

26 October 2022

**Virgin Wines UK plc**

**(“Virgin Wines”, the “Company” or the “Group”)**

**AUDITED ANNUAL RESULTS FOR THE PERIOD ENDED 1 JULY 2022**

***Business model and customer loyalty supports Group resilience and market-leading profitability***

Virgin Wines UK plc (AIM: VINO), one of the UK's largest direct-to-consumer online wine retailers, today announces its audited Annual Results for the period ended 1 July 2022 (“FY22”).

**Financial highlights**

- **Profit before tax** – FY22 £5.1m (FY21: £1.7m)
  - After adjusting for exceptional costs in the prior year, profit before tax was virtually unchanged at FY22, at £5.1m (FY21: £5.2m), and up £2.3m (+83%) from FY20
- **Earnings per share** – Basic and diluted earnings/(loss) per share for FY22 at 7.8p, FY21: (0.5p)
- **Adjusted EBITDA** – FY22 £6.2m (FY21: £7.0m)
  - Maintaining industry leading EBITDA margin of 9.0% (FY21: 9.5%)
  - EBITDA up 136% on FY19
- **Cash** – The Group's cash balance at 1 July 2022 was £15.1m (2 July 2021: £15.7m)
  - Net of WineBank customer deposits the cash position at 1 July 2022 was £7.7m, (2 July 2021: £8.4m). WineBank deposits are kept separate from Group cash and held in a ring fenced bank account. They are not used to fund working capital
  - Cash generated during FY22 has largely been used to accelerate capital projects, invest in inventory to protect against supply risks and fund the growing Commercial channel
  - Given the Group's strong balance sheet and cash reserves, the Board is mindful of the importance of effective capital allocation
- **Revenue** – Group revenue of £69.2m (FY21: £73.6m)
  - WineBank scheme revenue increased to £38.5m (FY21: £31.8m)
  - Revenue 63% above FY19 levels, solidifying much of the uplift from the pre Covid period
- **Gross Margins** – FY22 31.4% (FY21: 31.6%)
  - A disciplined approach to margin against a backdrop of volatile input costs
  - Margins remain 1.1% above the level in FY20

	<b>FY22 audited £m</b>	<b>FY21 audited £m</b>	<b>FY20 unaudited £m</b>
Revenue	<b>69.2</b>	73.6	56.6
Adjusted EBITDA <sup>(1)</sup>	<b>6.2</b>	7.0	4.8
Operating profit	<b>5.2</b>	2.6	4.1
Profit before tax	<b>5.1</b>	1.7	2.8
Profit for the period	<b>4.4</b>	0.7	2.6

(1) Adjusted EBITDA is after adding back exceptional costs.

(2) Comparative numbers used for FY19 and FY20 are unaudited.

**Strategic highlights**

- The Group continues its successful strategy of focussing on 5 key pillars:
  - Maintaining a strong balance sheet
  - A focus on delivering industry leading levels of profit
  - Low-cost customer acquisition delivering high levels of payback
  - High customer and sales retention rates achieved through its subscription schemes
  - Driving efficiencies across the business with strong cost control
- Disciplined approach to new customer acquisition continues to deliver high-quality, loyal customers
  - 105k new customers acquired in FY22, 5% ahead of expectations
  - Cost per recruit £13.22 (FY21: £13.49)
  - Q422 acquisition 37% ahead YOY, delivering strong momentum into FY23
  - Conversion rate of new customers onto subscription schemes of 53%
- Active customer base grew to 186k (FY21: 182k) with strong performance from the WineBank scheme
  - WineBank membership up 8%, with total revenue from WineBank customers up 21%
  - Rolling 12-month cancellation rate consistent at 16.7%
  - Customers on all subscription schemes contributed 81% of DTC sales (FY21: 67%)
  - Customer Retention Rate and Sales Retention Rate of 91%
  - Wine Advisor revenue remains resilient with sales up 3.8% YOY
  - Increased market share from 6.1% to 8.4% (according to IBISWorld Online Alcohol Retailing in the UK Industry Report 2022, March 2022)
- Core strategic focus on developing new and expanding existing commercial partnerships remains
  - New partnerships signed with Great Western Railway and Moonpig whilst the return of rail travel delivered strong YOY growth through LNER and Avanti WestCoast
  - Corporate gift sales increased 16% YOY
  - Strong pipeline of further partnerships to come in FY23
- Continuing to deliver the highest levels of customer service – received the bronze award for ‘Contact Centre of the Year’ at the National Contact Centre Awards
- Voted ‘Online Retailer of the Year’ at the 2022 Drinks Retailing Awards

## Post year end

- Post year-end we have made good progress with important strategic initiatives, including:
  - Signed a new long-term exclusive partnership with Saga plc, to exclusively launch and operate a co-branded wine proposition for all Saga members. With such strong brand affinity, a perfect demographic profile and ambitious expectations around the scale of the partnership, we are confident about its potential. We also continue to engage in new and enhanced partnerships with a number of other leading brands.
  - Achieved Carbon Neutral status via the PAS 2060 certification, as part of the Group's focus on sustainability across our business.

## Current trading and outlook

- Trading was positive in August but softer than anticipated in September, impacted by the national period of mourning in light of the death of Her Majesty the Queen and the Group's decision to desist from any marketing and promotional activity during this period.
- Looking ahead, there will continue to be pressure on consumers' disposable income and as such we are mindful of the potential impact on frequency of order and average order values. However, as consumer spending comes under pressure, we are also aware that people are more likely to stay in and socialise at home rather than taking the more expensive option of going out. We expect top line

performance will be relatively resilient and therefore now expect revenue growth to be broadly flat for FY23.

- Given the macro environment and cost pressures in numerous areas, we have engaged in careful planning to be well prepared for Christmas. This is driven by the strength of our product range, including our stand-out collection of advent calendars. Whilst we continue to deliver sector leading EBITDA margins and are confident in our ability to mitigate a number of the margin pressures we face, there are certain costs which we have not been able to offset, and we now expect EBITDA margins of approximately 8% (previously 9%) for the coming year.
- We remain confident in the disciplined and robust nature of our business model. Our subscription schemes offer our customers fantastic value for money, as well as the useful budgeting mechanic of spreading the cost of buying wine through WineBank, whilst our focus on disciplined customer acquisition will continue to deliver a good quality and loyal customer base. In addition, we will continue to engage in new and enhanced partnerships with a number of leading brands, which will help drive our customer acquisition strategy.
- We will continue to focus on profit, generating cash and driving efficiencies throughout the business. These key pillars have been consistent elements of our strategy for many years and will remain key in driving our success.

**Jay Wright, Chief Executive Officer, said:**

*“Despite widely documented macroeconomic challenges and consumer uncertainty, Virgin Wines has continued to show its resilience and strong positioning in the direct-to-consumer online wine retail sector. Our business model and disciplined approach to new customer acquisitions has enabled us to retain much of the substantial growth achieved during the Covid-19 lockdowns, with almost 1 million cases sold in FY22, and we remain market-leading both in terms of our customer proposition and our profitability.*

*In the context of a severe cost of living crisis, we also believe that our wines represent an affordable treat compared to the cost of alternative options such as going to pubs and restaurants, and therefore we may see more people opting to socialise and drink wine at home in the coming months.*

*We remain confident in the fundamentals of our business, with our emphasis on commercial opportunities through new and expanded strategic partnerships already delivering significant benefits. Our focus on high-quality, exclusive wines and award-winning service to our loyal customers will continue to be our key priority.”*

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (“MAR”), and is disclosed in accordance with the Company’s obligations under Article 17 of MAR.

- Ends -

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**Notes to editors:**

**About Virgin Wines**

Virgin Wines is one of the UK's largest direct-to-consumer online wine retailers. It is an award-winning business which has a reputation for supplying and curating high quality products, excellent levels of customer service and innovative ways of retailing.

The Company, which is headquartered in Norwich, UK, was established in 2000 by the Virgin Group and was subsequently acquired by Direct Wines in 2005 before being bought out by the Virgin Wines management team, led by CEO Jay Wright and CFO Graeme Weir, in 2013. It listed on the London Stock Exchange's Alternative Investment Market (AIM) in 2021.

Virgin Wines has more than 700 wines, 100 spirits and 250 beers in its portfolio which it sells to an active customer base of 186,000 members. It has approximately 200 employees and more than 40 trusted winemaking partners and suppliers around the world.

The Company drives the majority of its revenue through its fast-growing WineBank subscription scheme, using a variety of marketing channels, as well as through its Wine Advisor team, Wine Plan channel and Pay As You Go service. It partners with more than 350 trusted brands through its strategic and commercial partnerships.

Along with its extensive range of award-winning products, Virgin Wines was delighted to be named Online Drinks Retailer of the Year for 2022 at this year's Drinks Retailing Awards, as well as receiving the bronze award for Contact Centre of the Year at the 2022 UK National Contact Centre Awards.

<https://www.virginwinesplc.co.uk/>

## **Chairman's Statement**

### **Introduction**

I am pleased to report the Group's second set of annual results as a public company, following our admission to AIM in March 2021.

The business has continued to perform well amidst a challenging backdrop. Like many others in the sector, we have faced numerous macroeconomic headwinds, including labour shortages arising from the continued effects of the Covid-19 pandemic, cost inflation and supply chain delays. Despite all of this, the business has remained resilient, stable and profitable.

While it is true that some of the excitement and expectations around the ways in which people use digital has been tempered, with consumer trends constantly ebbing and flowing both in light of Covid and beyond, it is clear that the long-term and underlying, structural growth drivers across the direct-to-consumer wine sector – on which we launched our IPO in early 2021 – remain fundamentally the same. Even post Covid, daily consumer habits have been formed and continue to evolve. For example, flexible working and working from home are here to stay, which means that people are more comfortable receiving deliveries during the day. The benefits of buying wine online – quality, price, range and service – are proven and enduring, and Virgin Wines remains best placed to deliver this for our customers.

