



FY22 Annual Results

October 2022

A resilient, stable and *DISCIPLINED* business delivering outstanding quality, service and value



The year in review

Our **RESILIENT** and **ROBUST** business model has continued to deliver in rapidly changing times.

Five key pillars of focus:

- One. **Low-cost customer acquisition** delivering high levels of payback
- Two. A focus on delivering industry leading levels of profit
- Three. **High customer** and **sales retention rates** achieved through its subscription schemes
- Four. Driving efficiencies across the business with **disciplined cost control**
- Five. Maintaining a **strong Balance Sheet**

The year in review continued

Financial highlights

- » We have delivered **industry leading levels of profit** at 9% adj EBITDA
- » We maintained our **low cost**, highly disciplined approach to customer acquisition
- » We delivered 105k new customers at a **lower CPA than in FY21** (£13.22 v £13.49)
- » We **increased our market share** in from 6.1% to 8.4%
- » We continued to grow our premium subscription service, WineBank, with **membership up 8% YOY**
- » Revenue generated from WineBank customers **increased by 21% YOY**
- » Customers on subscription schemes **delivered 81% of total DTC revenue**
- » Cancellation rates on WineBank stayed broadly **in line with the previous year at just 16.7%**

In a very different, and challenging economic climate, we have **RETAINED THE VAST MAJORITY** of the spectacular growth witnessed during the Covid lockdowns.



The year in review continued

Operational highlights

- » The Commercial team delivered an **exciting new partnership** with **Moonpig** as well as 're-starting' our trading relationship with **LNER** and **Avanti WestCoast**, whilst adding **Great Western Railways** to our travel partners
- » **Our outstanding people** adapted superbly to the challenges of yet more change and pressure
- » We made **significant progress** delivering against our ESG objectives
- » We were voted '**Online Retailer of the Year**' at the Drinks Retailing Awards for the 3rd time in 6 years
- » We were also the recipients of the bronze award for '**Contact Centre of the Year**' at the UK wide National Contact Centre Awards



Group Income Statement

Disciplined approach ensuring the Group delivers profit in all market conditions

	Audited FY22 £'m	Audited FY21 £'m	Change £'m	Growth %
Revenue	69.2	73.6	-4.4	-6.0%
Gross Profit	21.7	23.3	-1.6	-6.9%
Gross Profit %	31.4%	31.6%	-0.2%	-0.8%
Operating expenses	15.5	16.3	-0.8	-4.9%
Adjusted EBITDA	6.2	7.0	-0.8	-11.4%
Exceptional costs (IPO fees)	0.0	3.5	-3.5	
Share based payments	0.1	0.0	0.1	
Amortisation and Depreciation	0.9	0.8	0.1	
Operating Profit	5.2	2.7	2.5	
Finance expense	0.1	1.0	-0.9	
Profit before tax	5.1	1.7	3.4	200.0%
Tax	0.7	0.9	-0.2	
Profit for the period	4.4	0.8	3.6	
Profit before tax and exceptional costs	5.1	5.2	-0.1	-2.0%
Basic and diluted (loss)/earnings per share (pence)	7.8	-0.5		

Non recurring IPO listing Fees



Online Drinks Retailer Of The Year
Winner - 2022, 2018 & 2017 Finalist - 2021, 2020 & 2019



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WINE EVEN BETTER**
PROUD TO BE OFFICIALLY
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Group Balance Sheet

- » Strong Balance Sheet and no debt
- » Net assets up £4.5m 25% to £22.1m
- » WineBank deposits FY22 £7.4 FY21 £7.3m held in ring fenced account and not used to fund the business

