to grow?

We expect fixed costs to grow at around 50% of the growth in sales
- We are already expensing the cost of growth
- The variable element of fixed costs is relatively small
How do you protect from competition?

- Best defence is offence - our goal is to make our 4x their 2x
- Highly targeted proposition: high loyalty = high LTV = high growth and hard to compete
- Optimise, optimise, optimise
- Customer powered - customers decide
  - Which winemakers to back
  - Which wines to make
  - What to charge for them
What could Naked look like in medium term?

- At our current rate of investment, if returns remain consistent with history, we would expect over the medium to long term Naked Wines to be a
  - ~$500m sales; growing at 10% p.a.
  - $15-20m EBIT; growing at 15-20% p.a.
- HOWEVER, our plan is to continue to grow investment, as long as we can keep finding opportunities to invest at our 4x target ROI. This would have the effect of
  - Increasing sales
  - Reducing EBIT margin

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Finally - our goal is long term profitable growth.

So...

**We will continue to...**

- Deliver on our proposition
- **Test and learn** - so we can grow investment aggressively without betting the ranch
- **Continuous improvement** - so we free up under performing capital
- Be **transparent** by sharing  
  - 6 KPIs  
  - Stand still profits  
  - Best view on growth in NCA

**We aim to...**

- **Grow investment** in New Customer Acquisition at 4x
- **Improve retention** by  
  - Strengthening our proposition  
  - Empowering customers  
  - Innovation
- **Maintain fixed cost growth** at 50% of growth in sales

**We have no plans to...**

- **Make acquisitions** - unless it proves cost effective as a new customer acquisition technique
- **Pay dividends** - if we return surplus cash to shareholders we will consider economics of buybacks before ever committing a dividend
- **Open in other countries** until we have built a strong position in the US
The US opportunity

- **Profitable growing market - Amazon is conflicted out**
  - US DTC wine market is $3bn and has doubled over the last 7 years
  - 3 tier regulation means
    - Margins are high and will likely stay that way
    - Amazon conflicted out

- **Unique model gives us a structural cost / quality advantage**
  - We are to wine what Netflix is to movies
    - We don't just buy and sell wine - we create original content that gives is better margins and higher loyalty than our competitors
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- **Profitable and growing strongly**
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