### **FY22 summary**

We are pleased to have reported revenues of £69.2m during the year, against a comparison of £73.6m in FY21, which was up 63% on a three-year, pre-Covid basis (FY19 unaudited: £42.4m). Lockdowns undoubtedly boosted our trade. However, the three-year comparison also shows that we have been able to consistently maintain much of our substantial growth, despite the lifting of restrictions and opening up of hospitality. EBITDA was £6.2m (FY21: £7m), which was up 130% on the same pre-Covid basis. We are very proud of the resilience of our profitability, which is industry-leading.

One of Virgin Wines' key strategic objectives, which we outlined at IPO, is new customer acquisition. The business has delivered on this at levels ahead of expectations, taking a disciplined approach to marketing and keeping cost per recruit low. This has been important in ensuring that the customer base remains loyal, something that the Group has clearly achieved, with subscription membership and demand for the WineBank scheme and Wine Advisor service demonstrably resilient and growing.

The signing of new commercial partnerships is another key priority against which the Group has performed strongly, and where we continue to expand. During the year, we signed significant deals with Great Western Railway, the i newspaper and Priority from O2, among others.

I would like to thank colleagues for their continued hard work and dedication, our customers for their ongoing enthusiasm and loyalty and our partners for their collaboration.

### **Environment, social & governance**

ESG is an important driver of our business. It informs our culture, our strategy and stakeholder engagement. We are committed to operating an ethical, transparent business, delivering value for all stakeholders in line with our long-term growth strategy.

During the year we introduced a number of important environmental initiatives as we make progress towards a net zero strategy.

We have made good progress in setting targets for reducing carbon emissions and are now putting appropriate goals in place for the coming years.

Our people are of the utmost importance to us and we invest in talent, training and wellbeing. We continue to promote diversity and inclusion throughout the Company as this is an essential part of our culture and identity.

### **Outlook**

With the economic prognosis of high inflation squeezing disposable incomes and a worrying geopolitical outlook, the year ahead is likely to be tough for consumers. But Virgin Wines has a great business model, an excellent product offer focused on value for money and a strong balance sheet to leverage future growth.

The Group's strategic and disciplined focus on new customer acquisition is delivering encouraging results and we have numerous exciting new partnerships in the pipeline for 2023 as well as fantastic new products to be launched in both the busy Christmas period and beyond.

Therefore, the Board looks to the future with confidence.

**JOHN RISMAN**

Chairman

## **Chief Executive's Review**

### **Introduction**

It's fair to say the last two and a half years have brought more rapid change and differing challenges within a short period of time than any other period in recent history. It gives me great pride to have witnessed close up the way our people have adapted, and continually risen, to these challenges and how robustly our business model has performed in the face of these vastly differing economic climates and swings in consumer behaviour.

Through the rapid growth and unprecedented shift to online purchasing that was the hallmark of the Covid period, through to a return to more normal consumer behaviour and then on to the economic challenges of steep inflation, rising costs, supply chain disruption and war in Ukraine, we have continued to adapt quickly and decisively.

We are pleased that our business remains robust and resilient, and we continue to drive forward on our strategic growth ambitions, making good progress on a number of important initiatives and performing well on many key metrics.

### **Business overview**

During the year we delivered revenues of £69.2m, a 6% decrease on the prior year but a 63% increase on a three-year basis (FY21: £73.6m, FY19 unaudited: £42.4m). We also achieved an EBITDA of £6.2m, an 11% decrease from the prior year but up 130% on a three-year basis (FY21: £7m, FY19 unaudited: £2.7m) which is a more meaningful comparison based on normalised pre-Covid trading patterns.

We are pleased that we have retained the vast majority of the exceptional growth we enjoyed over the previous two years, despite the aforementioned macroeconomic challenges, and we're proud of this robust performance which shows that demand for our high-quality, exclusive wines remains strong and loyalty from our customers remains high.

During FY22 we sold 980k cases and served more than 273k customers. In order to achieve this, we have continued with our focused and disciplined strategic approach to new customer acquisition, which has delivered strong results and a great number of high-quality, loyal recruits. During the year, 105,000 new customers were acquired across all schemes, 5% ahead of our previous expectations, and cost per recruit was just £13.22 against £13.49 a year ago. This is an industry-leading result, and we have achieved notable market share gains – from 6.1% in 2021 to 8.4% in 2022, according to industry benchmark IBISWorld – as a result.

We were also delighted to receive industry recognition winning the 'Online Retailer of the Year' award at the 2022 Drinks Retailing Awards for the third time in recent years. In addition, our continued and unwavering focus on customer care was also recognised when we were the proud recipients of the bronze award for 'Contact Centre of the Year' at the National Contact Centre Awards.

### **Wine sourcing model**

Uniquely, we source our wines from a large network of trusted long-term winemaking partners and suppliers across the globe using a data driven, customer focused, open-source supply model. This means that we can source the best quality Grapes from every region of every country for every vintage, while maintaining the flexibility to ensure we can make, and deliver, the very best value wines to our customers.

93% of the wines we sell by volume are exclusive and this absolute control of the winemaking process ensures we have the ability to blend our wines ourselves, match the precise stylistic qualities and taste profiles that we know our loyal customers are looking for, through the constant use of extensive data and clever analytics from tens of thousands of customer reviews, to curate our range of the most premium quality, exclusive wines.

We believe that our unique model differentiates Virgin Wines for both our customers and investors, ensuring working capital can be minimised, quality/value ratios can be maximised whilst delivering the most advantageous gross margins. This sourcing model is key in supporting the resilience of our business and the strength of our investment case.

### **Subscription schemes**

The success of our business continues to be strongly supported by the popularity of our wide range of subscription schemes on offer, which give our loyal customers a number of ways to purchase their favourite wines from us, as well as continuing to attract new customers. The ever-growing demand for both our WineBank and Wine Plan subscription schemes is shown through the revenue contribution of 81% of DTC sales achieved in FY22, compared to 67% in FY21, and our conversion rate of new customers onto our subscription schemes remains high at 53%.

Meanwhile, our overall sales retention rate and customer retention rate both achieved an impressive 91%.

The WineBank membership, our main subscription scheme, which allows customers to spread the cost of buying wine by saving money each month and in turn earning 20% 'interest' on the money they save to then spend on wine, grew by 8% from the prior year, with revenues increasing by 21% during the period. We also managed to maintain a consistent and low cancellation rate in WineBank, at just 16.7% (FY21: 15.8%).

We doubled down on our efforts to prioritise WineBank over the year, given its 'recession proof' nature and gave less emphasis to our quarterly Wine Plan scheme. Despite this total revenue from Wine Plan customers decreased just 2.3% and monthly yields from the membership remained strong at an average of 65%.

Our Wine Advisor team continue to offer a personal and highly valued one-to-one service to over 45k customers, delivering the highest levels of customer retention alongside the highest average spend per annum of any group of customers. This focus on delivering an unbeatable customer experience is core to our proposition and we continue to expand the service to be able to offer even more customers this experience.

### **Strategic partnerships driving new customer acquisition**

Central to our growth strategy is our focus on developing partnerships with other brands and businesses to increase our exposure across additional consumer audiences and be more visible and accessible to new potential customers. Over the past year we have partnered with over 350 other trusted brands to drive over 65% of our new customer acquisition.

In particular we have seen encouraging growth over the second half of FY22 with a number of new partnerships agreed including exciting new relationships with organisations and businesses such as the i newspaper, Priority from O2, Currys and The Rail Delivery Group. These new initiatives have helped customer acquisition numbers increase 37% YOY over Q4 of FY22 and with a strong pipeline of further partnerships to come in 2023 we are confident about our ability to continue to grow this key area of our business.

### **Commercial opportunities**

One of the most exciting growth opportunities within our business is the scope to deliver increased scale through our Commercial and wholesale operations. We have been delighted to be able to trade with our travel partners again following on from the enforced suspension of our activities with them during the Covid affected period. Both LNER and Avanti are key partners and we are therefore pleased that this year has gradually seen a return to wine being served on the train networks. We are also delighted to have added Great Western Railway to our portfolio of travel partners and look forward to a long and successful relationship with them.

FY22 has also seen the launch of our partnership with Moonpig, which has developed substantially over the year. We are proud to be partnering with such an innovative and like-minded business and our 'Virgin Wines at Moonpig' initiative has proved extremely successful. The relationship is one of the most exciting that we have developed for a number of years and both businesses see substantial growth opportunities in a whole variety of areas moving forwards.

### **Events**

We were delighted to be able to take Virgin Wines back out on the road again this year, after a 16-month gap, with the return of our hugely popular 'live' events. As a customer-focused business, where connecting with our customers is key, we were delighted to see a return to our popular tasting events across the UK, which had been cancelled during the lockdowns of 2021–22. Our events in London, Edinburgh, Manchester and Leeds were all sold out and hugely successful, introducing those in attendance to exciting new ranges, allowing them to meet the winemakers behind the wines they love and educating them on our exclusive products in a fun and engaging way.



This ability to bring both our wines and our business to life in a physical setting is one we have truly missed, so to see hundreds of happy customers at each event having such a good time was a highlight of the year and we look forward to doing more of the same over the next 12 months.

## **Operations**

Despite well documented headwinds within the supply chain, alongside significant cost pressures driving up the price of dry goods and freight, we have worked hard to keep costs under control and our operational efficiency high.

Across the Group, we have been focused on implementing the necessary mitigating measures to limit the impact of these headwinds, including the early ordering of stock. We have continued to keep our stock at a higher level as supply issues continue with our focus on ensuring we have a full portfolio of products available to offer customers and the most comprehensive portfolio of wine to ensure we are maximising margins through the configuration of our pre-mixed cases.

We have increased the amount of wines we bottle at Greencroft in Durham to maintain lower costs of dry goods, lower costs of energy and better continuity of supply.

Whilst the Group has been proactive in taking a variety of mitigating actions, there continues to be inflationary pressure in multiple areas of the supply chain, such as shipping, packaging, glass and courier charges, and we are subsequently keeping our pricing and case configurations under constant review, in order to protect margins.