	Audited 1 July 2022 £'m	Audited 2 July 2021 £'m
ASSETS		
Non-current assets		
Intangible assets	11.1	10.8
Property, plant and equipment	0.4	0.2
Right of use assets	3.3	2.9
Deferred tax asset	0.4	1.1
Total Non-current assets	15.2	15.0
Current assets		
Inventories	8.7	7.2
Trade and other receivables	2.5	1.6
Derivative financial instruments	0.0	0.0
Cash and cash equivalents	15.1	15.7
Total current assets	26.2	24.5
Total assets	41.4	39.4
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	(15.9)	(18.3)
Derivative financial instruments	0.0	(0.0)
Lease liability	(0.5)	(0.5)
Total current liabilities	(15.9)	(18.8)
Non-current liabilities		
Provisions	(0.3)	(0.3)
Lease liability	(3.1)	(2.7)
Total non-current liabilities	(3.4)	(3.0)
Total liabilities	(19.3)	(21.8)
Net assets	22.1	17.6
Equity		
Share capital	0.6	0.6
Share premium	12.0	12.0
Own share reserve	(0.0)	(0.0)
Merger reserve	0.1	0.1
Share based payment reserve	0.1	(0.0)
Retained earnings	9.4	5.1
Total Equity	22.1	17.6



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Group Cash Flow

Ability to deploy cash to fund opportunities and de-risk

Cash generated used to accelerate investment in capex and working capital

CapEx - FY22 £1m / FY21 £0.2m

- » Warehouse layout and automation
- » New commercial sales portal
- » Gifting functionality
- » Security and resilience

Working capital

- » Increased inventory levels
- » Pulling forward purchasing to avoid supply delays

	Audited 1 July 2022 £'m	Audited 2 July 2021 £'m
Profit before taxation	5.1	1.7
Adjustments for:		
Depreciation and amortisation	1.0	0.8
Share based payment expense	0.1	
Net finance costs	0.1	1.0
Decrease/(increase) in trade and other receivables	(0.9)	1.0
Increase in inventories	(1.4)	(2.2)
(Decrease)/increase in trade and other payables	(2.9)	(3.6)
Net cash (used in)/generated from operating activities	(1.0)	(1.4)
Cash flows from investing activities		
Interest received	0.0	0.0
Purchase of intangible and tangible fixed assets	(1.0)	(0.2)
Net cash used in investing activities	(0.9)	(0.2)
Cash flows from financing activities		
Dividend paid	0.0	(1.4)
Interest on loans and borrowings	0.0	(1.0)
Repayment of borrowings	0.0	(12.0)
Share issue	0.0	12.1
Payment of lease liabilities	(0.5)	(0.3)
Payment of lease interest	(0.1)	(0.1)
Net cash used in financing activities	(0.6)	(2.6)
Net (decrease)/increase in cash and cash equivalents	(0.6)	(4.2)
Cash and cash equivalents at beginning of year	15.7	19.9
Cash and cash equivalents at end of year	15.1	15.7
	(0.6)	(4.2)
Cash and cash equivalents comprise:		
Cash at bank and in hand	15.1	15.7