## **Our culture, values and people**

At Virgin Wines, we are committed to making people's lives more enjoyable and this mantra very much underpins our culture and values as a business. We understand the importance of our customers enjoying alcohol in moderation and continue to drive the messaging that 'Drinking is only fun when you don't overdo it'.

Elsewhere, we have been active in developing a number of initiatives aimed at supporting those most in need. In particular, we have been delighted to maintain our support for The Drinks Trust and Growing Well charities as well as adding Leeway, a charity based locally to our Head Office in Norwich, as our employee voted 'Charity of the Year' which supports women, men and children that have been subject to domestic abuse. Given the atrocities seen following the outbreak of the war in Ukraine, we also added the Red Cross Ukraine Crisis Appeal to charities supported this year.

To help with raising funds for these excellent causes we have created and launched a charity range of wines named our 'Benevolent' range, and we are delighted that we are able to help raise money to support our various charity initiatives through the sale of these wines.

Across the business, our teams continue to rise to everyday challenges, and their continued dedication and resilience continues to drive our business forward. I would like to take the opportunity to thank everyone across the business for their continued commitment and support in our second year as a listed business. In particular, our values and purpose keep us focused and united on common goals and beliefs and this clear framework is fundamental in driving the unity, support and culture that we work so hard to maintain.

## **A focus on sustainability**

In addition to providing our customers with quality wines, and creating a high performing business, we understand that it is our responsibility to have a positive impact on our planet. Both the Board of Directors and our Senior Management are committed to achieving our ESG ambition of being a leader in creating a positive impact on the environment and our communities within the drinks industry.

We have taken a significant stride forward this year, completing our first Scope 3 emission report. This insight allows us to identify where we can make positive steps towards lowering our carbon emissions and we have also started the path towards achieving Carbon Neutral status via the PAS 2060 certification. It gives the business confidence knowing that our emission reporting will have passed a full external audit. More importantly, to continue achieving the PAS 2060 certification, the focus will be on achieving carbon reduction targets we have set out, and not just purely offsetting emissions. We also understand the importance of setting science-based targets aligned to the 1.5°C scenario as promoted by the Paris Agreement. During the new financial year,

we will be submitting our application to the Science Based Target Initiative (SBTi), and in doing so we will be one step closer to achieving our goal of becoming a Net Zero business by 2045.

In addition to our environmental impact efforts, we have also reviewed and improved our supplier due diligence process. We are committed to ensuring all products we sell are created through the operation of an ethical supply chain, and we take a zero-tolerance approach to slavery and trafficking. Our newly created Supplier Code of Conduct ensures that the businesses we deal with reflect our approach in how they operate, but also take steps in reviewing and demanding zero-tolerance from their own supply chains.

## **Outlook**

Looking ahead, we expect many of the challenges seen through 2022 to continue into 2023 as cost inflation holds at significantly high levels whilst supply chain disruption is still yet to normalise. We understand that there will continue to be pressure on consumers' disposable income and as such are mindful of the potential impact on frequency of order and average order values. However, as consumer spending comes under pressure, we are also aware people are more likely to stay in and socialise at home rather than taking the more expensive option of going out.

Despite these macro challenges, we remain confident in the robust nature of our business model. Our subscription schemes offer our customers fantastic value for money, as well as the useful budgeting mechanic of spreading the cost of buying wine through WineBank, whilst our focus on disciplined customer acquisition will continue to deliver a good quality and loyal customer base.

We will continue to focus on profit, generating cash and driving efficiencies throughout our business. These key pillars have been consistent elements of our strategy for many years and will remain key in driving our success.

We will also continue to progress our strategy of developing long term partnerships and are delighted to be working with Saga plc to exclusively launch and operate a co-branded wine proposition for all Saga members. With such strong brand affinity, a perfect demographic profile and ambitious expectations around the scale of the partnership, we are confident about its potential.

We also continue to engage in new and enhanced partnerships with a number of leading brands, which will help drive our customer acquisition strategy. We look forward to providing updates as these exciting new partnerships are signed and finalised over the coming months and years.

Given the macro environment and the cost pressures in numerous areas, we have engaged in careful planning to be well prepared for Christmas, driven by the strength of our product range including our stand out collection of advent calendars. However, whilst we are confident in our ability to mitigate against a number of the margin pressures we face, we believe it is correct to be prudent in our forecasting whilst living in such a volatile and challenging environment.

**JAY WRIGHT**

Chief Executive Officer

## Financial Review

### Overview

As a business that grew sharply during Covid it was always going to be difficult to forecast exactly how the impacts would play out. Our focus has remained on maintaining the core disciplines of our financial model. Investing in new customer acquisition by retaining competitive cost per acquisition to achieve a quick payback on each new customer, strong margin controls across all sales channels to ensure we optimise the return on repeat sales and effective cost controls to continue to deliver sector leading profit to revenue margins. In so doing the business has continued to invest for future growth and strategically deployed cash and working capital to offset supply and inflationary pressures common to all companies. As a result we have a business model fit to meet the challenges of difficult trading conditions as well as benefit from future opportunities.

	<b>FY22 £m</b>	<b>FY21 £m</b>
Revenue	<b>69.2</b>	73.6
Gross Profit	<b>21.7</b>	23.3
Operating Expenses	<b>15.5</b>	16.3
Adjusted EBITDA	<b>6.2</b>	7.0
Exceptional Costs (IPO fees)	<b>0</b>	3.5
Share-based Payments	<b>0.1</b>	0
Amortisation and Depreciation	<b>0.9</b>	0.8
Operating Profit	<b>5.2</b>	2.7
Finance Income	<b>0</b>	0
Finance Expense	<b>0.1</b>	1.0
Profit before Tax	<b>5.1</b>	1.7
Tax	<b>0.7</b>	0.9
Profit for the Period	<b>4.4</b>	0.8

### Profit before tax

Profit before tax for FY22 increased by £3.4m to £5.1m (FY21: £1.7m). After adjusting for exceptional costs and share-based payments Profit before tax was virtually unchanged at £5.1m (FY21: £5.2m). Given the considerable challenges in FY22, and the strong inflationary cost pressures in H2, we are pleased to have maintained the profit level. The Group does not propose to pay a final dividend for FY22 (FY21: £nil).

### Revenue

Reported revenue for FY22 was £69.2m down £4.4m 6.1% (FY21: £73.6m). The WineBank customers continued to perform well with annual revenue from this base up 21%. After the sharp growth over FY20 (unaudited) and FY21 revenue from new customer acquisition and gifting, both dropped back in FY22 by £2.0m and £1.7m respectively. After posting an exceptionally strong performance in FY21, Commercial revenues were also down slightly by £0.5m. Total revenue remained 63% above FY19 (unaudited) levels, the last full year without a Covid impact. Core sales proved resilient, down less than 1% on FY21 at £54m.

### Gross margin

Despite the impact of inflation on inbound freight, packaging and delivery costs, average gross profit as a percentage of revenue held firm. FY22 31.4%, FY21 31.6% and FY20 (unaudited) 30.3%. Good margin discipline in the repeat sales channels enabled the business to invest more in new customer acquisition margins without any material impact on the overall gross margin percentage. Gross profit in these financial statements is stated as revenue less wine cost, packaging and carrier delivery costs. UK Duty, inbound packaging and freight costs are included in the wine cost.

### **Operating expenses**

Operating expenses (comprising Administrative expenses and Selling and Distribution costs) fell by £0.6m to £16.5m (FY21: £17.1m). This reflects an important part of the business model where variable cost elements flex with sales volumes. The business continued to invest in people, skills and IT infrastructure to support increases in capacity, efficiency and deliver future growth.

### **Finance expense and income**

Finance expenses fell by £0.9m, FY22: £0.1m (FY21: £0.1m), reflecting the repayment of all term loans in March 2021. The charge in financial statements for FY22 relates solely to the interest charge on right of use assets and the adoption of IFRS 16 for leases. Finance income relates to bank deposit interest received.

Further details are available in note 12 of the financial statements.

### **Adjusted EBITDA**

Adjusted EBITDA fell by £0.8m (11%) to £6.2m in FY22 reflecting an increase investment in new customer acquisition and the more challenging trading conditions. As a percentage of revenue, Adjusted EBITDA was 9.0% (FY21: 9.5%; FY20 unaudited: 8.5%). These numbers reflect the underlying strength of the business disciplines and model in all trading environments. Adjusted EBITDA is calculated after adding IPO transaction fees showing as exceptional costs in FY22 of £nil (FY21: £3.5m), and share-based payments of £0.1m in FY22 (FY21: £nil).

### **Impairment review**

At the reporting date the Directors tested goodwill for impairment in accordance with the requirements of IAS 36 Impairment of Assets. The total carrying amount of the Group's single cash-generating unit was compared to its estimated value in use. No impairment was identified. For further details see note 15 of the financial statements.

### **Taxation**

The tax charge in the financial statements for FY22 is £0.7m (FY21: £0.9m). This tax charge relates to a usage of the deferred tax asset and will have no cash impact. The Deferred taxes have been measured using the tax rate of 25% (FY21: 19%).

### **Earnings per share (EPS)**

The Group reported a basic earnings per share of 7.8p, FY21 loss per share of 0.5p. Diluted earnings per share for FY22 of 7.8p and loss per share of 0.5p in FY21. The weighted average number of shares in issue for FY22 was 55.8m (FY21: 50.6m) (see note 14 of the financial statements for more details).

### **Cash and working capital**

The Group end of year cash balance for FY22 was £15.1m (FY21: £15.7m). These balances include cash deposits from WineBank customers of FY22 £7.4m (FY21: £7.3m). This cash is not used to fund working capital and is kept in a ring fenced client account separate from Group cash. Net of WineBank customer deposits and the deferred payments the adjusted cash position was FY22 £7.7m, (FY21: £8.4m). Operations in FY22 generated £6.3m in cash. The Group has used its strong balance sheet and cash reserves to accelerate investment in capital projects £1m (FY21: £0.2m) and in working capital to de-risk the potential impacts of supply chain disruption. Trade receivables are up £0.5m due to the commercial channel. To offset the impact of ongoing supply uncertainties the Group continued the policy of holding higher inventory levels, up £1.4m from 2 July 2021. The earlier procurement of all key lines to ensure uninterrupted availability and the reversal of accelerated

cashflows in Q4 FY21 has resulted in a reduction of Trade and other payables of £2.9m. This strategic deployment of working capital has allowed the Group to avoid any significant supply issues and counter inflationary pressures to gross margins. As supply pressures ease working capital requirements will return to the normal run rate.

The Group is cash generative with no net borrowing and can continue to deploy working capital to achieve future growth plans and manage any downside financial risk. Given the Group's strong balance sheet and cash reserves, the Board is mindful of the importance of effective capital allocation.

**GRAEME WEIR**

Chief Financial Officer

## Consolidated Statement of Comprehensive Income

for the 52 week period ended 1 July 2022

1 July 2022			2 July 2021
	Note	£'000	£'000
<b>Revenue</b>	5	<b>69,152</b>	73,634
Cost of sales		<b>(47,429)</b>	(50,353)
<b>Gross profit</b>		<b>21,723</b>	23,281
Administrative expenses before exceptional items		<b>(4,356)</b>	(5,381)
Exceptional items	6	<b>–</b>	(3,512)
Administrative expenses		<b>(4,356)</b>	(8,893)
Selling and distribution costs		<b>(12,166)</b>	(11,752)
<b>Operating profit</b>	7	<b>5,201</b>	2,636
Finance income	11	<b>31</b>	5
Finance costs	12	<b>(134)</b>	(963)
<b>Profit before taxation</b>		<b>5,098</b>	1,678
Taxation	13	<b>(747)</b>	(933)
<b>Profit for the financial period and total comprehensive income</b>		<b>4,351</b>	745
<b>Basic and diluted earnings/(loss) per share (pence)</b>	14	<b>7.8</b>	(0.5)

The results for the periods shown above are derived entirely from continuing activities.

The Company has no other comprehensive income or expense other than the profit above and therefore no separate statement of other comprehensive income has been presented.

## Consolidated Statement of Financial Position

as at 1 July 2022

Company number 13169238	Note	1 July 2022 £'000	2 July 2021 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	15	11,113	10,842
Property, plant and equipment	16	400	163
Right of use assets	17	3,262	2,867
Deferred tax asset	18	428	1,100
<b>Total non-current assets</b>		<b>15,203</b>	<b>14,972</b>
<b>Current assets</b>			
Inventories	19	8,653	7,239
Trade and other receivables	20	2,477	1,552
Derivative financial instruments	24	16	—
Cash and cash equivalents	21	15,070	15,660
<b>Total current assets</b>		<b>26,216</b>	<b>24,451</b>
<b>Total assets</b>		<b>41,419</b>	<b>39,423</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	22	(15,451)	(18,314)
Derivative financial instruments	24	—	(5)
Lease liability	17	(456)	(489)
<b>Total current liabilities</b>		<b>(15,907)</b>	<b>(18,808)</b>
<b>Non-current liabilities</b>			
Provisions	23	(290)	(275)
Lease liability	17	(3,149)	(2,713)
<b>Total non-current liabilities</b>		<b>(3,439)</b>	<b>(2,988)</b>
<b>Total liabilities</b>		<b>(19,346)</b>	<b>(21,796)</b>
<b>Net assets</b>		<b>22,073</b>	<b>17,627</b>
<b>Equity</b>			
Share capital	25	558	558
Share premium		11,989	11,989
Own share reserve		(36)	(36)
Merger reserve		65	65
Share based payments reserve		95	—
Retained earnings		9,402	5,051
<b>Total equity</b>		<b>22,073</b>	<b>17,627</b>

The financial statements were approved by the Board of Directors and authorised for issue on 26 October 2022. They were signed on its behalf by:

**Graeme Weir**

**Chief Financial Officer**

26 October 2022

## Consolidated Statement of Changes in Equity

for the 52 week period ended 1 July 2022

	Called up share capital £'000	Share premium £'000	Own share reserve £'000	Merger reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Shareholders' funds £'000
4 July 2020	477	31	(36)	—	—	5,665	6,137
Profit for the financial period	—	—	—	—	—	745	745
<b>Total comprehensive income for the period</b>	—	—	—	—	—	745	745
Group restructuring	(477)	(31)	—	—	—	—	(508)
Issue of shares	559	12,967	—	65	—	—	13,591
Share issue costs	—	(978)	—	—	—	—	(978)
Purchase of own shares	(1)	—	—	—	—	—	(1)
Dividends paid	—	—	—	—	—	(1,359)	(1,359)
<b>Total transactions with owners recognised in equity</b>	81	11,958	—	65	—	(1,359)	10,745
<b>2 July 2021</b>	558	11,989	(36)	65	—	5,051	17,627
<b>3 July 2021</b>	558	11,989	(36)	65	—	5,051	17,627
Profit for the financial period	—	—	—	—	—	4,351	4,351
<b>Total comprehensive income for the period</b>	—	—	—	—	—	4,351	4,351
<b>Share-based payments (Note 10)</b>	—	—	—	—	95	—	95
<b>Total transactions with owners recognised in equity</b>	—	—	—	—	95	—	95
<b>1 July 2022</b>	558	11,989	(36)	65	95	9,402	22,073



## Consolidated Statement of Cash Flows

for the 52 week period ended 1 July 2022

	Note	1 July 2022 £'000	2 July 2021 £'000
<b>Cash flows from operating activities</b>			
<b>Profit before taxation</b>		<b>5,098</b>	1,678
Adjustments for:			
Depreciation and amortisation	7	963	832
Share-based payment expense	10	95	—
Net finance costs	11, 12	103	958
(Increase)/decrease in trade and other receivables		(941)	969
Increase in inventories		(1,414)	(2,243)
Decrease in trade and other payables		(2,928)	(3,567)
<b>Net cash generated from/(used in) operating activities</b>		<b>976</b>	(1,373)
<b>Cash flows from investing activities</b>			
Interest received	11	31	5
Purchase of intangible and tangible fixed assets	15, 16	(969)	(242)
<b>Net cash used in investing activities</b>		<b>(938)</b>	(237)
<b>Cash flows from financing activities</b>			
Dividend paid		—	(1,359)
Interest on loans and borrowings		—	(953)
Repayment of borrowings		—	(11,986)
Share issue		—	12,104
Payment of lease liabilities	17	(494)	(305)
Payment of lease interest	12	(134)	(135)
<b>Net cash used in financing activities</b>		<b>(628)</b>	(2,634)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(590)</b>	(4,244)
Cash and cash equivalents at beginning of period		15,660	19,904
<b>Cash and cash equivalents at end of period</b>		<b>15,070</b>	15,660
<b>Cash and cash equivalents comprise:</b>			
Cash at bank and in hand		15,070	15,660

## Notes Forming Part of the Financial Statements

for the 52 week period ended 1 July 2022

### 1 General information

The principal activity of the Group is import and distribution of wine.

The Company was incorporated on 1 February 2021 in the United Kingdom and is a public company limited by shares registered in England and Wales. The registered office is 37–41 Roman Way Industrial Estate, Longridge Road, Ribbleson, Preston, Lancashire, United Kingdom, PR2 5BD. The registered company number is 13169238.

### 2 Accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent that they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Virgin Wines UK plc and its subsidiaries.

#### *Basis of preparation*

On 31 December 2020, IFRS as adopted by the European Union at that date were brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK endorsement Board. The Group transitioned to the UK-adopted International Accounting Standards in the Group financial statements on 1 July 2021. This change constitutes a change in accounting framework. However, there is no impact recognition, measurement or disclosure in the period reported as a result of the change in framework. The Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under these standards.

#### *Accounting reference date*

UK company law permits a company to draw up financial statements to a date seven days either side of its accounting reference date. For operational reasons the Company has adopted an accounting period of 52 weeks, and as a result of this, the exact year-end was 1 July 2022 (2021: 2 July 2021).

#### *Historical cost convention*

The financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities (including derivative instruments), measured at fair value through the income statement.

#### *New standards, interpretations and amendments issued not yet effective*

There are a number of standards, amendments to standards, and interpretations which have been issued by the EU that are effective in future accounting periods that the Group has decided not to adopt early.

The following standards were in issue but have not come into effect:

Amendments to

- IFRS 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9, as amended in June 2020 – effective for the year ending 30 June 2024
- IAS 1, 'Presentation of financial statements' on classification of liabilities – effective for the year ending 30 June 2024
- IAS 1, Practice statement 2 and IAS 8 (narrow scope) – effective for the year ending 30 June 2024
- IAS 12, Deferred tax related to assets and liabilities arising from a single transaction – effective for the year ending 30 June 2024
- IFRS 17, 'Insurance contracts' – effective for the year ending 30 June 2024

The Directors anticipate that the adoption of planned standards and interpretations in future periods will not have a material impact on the financial statements of the Group.

#### *Going concern*

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report and the Directors' Report, which also describes the financial position of the Group. The Group's financial risk management objectives and its exposure to credit risk and liquidity risk are set out in note 24.

During the year the Group met its day-to-day working capital requirements through cash generated from operating activities. The Group's forecasts and projections, taking account of a severe but plausible change in trading performance, show that the Group should be able to operate using cash generated from operations, and that no additional borrowing facilities will be required. The Group is therefore no longer subject to any external borrowings or covenants.

Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing its consolidated financial statements.

### ***Basis of consolidation***

The financial statements consolidate the financial information of the Group and companies controlled by the Group (its subsidiaries) at each reporting date.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity, has the rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The results of subsidiaries acquired or sold are included in the financial information from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the results of acquired subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies.

### ***Employee Benefit Trust***

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the consolidated financial statements. Any assets held by the EBT cease to be recognised on the Consolidated Statement of Financial Position when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Consolidated Statement of Comprehensive Income.