Online Drinks Retailer Of The Year
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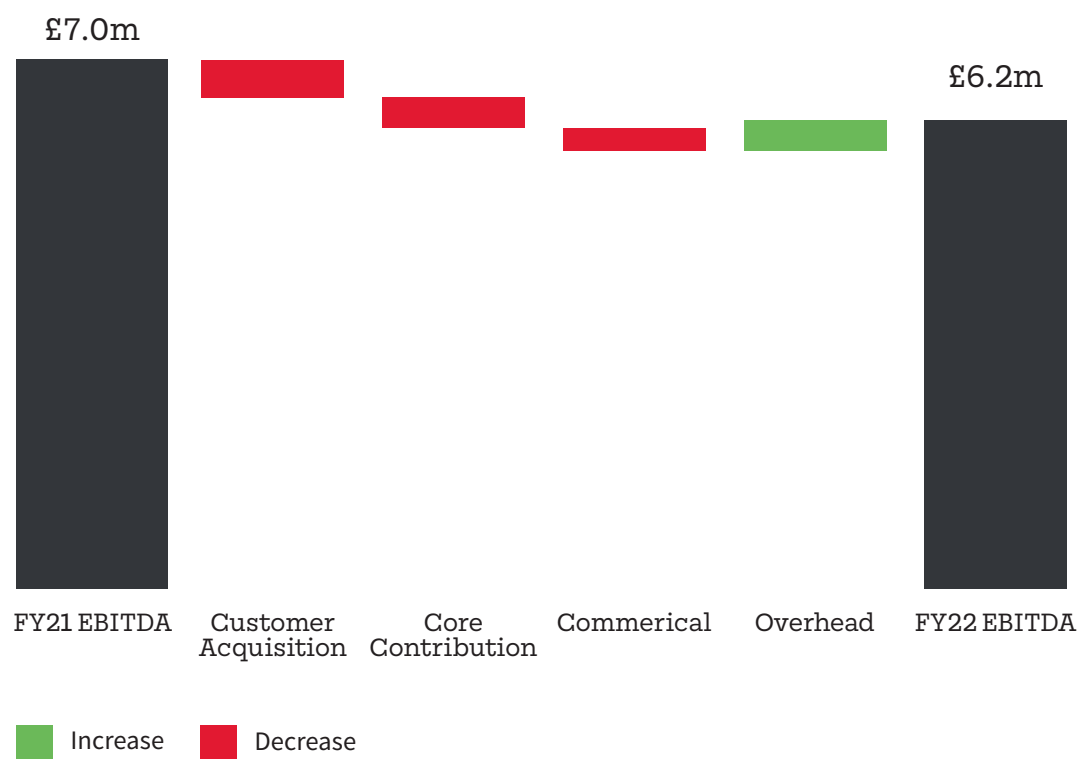


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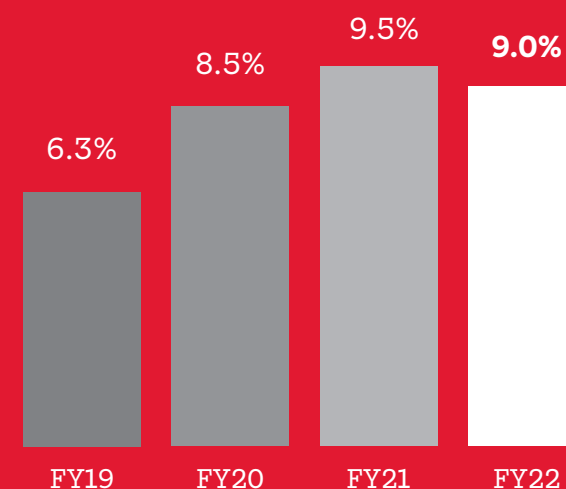
EBITDA bridge FY21-FY22

- » Increased investment in new customer acquisition
- » High level of discretionary variable cost enables the Group to manage margin and profitability in more challenging trading conditions