### ***Revenue recognition***

Revenue from contracts with customers contains one performance obligation, unless it is a WineBank sale, in which case there are two performance obligations and this is described separately further below. The single performance obligation is the supply of goods. The transaction price is fully allocated to the single performance obligation for non-WineBank sales. The Group recognises revenue at a point in time when the single performance obligation is satisfied. The performance obligation is satisfied when control is passed to the customer. Control is deemed to pass to the customer upon delivery of the goods.

Revenue is recognised at the transaction price of the sale of goods, net of discounts and excluding value added tax, in the ordinary course of business.

The Group uses its accumulated historical experience to estimate the level of returns on a portfolio level using the expected value method. Credit terms are only provided to corporate customers, and the average days are 60.

### ***Contract balances***

Timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets represent revenue recognised prior to invoicing when it has satisfied its performance obligation and has the unconditional right to payment.

Contract liabilities consists of fees received related to unsatisfied performance obligations at the end of the period.

### ***WineBank***

Amounts deposited by customers for WineBank are initially reported as a liability in the Statement of Financial Position. On registering as a WineBank customer, subscription customers agree to lodge a regular monthly sum into their WineBank account. These sums accumulate in the customer account and build a balance to use against their next purchase from the Group.

Amounts deposited by WineBank customers are reported within the Group cash balance but are held separate to Group funds. WineBank deposits are not used to fund the working capital of the business. WineBank customers can cancel their WineBank account at any time and may request to receive their money back immediately with no penalty whatsoever.

Using funds deposited through the WineBank scheme entitles account holders to benefit from an extra discount on the Group's website prices. This discount represents a 'material right' under IFRS 15 Revenue from Contracts with Customers, which is a separate performance obligation which is fulfilled when the customer uses that discount. The transaction price allocated to the material right performance obligation represents the value of the discount earned, and is deferred until the customer uses the discount on a future order.

Orders placed through the WineBank scheme also contain the same performance obligation as for other sales, as described above. The transaction price allocated to this performance obligation is the remaining amount after allocating the element to the material right, and is recognised upon delivery to the customer.

### ***Finance costs***

Finance costs on financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Issue costs relating to financial instruments are recognised in the profit and loss account over the term of the debt at a constant rate over the instrument's life.

Interest on leases is calculated based on the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used (see lease accounting policy).

## **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax.

Tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The carrying amounts of deferred tax assets are reviewed at each reporting date.

## **Foreign currencies**

### *Functional and presentational currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the Group is Pounds Sterling. The financial statements have been rounded to thousands.

### *Transactions and balances*

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at quoted rates of exchange ruling at the balance sheet date. Exchange profits and losses arising from current trading are included in operating profit.

### *Goodwill*

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired is capitalised.

The goodwill in the consolidated financial statements represents the goodwill recognised in the predecessor holding company financial statements at the original carrying value.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### *Intangible assets*

Computer software is stated at cost less accumulated amortisation and impairment losses. Software is amortised over its estimate useful life, of between five and eight years, on a straight line basis.

Where factors, such as technological advancement or changes in market prices, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

## **Property, plant and equipment**

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold Property – Over the life of the lease  
Fixtures and fittings – 33.33% per annum

Computer hardware and warehouse equipment – 33.33% per annum

Assets classified as 'work in progress' are not depreciated as such assets are not currently available for (or in) use. Once in use, assets will be re-categorised and depreciated at the rate appropriate to their classification.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income.

#### **Impairment of non-financial assets (excluding goodwill)**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years.

#### **Leases**

A contract, or a portion of a contract, is accounted as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

- There is an identified asset;
- The Group obtains substantially all the economic benefits from use of the asset; and
- The Group has the right to direct use of the asset.

The Group considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease. In determining whether the Group obtains substantially all the economic benefits from use of the asset, the Group considers only the economic benefits that arise from use of the asset. In determining whether the Group has the right to direct use of the asset, the Group considers whether it directs how and for what purpose the asset is used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRS rather than IFRS 16.

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods of five to ten years, but may have extension options as detailed in note 17.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Virgin Wines UK plc, which does not have recent third-party financing; and
- makes adjustments specific to the lease, for example term and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group has elected not to recognise right of use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### ***Inventory***

Inventories are valued at the lower of cost and net realisable value on a FIFO basis. Cost comprises purchase price plus associated freight and duty costs for imported goods. Inventories are regularly assessed for evidence of impairment. Where such evidence is identified, a provision is recognised to reduce the value of inventories to its selling price after incurring any future costs to sell.

### ***Cash and cash equivalents***

Cash and cash equivalents include cash on hand and with banks, as well as any deposits made with financial institutions with a maturity period of less than three months from the date of deposit. Cash and cash equivalents also includes amounts received from WineBank customers which are not restricted and as such are presented as cash and cash equivalents.

### ***Financial instruments***

#### ***Recognition, initial measurement and derecognition***

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### ***Classification and subsequent measurement of financial assets***

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- Financial assets at amortised cost
- Financial assets/liabilities held at fair value through profit or loss (FVTPL)

#### ***Financial assets at amortised cost***

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

The Group recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL on trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

All income and expenses relating to financial assets that are recognised in the Consolidated Statement of Comprehensive Income are presented within finance costs or finance income, except for impairment of trade receivables which is presented within other administrative expenses.

#### ***Classification and subsequent measurement of financial liabilities***

The Group's financial liabilities include trade and other payables, accruals and contract liabilities, loans and borrowings and derivative financial instruments.

Financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried at fair value with gains or losses recognised in the Consolidated Statement of Comprehensive Income.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in Consolidated Statement of Comprehensive Income are included within finance costs or finance income.

### *Derivative financial liabilities*

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each reporting date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the Consolidated Statement of Comprehensive Income immediately. A derivative is presented as a non-current asset or non-current liability if the Group has an unconditional right to defer payment beyond 12 months. Otherwise derivatives are presented as current assets or liabilities.

### *Borrowing*

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis through the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

### **Exceptional items**

The Group presents certain items as 'exceptional' on the Statement of Comprehensive Income in arriving at operating profit. These are items which in management's judgement need to be disclosed separately by virtue of their size, nature and occurrence.

### **Employee benefits**

The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

#### *(i) Short-term benefits*

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

#### *(ii) Defined contribution pension plans*

The Group operates a number of country-specific defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

#### *(iii) Share-based payments*

A transaction is accounted for as a share-based payment where the Group receives services for employees, Directors or third parties and pays for these in shares or similar equity instruments.

The Group makes equity-settled share-based payments to certain employees and Directors. Equity-settled share-based schemes are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant, measured by use of an appropriate valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the period services are received, based on the Group's estimate of shares that will eventually vest. Share options are forfeited when an employee ceases to be employed by the Group unless determined to be a 'Good Leaver'. A 'Good Leaver' is a participant who ceases employment by reason of death, injury, ill-health or disability.

The Group has discretion to recover the employer's National Insurance liability from the employee. For the current active schemes the Group has chosen to do so.

### **Merger reserve**

The merger reserve was created during the prior period as a result of the share for share exchange under which Virgin Wines UK plc became the Parent undertaking prior to the IPO. Under merger accounting principles, the assets and liabilities of the subsidiaries were consolidated at book value in the Group financial statements and the consolidated reserves of the Group were adjusted to reflect the statutory share capital, share premium and other reserves of the Company as if it had always existed, with the difference presented as the merger reserve.

### **Retained earnings**

Retained earnings includes all current and prior period retained profits and losses, including foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities.

All transactions with owners of the Parent are recorded separately within equity.

Dividends are recognised when approved by the Group's shareholders or, in the case of interim dividends, when the dividend has been paid.

In preparing these financial statements, the Directors have made the following key judgements:

#### **Goodwill impairment assessment (note 15)**

At each reporting date, the Group tests goodwill for impairment in accordance with the requirements of IAS 36. The recoverable amount of the Group's single cash-generating unit (CGU) is determined by calculating its value in use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the single CGU and to use a suitable discount rate in order to calculate their present value. The value in use is then compared to the total of the relevant assets and liabilities of the CGU. See note 15 for details of the test for impairment and the relevant key assumptions.

#### **Revenue recognition**

In determining the appropriate amount of revenue to be recognised for WineBank sales when applying the accounting policy set out in note 2 above, the Directors make key estimates in relation to the amount of breakage (to reflect their expectation of customers who will not exercise all of their rights to future discounts) and the total transaction price relating to existing and future orders.

#### **Assessment of carrying values of plc company investments and amounts due from Group undertakings**

In relation to the plc company's investments in subsidiaries, the Directors are required to assess whether there are any indicators of impairment at each reporting date. All relevant potential indicators are considered, including the performance of the underlying trading subsidiary and the results of the Group's impairment assessment performed as at the same date as described above. The Directors exercise their judgement in determining whether any such indicators exist. Where an indicator of impairment is identified in relation to the company's investments or intercompany receivable balances, a full impairment review is performed. The Directors performed their assessment and concluded that no impairment indicators existed at 1 July 2022 and, as such, a full impairment review over the company's investments in subsidiaries and intercompany receivables was not performed.

In relation to the amounts due from Group undertakings, the Directors are required to assess their carrying amount for any impairment using the expected credit losses ("ECL") model. As set out in note 5 to the company financial statements, the amounts owed by Group undertakings are unsecured, interest free and repayable on demand. Consistent with the ECL model, the Directors have assessed the carrying amount for impairment on the assumption that repayment of the amounts were demanded at the reporting date. The Directors, having determined that the borrower had insufficient highly liquid resources at the reporting date, considered the expected manner of recovery and recovery period of these loans (the company's 'recovery scenarios'). The Directors determined that the only non-trivial recovery scenario would be realised by way of a dividend distribution by the Group's trading subsidiary, Virgin Wine Online Limited. The Directors, amongst other factors, considered the ability and intent of the subsidiary to make such a distribution if required, and ultimately determined that any reduction in the carrying amount of these receivables would be inconsequential to the company's financial statements. On that basis, no ECL provision has been recognised.

### **4 Segmental reporting**

IFRS 8 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 level of aggregation of results reported to and assessed by the CODM supports that there are not operating segments smaller than the business as a whole, there is only one operating segment, which comprises all of the operations of the Group. Performance of this operating segment is assessed on revenue and Adjusted EBITDA (being operating profit excluding 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 the segment. Adjusted items are not allocated to the operating segment as this reflects how they are reported to the Board.

### **5 Revenue**

The Directors have considered the requirement of IFRS 15 with regards to disaggregation of revenue and do not consider this to be required as the Group has only one operating segment which is the sale of alcohol.

There is one geographical market being the UK, all revenue streams having similar recognition policies and whilst the Group provides services, Management do not believe such analysis would provide meaningful information for users of the financial statements.

There were no major customers that individually accounted for more than 10% of total revenues (2021: no customers).

### **6 Exceptional items**

Exceptional items relate to legal and professional fees associated with the Group's admission to AIM on 2 March 2021. These costs are deemed exceptional due to their size and non recurring nature.

### **7 Operating profit**



Operating profit is stated after charging/(crediting):

	1 July 2022 £'000	2 July 2021 £'000
Inventory charged to cost of sales	43,060	45,616
Depreciation (note 16)	139	91
Depreciation of right of use asset (note 17)	502	447
Employee benefit expenses	7,660	7,534
Net exchange gains (including movements on fair value through profit and loss derivatives)	(33)	(125)
Movement in inventory provision	38	118
Intangible asset amortisation (note 15)	322	294
Auditors' remuneration:		
– for the audit of the group financial statements	187	110
– for the audit of the subsidiary financial statements	–	65
– non audit fees (tax compliance services)	11	10
– non audit fees (tax advice)	–	59

## 8 Staff costs

	1 July 2022 £'000	2 July 2021 £'000
Staff costs (including Directors) consist of:		
Wages and salaries	6,477	6,502
Social security costs	707	645
Other pension costs	476	387
	7,660	7,534

The amount recognised in the Consolidated Statement of Comprehensive Income as an expense in relation to the Group's defined contribution schemes is £476,000 (2021: £387,000).

The monthly average number of employees (including Directors) during the period was as follows:

By function	1 July 2022 Number	2 July 2021 Number
Sales	164	155
Management and administrative	36	32
	200	187

The majority of employees are eligible to join the defined contribution pension plan.

## 9 Key management personnel

	1 July 2022 £'000	2 July 2021 £'000
Short term employee benefits	669	510
Post employment benefits	31	44
	700	554

During the period, retirement benefits were accruing to 2 Directors (2021: 2) in respect of defined contribution pension schemes. Key management personnel include only the Directors and as such no further disclosures in respect of compensation are given. Additional analysis can be found in the Remuneration Committee report.

## 10 Share-based payments

In the 52 week period ended 1 July 2022 the Group operated an equity-settled share-based payment plan as described below. The charge in the period attributed to the plan was £89,000 (2021: £6,000).

Under the Virgin Wines UK plc Long-Term Incentive Plan, the Group gives awards to Directors and senior staff. Performance share awards (PSA) are granted subject to the achievement of a pre-agreed revenue and net profit figure for the financial year of the Group, three financial years subsequent to the date of the award. Restricted share awards (RSA) are subject to underpin conditions also based on pre-agreed revenue and net profit targets for the financial year of the Group, three financial years subsequent to the date of the award. These shares vest after the delivery of the audited revenue and profit figure for the relevant financial year has been announced.

Awards are granted under the plan for no consideration and carry no dividend or voting rights. Awards are exercisable at the nominal share value of £0.01.

Awards are forfeited if the employee leaves the Group before the awards vest, except under circumstances where the employee is considered a 'Good Leaver'.

	December 2021 Awards		June 2021 Awards	
	PSA	RSA	PSA	RSA
Share price at grant	193p	193p	237p	237p
Number of shares	696,393	87,058	355,804	77,484
	Number of Shares 1 July 2022		Number of Shares 2 July 2021	
Outstanding at start of period	433,288		—	
Granted during the period	783,451		433,288	
Forfeitures in the period	(12,522)		—	
<b>Outstanding at end of period</b>	<b>1,204,217</b>		<b>433,288</b>	

The Company granted its first share options on 23 June 2021. The second share options were granted on 6 December 2021. The awards outstanding at 1 July 2022 have a weighted average remaining contractual life of 2.0 years (2021: 2.3 years).

The fair value at grant date was determined with reference to the share price at grant date, as there are no market-based performance conditions and the expected dividend yield is 0%. Therefore there was no separate option pricing model used to determine the fair value of the awards.

## 11 Finance income

	1 July 2022 £'000	2 July 2021 £'000
Bank interest	31	5

## 12 Finance costs

	1 July 2022 £'000	2 July 2021 £'000
Investor loans	—	828
Interest payable for lease liabilities	134	135
	<b>134</b>	<b>963</b>

## 13 Taxation

	1 July 2022 £'000	2 July 2021 £'000
Analysis of charge for the period		
Current tax		
Total current tax	75	—
Deferred tax		
Origination and reversal of timing differences	857	933

Adjustment in respect of prior period	(82)	—
Effect of changes in tax rates	(103)	—
Total deferred tax	672	933
Tax charge on profit on ordinary activities	747	933

**Factors that may affect future tax charges:**

On 3 March 2021, the 2021 UK Budget announced an increase to the corporation tax rate from 19% to 25% effective from April 2023. This was substantively enacted on 24 May 2021.

Deferred taxes at the balance sheet date have therefore been measured using the effective tax rate (25%).

The tax assessed for the period is lower (2021: higher) than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

	1 July 2022 £'000	2 July 2021 £'000
Profit before tax	5,098	1,678
Profit before tax at the standard rate of corporation tax in the UK of 19% (year ended 2 July 2021 – 19%)	969	319
Effects of:		
Expenses not deductible for tax purposes	—	667
Tax rate change	(103)	—
Adjustment in respect of prior period	(82)	—
Other permanent differences	(37)	(53)
Total tax charge for the period	747	933

For further information on deferred tax balances see note 18.

## 14 Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of Ordinary Shares in issue during the period.

The calculation of basic profit per share is based on the following data:

### Statutory EPS

	1 July 2022	2 July 2021
<b>Earnings (£'000)</b>		
Profit after tax	4,351	745
Dividend attributed to preference shareholders	–	(1,006)
Earnings/(loss) for the purpose of basic earnings per share	4,351	(261)
<b>Number of shares</b>		
Weighted average number of shares for the purposes of basic earnings per share	55,837,560	50,634,884
Weighted average number of shares for the purposes of diluted earnings per share	55,945,374	50,643,194
<b>Basic earnings/(loss) per ordinary share (pence)</b>	7.8	(0.5)
<b>Diluted earnings/(loss) per ordinary share (pence)</b>	7.8	(0.5)

### Adjusted EPS

The calculation of adjusted earnings per share is based on the after tax adjusted operating profit after adding back certain costs as detailed in the table below. Adjusted earnings per share figures are given to exclude the effects of exceptional items and pre restructuring finance costs, all net of taxation, and are considered to show the underlying performance of the Group.

The 2021 weighted average number of shares uses the number of shares in issue post Admission on 2 March 2021. This has been applied retrospectively to the number of shares in issue at 4 July 2020 and the prior period metric has been restated to ensure that the adjusted earnings per share figures are comparable over the two periods.

	1 July 2022	2 July 2021
<b>Earnings (£'000)</b>		
Earnings/(loss) for the purpose of basic earnings per share	4,351	(261)
Preference dividend	–	1,006
Exceptional items	–	3,512
Private equity finance cost	–	963
Tax effect of above	–	(183)
Earnings for the purpose of adjusted earnings per share	4,351	5,037
<b>Number of shares</b>		
Weighted average number of shares for the purposes of basic earnings per share	55,837,560	55,837,560
Weighted average number of shares for the purposes of diluted earnings per share	55,945,374	55,845,869
<b>Basic earnings per ordinary share (pence)</b>	7.8	9.0
<b>Diluted earnings per ordinary share (pence)</b>	7.8	9.0

## 15 Intangible assets

	Goodwill £'000	Software £'000	Total £'000
<i>Cost</i>			
At 4 July 2020	9,623	2,085	11,708

Additions	–	103	103
At 2 July 2021	9,623	2,188	11,811
Additions	–	593	593
<b>1 July 2022</b>	<b>9,623</b>	<b>2,781</b>	<b>12,404</b>
<i>Accumulated amortisation and impairment</i>			
At 4 July 2020	–	675	675
Amortisation charge	–	294	294
At 2 July 2021	–	969	969
Amortisation charge	–	322	322
<b>1 July 2022</b>	<b>–</b>	<b>1,291</b>	<b>1,291</b>
<i>Net book value</i>			
<b>1 July 2022</b>	<b>9,623</b>	<b>1,490</b>	<b>11,113</b>
2 July 2021	9,623	1,219	10,842

Included within Software is £0.6m (2021: £0.8m) net book value in relation to development of the Mantiki core IT platform, which has a remaining amortisation period of three (2021: four) years.

Amortisation is charged to administrative expenses in the Consolidated Statement of Comprehensive Income. Software is amortised over its estimated useful economic life.

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

The goodwill figure has been derived from the acquisition of 100% of the share capital of Virgin Wine Online Limited by Virgin Wines Holding Company Limited in 2013 and as such there is only one cash-generating unit.

The Group has estimated the value in use of the business as a cash generating unit based on a discounted cashflow model which adjusts for risks associated with the assets. The discount rate applied is a pre-tax rate of 11.5% (2021: 9.1%).

The forecasts for the business are based over a 5-year projection period, use past experience and apply a forecast annual growth rate. The key assumptions used in the discounting cashflow were the sales and EBITDA figures (based on board approved plans), the future growth rate (including long-term growth rate of 2%) and the discount rate.

The Directors have assessed the sensitivity of the impairment test to reasonably possible changes in the key assumptions described above, and noted that sufficient headroom existed in all cases.