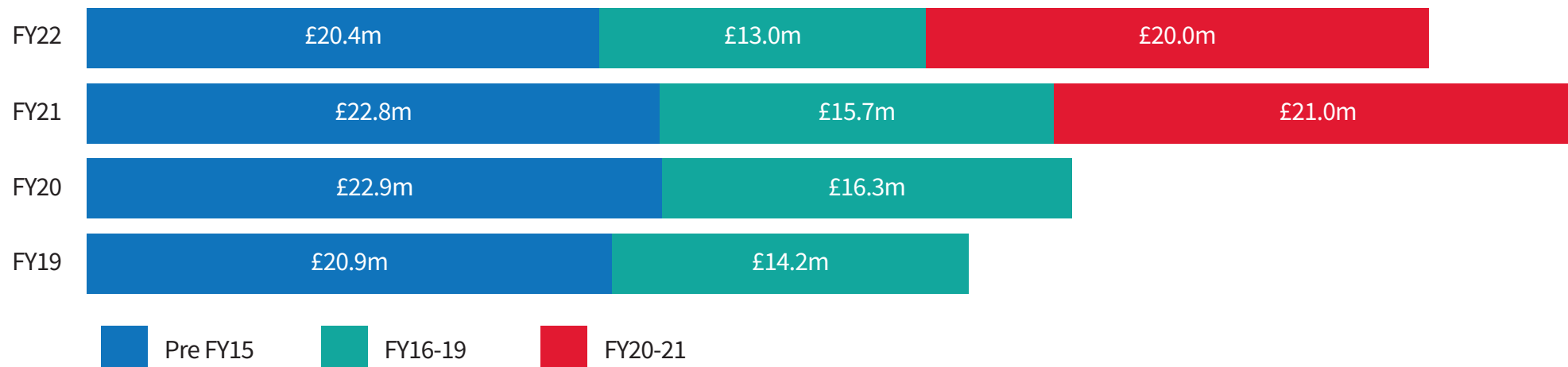
Industry leading EBITDA margins

Adjusted EBITDA margin

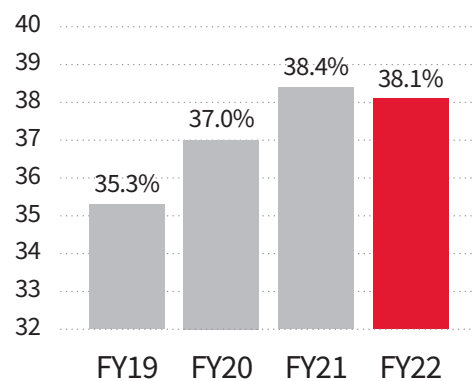


Key earnings drivers

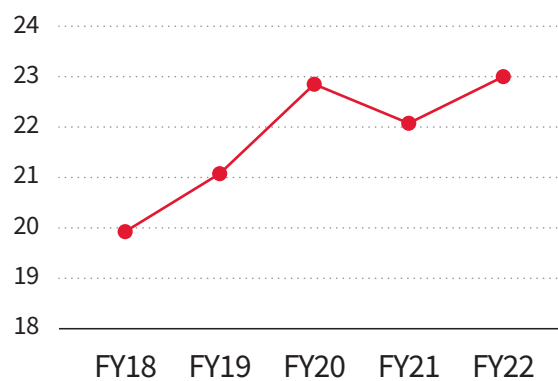
Revenue by cohort



Product margins - %

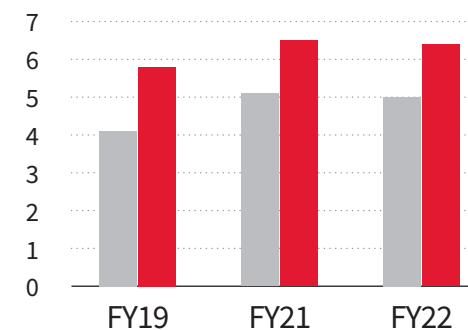


Repeat customer Net contribution - %



Payback - X return

5 years (grey) 10 years (red)



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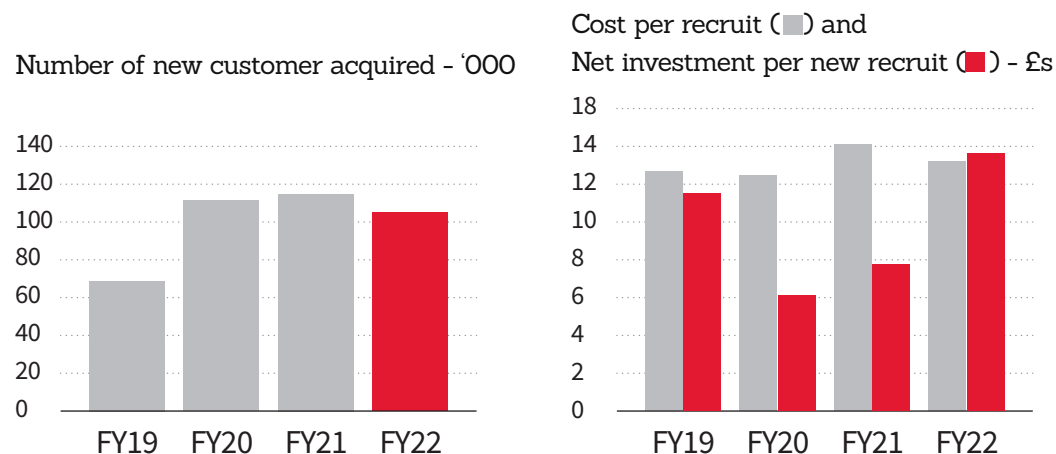