## 16 Property, plant and equipment

	Leasehold property £'000	Computer hardware & warehouse equipment £'000	Fixtures & fittings £'000	Total £'000
<i>Cost</i>				
At 4 July 2020	20	549	233	802
Additions	–	95	44	139
Disposals	–	(13)	–	(13)
At 2 July 2021	20	631	277	928
Additions	–	268	108	376
<b>At 1 July 2022</b>	<b>20</b>	<b>899</b>	<b>385</b>	<b>1,304</b>
<i>Accumulated depreciation</i>				
At 4 July 2020	20	460	206	686
Charge for the period	–	68	23	91
Disposals	–	(12)	–	(12)
At 2 July 2021	20	516	229	765
Charge for the period	–	96	43	139
<b>At 1 July 2022</b>	<b>20</b>	<b>612</b>	<b>272</b>	<b>904</b>
<i>Net book value</i>				
<b>At 1 July 2022</b>	<b>–</b>	<b>287</b>	<b>113</b>	<b>400</b>
At 2 July 2021	–	115	48	163

Depreciation is charged to administrative expenses in the Consolidated Statement of Comprehensive Income.

## 17 Right of use assets

The Group leases a number of properties across the UK, in Norwich, Preston and Bolton.

On 14 June 2022 the Group extended the lease on its offices in Norwich to 24 September 2032. The lease has a break clause on 24 September 2026 and on the 24 September 2030.

The Group entered into a lease for a warehouse in Preston on 19 October 2016 under a 10 year lease term ending on 18 October 2026. The Group sometimes negotiates break clauses in its property leases. The factors considered in deciding to negotiate a break clause include:

- the length of the lease term and,
- whether the location represents a new area of operations for the group. The Preston Warehouse lease has a second break clause on 18 October 2024.

The Group entered into a lease for a bulk storage facility in Bolton on 1 September 2020 under a 10 year lease term ending on 31 August 2030. The first break clause is in is on 31 August 2026.

For all of the property leases, the periodic rent is fixed over the lease term.

The Group also leases certain items of plant and equipment. Leases of plant and equipment comprise fixed payments over the lease terms.

The full retrospective approach was adopted to calculate the cost of the right-of-use asset.

	Leasehold property £'000	Computer hardware & warehouse equipment £'000	Total £'000
<i>Cost</i>			
At 4 July 2020	2,423	95	2,518
Additions	1,779	35	1,814
Disposals	–	(26)	(26)
At 2 July 2021	4,202	104	4,306
Additions	858	39	897

<b>At 1 July 2022</b>	<b>5,060</b>	<b>143</b>	<b>5,203</b>
<i>Accumulated depreciation</i>			
At 4 July 2020	983	35	1,018
Charge for the period	432	15	447
Disposals	—	(26)	(26)
At 2 July 2021	1,415	24	1,439
Charge for the period	476	26	502
<b>At 1 July 2022</b>	<b>1,891</b>	<b>50</b>	<b>1,941</b>
<i>Net book value</i>			
<b>At 1 July 2022</b>	<b>3,169</b>	<b>93</b>	<b>3,262</b>
At 2 July 2021	2,787	80	2,867

### **Lease liability**

	Leasehold property	Computer hardware & warehouse equipment	Total
	£'000	£'000	£'000
At 4 July 2020	1,630	61	1,691
Additions	1,779	35	1,814
Interest expense	132	3	135
Lease payments	(421)	(17)	(438)
At 3 July 2021	3,120	82	3,202
Additions	858	39	897
Interest expense	130	4	134
Lease payments	(599)	(29)	(628)
<b>At 1 July 2022</b>	<b>3,509</b>	<b>96</b>	<b>3,605</b>

### **18 Deferred tax**

	1 July 2022 £'000	2 July 2021 £'000
Brought forward	1,100	2,033
Utilisation through Profit and loss account	(672)	(933)
Carried forward	428	1,100

The balance comprises temporary differences attributable to:

	Fixed asset differences £'000	Other timing differences £'000	Tax losses £'000	Total £'000
Deferred tax asset at 4 July 2020	703	11	1,319	2,033
Recognised in the period through profit and loss	(110)	4	(827)	(933)
Deferred tax asset at 3 July 2021	593	15	492	1,100
Recognised in the period through profit and loss	(175)	(5)	(492)	(672)
<b>Deferred tax asset at 1 July 2022</b>	<b>418</b>	<b>10</b>	<b>–</b>	<b>428</b>

The Directors consider that sufficient future taxable profits will be available and as such deferred tax assets have been recognised in full for Virgin Wine Online Limited.

A deferred tax asset has been recognised on losses in Virgin Wines Holding Company Limited to the extent to which the losses can be utilised through Group relief. The deferred tax asset not recognised in Virgin Wines Holding Company is £0.9m (2021: £0.7m).

The deferred tax asset is expected to be utilised in more than one year. Deferred tax is calculated based on the expected tax rate in force when the timing differences reverse of 25% (2021: 19%).

## 19 Inventories

	1 July 2022 £'000	2 July 2021 £'000
Finished goods for resale	8,653	7,239

There is no difference between the replacement cost of stocks and carrying value (2 July 2021: £nil). Inventories are stated after provision for impairment of £293,000 (2021: £255,000).

## 20 Trade and other receivables

	1 July 2022 £'000	2 July 2021 £'000
Amounts falling due within one year:		
Gross carrying amount – trade receivables	946	458
Loss allowance	(13)	(13)
Net carrying amount – trade receivables	933	445
Taxation and social security	–	90
Prepayments	1,331	1,017
Other receivables	213	–
	<b>2,477</b>	<b>1,552</b>

Trade receivables are considered past due once they have passed their contracted due date. Trade receivables and contract assets are assessed for impairment based upon the expected credit losses model.

The Group applies the IFRS 9 Simplified Approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and aging. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The expected loss rates are based on the Group's historical credit losses experienced over the three years prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

The average credit period on sales is 30 days after the invoice has been issued. No interest is charged on outstanding trade receivables.

At 1 July 2022 there were 3 (2 July 2021: 4) customers who owed in excess of 10% of the total trade debtor balance. These customers were operating within their agreed credit terms and the Directors do not foresee an increased credit risk associated with these customers. As such no provision for impairment has been recognised on these balances.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 60 days past due. There are no amounts outstanding on financial assets that were written off during the reporting period and which are still subject to enforcement activity. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.



Other receivables relate to uncleared sales receipts from customers, processed in the normal course of business. The maturity analysis of trade receivables and other debtors is shown below:

	1 July 2022			2 July 2021		
	Gross £'000	Provision £'000	Net £'000	Gross £'000	Provision £'000	Net £'000
<b>Trade receivables and other debtors</b>						
Not yet due	823	–	823	442	–	442
Overdue	123	(13)	110	16	(13)	3
	<b>946</b>	<b>(13)</b>	<b>933</b>	<b>458</b>	<b>(13)</b>	<b>445</b>

Movements in the impairment allowance for trade receivables and contract assets are as follows:

	1 July 2022 £'000	2 July 2021 £'000
Opening provision for impairment of trade receivables and contract assets	13	47
Receivables written off during the period as irrecoverable	–	(47)
Increase during the period	–	13
Carried forward	13	13

## 21 Cash and cash equivalents

Included in Cash and cash equivalents is a balance of £7.4m (2021: £7.3m) relating to advance payments received from WineBank customers. The corresponding creditor to customers is included in contract liabilities.

£2.0m of the cash balance is held on 95 day notice at a preferential interest rate of 1.45% (2021: £2.0m at 0.45%).

## 22 Trade and other payables

	1 July 2022 £'000	2 July 2021 £'000
Trade payables	2,810	4,174
Taxation and social security	2,928	2,594
Contract liabilities	7,736	8,168
Accruals and other creditors	1,976	3,378
	<b>15,450</b>	<b>18,314</b>

The Directors consider the fair value of creditors to be equal to the book value given their short term nature.

## 23 Provisions

### Leasehold dilapidation provision

	1 July 2022 £'000	2 July 2021 £'000
Brought forward	275	238
Charged in income statement	15	37
Carried forward	<b>290</b>	<b>275</b>

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease as a result of general 'wear and tear'. The cost is recognised as an expense in the Consolidated Statement of Comprehensive Income and accrued for over the term of the lease, on the basis that the 'wear and tear' increases over the period of the lease. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

### Maturity analysis for provisions

Dilapidation provisions are expected to mature at the end of the lease term as follows:

	1 July 2022 £'000	2 July 2021 £'000
2–5 years	248	—
Over 5 years	42	275
	<b>290</b>	<b>275</b>

## 24 Financial instruments and financial risk management

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables;
- cash and cash equivalents;
- trade and other payables; and
- lease liabilities.

The existence of these financial instruments exposes the Group to the following financial risks:

- credit risk;
- liquidity risk;
- foreign currency risk; and
- capital management.

The Group's financial instruments may be analysed as follows:

	1 July 2022 £'000	2 July 2021 £'000
Trade and other receivables	1,146	445
Cash and cash equivalents	15,070	15,660
<b>Financial assets measured at amortised cost</b>	<b>16,216</b>	<b>16,105</b>
Derivative financial assets measured at fair value through profit or loss	16	—
<b>Financial assets measured at fair value through profit and loss</b>	<b>16</b>	<b>—</b>
Derivative financial liabilities measured at fair value through profit or loss	—	(5)
<b>Financial liabilities measured at fair value through profit and loss</b>	<b>—</b>	<b>(5)</b>
Trade and other payables, excluding non-financial liabilities	(4,787)	(7,552)
Lease liabilities	(3,605)	(3,202)
<b>Financial liabilities measured at amortised cost</b>	<b>(8,392)</b>	<b>(10,754)</b>

Financial assets which are debt measured at amortised cost comprise trade receivables, other debtors and cash and cash equivalents.

Financial assets measured at fair value through profit and loss represent the Group's derivative financial instruments, being foreign exchange forward contracts.

Financial liabilities measured at amortised cost comprise trade payables, accruals and other creditors, lease liabilities and loans and borrowings.

### Credit risk

The Group's maximum exposure to credit risk is limited to the carrying amount of the financial assets recognised at the reporting date, as summarised below:

	1 July 2022 £'000	2 July 2021 £'000
Financial assets measured at amortised cost	16,216	16,105
Financial assets measured at fair value through profit and loss	16	—

The Group's cash and cash equivalents are all held on deposit with leading international banks and hence the Directors consider the credit risk associated with such balances to be low.

The Group provides credit to customers in the normal course of business. The principal credit risk therefore arises from the Groups trade receivables. In order to manage credit risk the Directors set credit limits for corporate customers based on a combination of payment history, credit references and a financial review of the business. Credit limits are reviewed on a regular basis in conjunction with debtor ageing and payment history. Historic credit losses of the Group have been negligible as referenced in note 20.

Details of the trade receivables impairment policy can be found in note 20.

### **Liquidity risk**

Liquidity risk arises from the Group's management of working capital and the amount of funding required for growth. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group manages its cash and borrowing requirements through preparation of annual cash flow forecasts reflecting known commitments and anticipated projects in order to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of the Group. Borrowing facilities are arranged as necessary to finance requirements.

The following table shows the maturities of gross undiscounted cash flows of financial liabilities as at 1 July 2022:

	Carrying amount £'000	Contractual cash flows £'000	<1 year £'000	1–5 years £'000	>5 years £'000
Non-derivative financial liabilities:					
Trade and other payables	4,786	4,786	4,786	–	–
Lease liabilities	3,605	4,384	629	2,284	1,471
	8,391	9,170	5,415	2,284	1,471
Derivative financial assets:					
Foreign currency forwards					
(Inflow)		(1,463)	(1,463)	–	–
Outflow		1,447	1,447	–	–
	(16)	(16)	(16)	–	–
	8,375	9,154	5,399	2,284	1,471

Contractual maturities of financial liabilities as at 2 July 2021 are as follows:

	Carrying amount £'000	Contractual cash flows £'000	<1 year £'000	1–5 years £'000	>5 years £'000
Non-derivative financial liabilities:					
Trade and other payables	7,552	7,552	7,552	–	–
Lease liabilities	3,202	3,753	621	2,067	1,065
	10,754	11,305	8,173	2,067	1,065
Derivative financial liabilities:					
Foreign currency forwards					
(Inflow)		(5,082)	(5,082)	–	–
Outflow		5,087	5,087	–	–
	5	5	5	–	–
<b>Total</b>	<b>10,759</b>	<b>11,310</b>	<b>8,178</b>	<b>2,067</b>	<b>1,065</b>

### Foreign currency risk

Foreign exchange risk is the risk that movements in exchange rates affect the profitability of the business. The Group purchases goods from overseas suppliers and is invoiced in currencies other than GBP. It is therefore exposed to movements in the GBP exchange rate against the currencies in which suppliers invoice the Group. The Group monitors exchange rate movements closely and ensures adequate funds are maintained in appropriate currencies to meet known liabilities.

The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables. At 1 July 2022, the outstanding contracts all mature within 6 months (2021: 6 months) of the period end. The Group is committed to buy Euro, Australian Dollars and US Dollars (2021: Euro, Australian Dollars and US Dollars) with a Sterling value of £1.4m (2021: £5.1m).

The forward currency contracts are measured at fair value, by reference to the spot rate. This is a level 1 valuation in that the spot rate is a directly observable input.

The Group's exposure to foreign currency risk at the end of the respective reporting period was as follows:

	1 July 2022 £'000	2 July 2021 £'000
AUS	197	15
EUR	–	1,493
USD	140	56
<b>Total</b>	<b>337</b>	<b>1,564</b>

Liabilities include the monetary assets and liabilities of subsidiaries denominated in foreign currency.

The Group is exposed to foreign currency risk on the relationship between the functional currencies of Group companies and the other currencies in which the Group's material assets and liabilities are denominated. The table below summarises the effect on reserves had the functional currencies of the Group weakened or strengthened against these other currencies, with all other variables held constant.

	1 July 2022 £'000	2 July 2021 £'000
Loss on 10% strengthening of functional currency	(103)	(320)
Gain on 10% weakening of functional currency	126	391

### Capital risk management

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

To meet these objectives, the Group reviews the budgets and forecasts on a regular basis to ensure there is sufficient capital to meet the needs of the Group.

The capital structure of the Group consists of shareholders' equity as set out in the Consolidated Statement of Changes in Equity. All working capital requirements are financed from existing cash resources.

	1 July 2022 £'000	2 July 2021 £'000
Net cash	11,465	12,458
Equity	22,073	17,627

## 25 Share capital

	1 July 2022 £'000	2 July 2021 £'000
<b>Authorised, Allotted, called up and fully paid</b>		
55,837,560 (2021: 55,837,560) Ordinary Shares of £0.01 each	558	558

Virgin Wines UK plc was incorporated on 1 February 2021 with authorised, allocated and fully paid share capital of 5,000,000 Ordinary Shares of £0.01 each.

Prior to the transaction referred to in the next paragraph, the previous ultimate Parent undertaking, Virgin Wines Holding Company Limited, issued 1,604,900 new shares to existing shareholders. These shares form part of the share capital of Virgin Wines Holding Company Limited which was subject to the transaction referred to below.

On 2 March 2021 the Group underwent a reorganisation in which Virgin Wines UK plc became the ultimate Parent undertaking of the Group. As part of the reorganisation 6,615,413 new Ordinary Shares of £0.01 each were created.

The new shares were fully paid and will rank pari passu in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions.

£0.98m of costs in relation to the issue of new shares have been charged to the share premium account. 3,660,100 (2021: 3,660,100) Ordinary Shares of £0.01 are held within the Group by the Employee Benefit Trust.

The Directors have not approved an interim dividend and do not recommend the payment of a final dividend (2021: interim £1.36m).

## 26 Analysis and reconciliation of net cash

This section sets out an analysis of the movements in net cash, which includes cash and cash equivalents and liabilities arising from financing activities.

	4 July 2020 £'000	New Leases £'000	Other non-cash changes £'000	Cash flow £'000	2 July 2021 £'000
Cash at bank and in hand	19,904	–	–	(4,244)	15,660
Lease liabilities	(1,691)	(1,816)	(135)	440	(3,202)
Borrowings	(11,976)	–	(10)	11,986	–
<b>Net cash</b>	<b>6,237</b>	<b>(1,816)</b>	<b>(145)</b>	<b>8,182</b>	<b>12,458</b>
<b>Decrease in cash in the period</b>					<b>(4,244)</b>
New leases					(1,816)
Lease interest					(135)
Amortisation of capitalised deal fees					(10)
Lease payments					440
Repayment of loan notes					11,986
Movement in net cash in the period					6,221
Net cash at 3 July 2020					6,237
At 2 July 2021					12,458

	3 July 2021 £'000	New Leases £'000	Other non-cash changes £'000	Cash flow £'000	1 July 2022 £'000
Cash at bank and in hand	15,660	–	–	(590)	15,070
Lease liabilities	(3,202)	(897)	(134)	628	(3,605)
<b>Net cash</b>	<b>12,458</b>	<b>(897)</b>	<b>(134)</b>	<b>38</b>	<b>11,465</b>
<b>Decrease in cash in the period</b>					<b>(590)</b>
New Leases					(897)
Lease interest					(134)
Lease payments					628
Movement in net cash in the period					(993)
Net cash at 2 July 2021					12,458
At 1 July 2022					11,465

## 27 Related party disclosures

During the period ended 1 July 2022, sales of £618,367 (2021: £324,122) were made by Virgin Wines UK plc to Virgin Wine Online Limited. These have been eliminated on consolidation.

Balances between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. There was no intercompany dividend in the period ended 1 July 2022 from Virgin Wine Online Limited (2021: £1,654,239). Details of remuneration of key management personnel can be found in note 8.

As part of the Group restructuring the following loan notes, issued by Virgin Wines Holding Company Limited to its shareholders, were repaid on 2 March 2021:

Mobeus Equity Partners LLP totalling £8,199,736 repaid. Interest of £538,238 was charged in the period ended 2 July 2021. Connection Capital LLP £3,390,479 repaid. Interest of £250,338 was charged in the period ended 2 July 2021. Management team £395,871 repaid. Interest of £29,229 was charged in the period ended 2 July 2021.

During the period the Group paid £41,397 (2021: £37,058) in monitoring fees and expenses to Gresham House Asset Management Limited (formerly Mobeus Equity Partners LLP) and £nil (2021: £19,688) to Connection Capital LLP. At 1 July 2022 £4,500 (2021: £4,500) was due to Gresham House Asset management Limited.

During the period sales of £1,221 (2021: £6,511) were made to Mobeus Equity Partners LLP and sales of £3,242 (2021: £2,173) were made to Connection Capital LLP. At 1 July £852 (2021: £164) was due from Connection Capital LLP.

During the period sales of £20,499 (2021: £15,904) were made to LKB Enterprises Limited. At 1 July 2022 £3,440 (2021: £4,076) remaining outstanding from LKB Enterprises Limited.

## 28 Ultimate parent undertaking

In the opinion of the Directors, there is no single controlling party.

## 29 Events after the end of the reporting year

There have been no matters arising after the balance sheet date that would require disclosure in the financial statements.

## 30 Capital commitments and contingent liabilities

The Group has entered into an agreement for £0.3m for the new warehouse management system until 31 December 2024. There are no other capital commitments and no contingent liabilities not provided in the financial statements for the period ended and as at 1 July 2022.

## 31 Nature of each reserve

### **Share premium**

Amount subscribed for share capital in excess of nominal value.

### **Own shares reserve**

Shares held within the EBT (Employee Benefits Trust).

### **Merger reserve**

The difference between the nominal value of shares issued in exchange for the book value of assets acquired.

### **Share-based payment reserve**

The movements on share-based payments.

### **Retained earnings**

All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

## **Graeme Weir**

Chief Financial Officer

26 October 2022