Customer acquisition

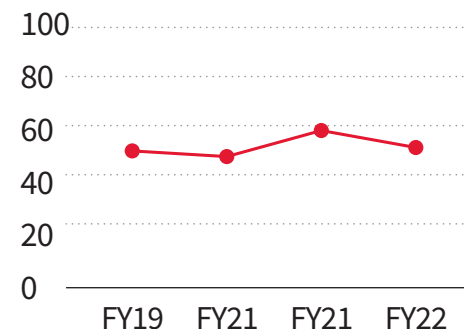
Highlights

- » **105k new** customers acquired
- » Cost per acquisition **£13.22**
- » Net cost per acquisition increased to £13.61 as market conditions became more challenging
- » **5-year payback maintained** at a very healthy 5x investment
- » **Conversion rate** for customers acquired onto **subscription schemes at 53%**
- » **59% of customers acquired onto WineBank**, 18% Wine Plan and 23% PAYG
- » Significant reduction in search volumes has mirrored changes in consumer behaviour

*A DISCIPLINED MODEL
driving high-quality,
low-cost recruits*



Conversion rate of new customers onto subscription schemes - %



Customer acquisition continued

Partnerships

- » Continued focus on the partnership channel **driving 55% of all new recruits**
- » Key partners include **British Gas, Rail Delivery Group, Currys** and **O2 Priority Moments**
- » **Over 350 different partners** delivered new customers over the 12-month period
- » A disappointing Q2 (*Christmas*) left us behind plan despite the partnership team **delivering a 57% uplift YOY** in terms of number of deals done
- » Reduction in consumer response led to a -22% YOY shortfall in volume
- » More aggressive pricing and the launch of new partnerships helped **deliver a 37% YOY increase in new customers in Q4**

Other

- » Digital remains an important channel for acquisition **delivering 23% of customers acquired**
- » Significant test and learn in H2 including price testing and 6 bottle vs 12 bottle cases
- » We continue to see lower key LTV metrics through digital channels
- » CRM re-recruit activity and Daily Mail Wine Club **both important drivers of volume**
- » **Telemarketing and walk-up traffic** make up the balance of the customers acquired

Saga

- » We have recently agreed a **long-term partnership** to operate a co-branded wine service
- » To be named **Vintage by Saga** with a launch in November '22
- » Ambitious plans to deliver a **significant new stand-alone wine club**

Vintage by
SAGA

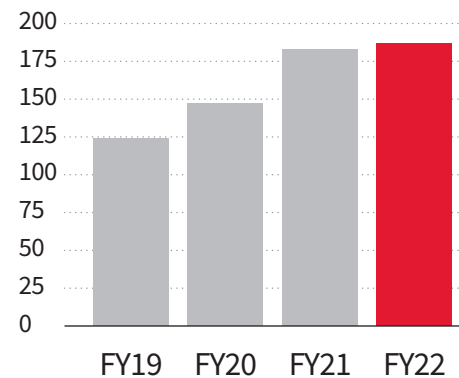
in association with **Virgin Wines**

Customer base

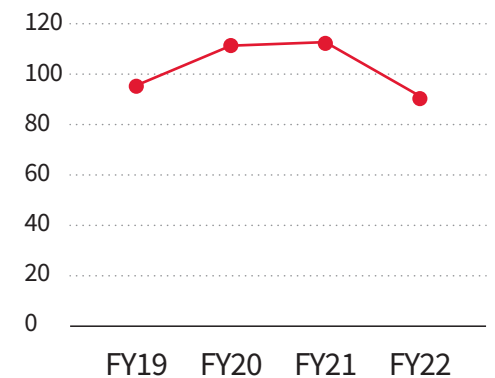
The **STRENGTH** of the customer base was shown over the past year as our customers showed their loyalty and stickiness, even in a more challenging environment

- » The active base **grew to 186k** (182k June '21)
- » Modest growth driven by a **rise in the WineBank customer base** but a fall in PAYG and Wine Plan
- » Rolling 12-month trade rate **consistent at 70%**
- » Both the sales retention rate and customer retention rate **achieved 91%**
- » Sales retention rate fell as frequency of order slowed post Covid, as expected
- » Customer retention rate consistent with previous years as **customers remain loyal and active**

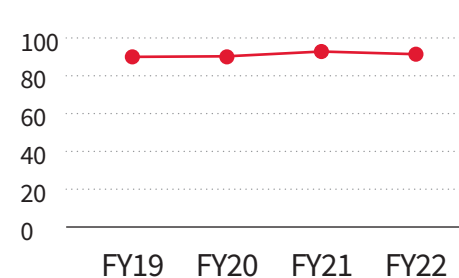
Active customers - '000s



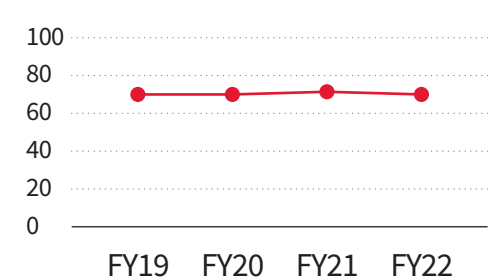
Sales retention rate - %



Customer retention rate - %



Trade rate - %



DTC sales and subscription schemes

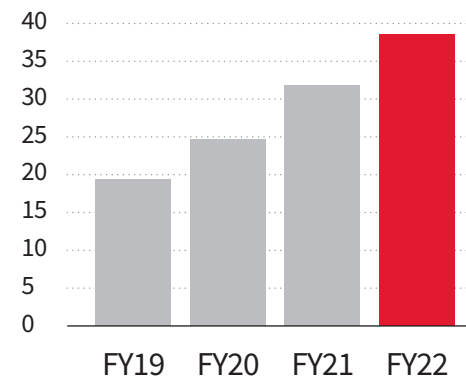
A unique set of consumer propositions

WineBank

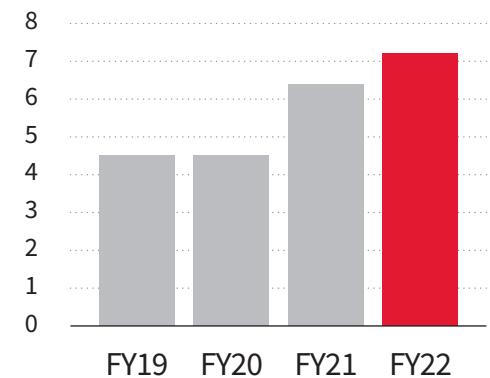
Spread the cost of buying wine
and earn 20% interest on your
deposits plus **FREE DELIVERY ON EVERY
ORDER**

- » Our premier service with **over 130k members, up 8% YOY**
- » WineBank members **total revenue up 21% YOY**
- » Highlights the **loyalty of existing WineBank members**
- » Deposits in WineBank have risen to a **record level of £7.6m**
- » 12 month rolling cancellation rate of **just 16.7%**
- » Allows customers to **budget for their wine spend** rather than large one-off payments
- » 20% interest a highly attractive perk for members
- » Free delivery saves £7.99 per order too so **delivers great value** across the board

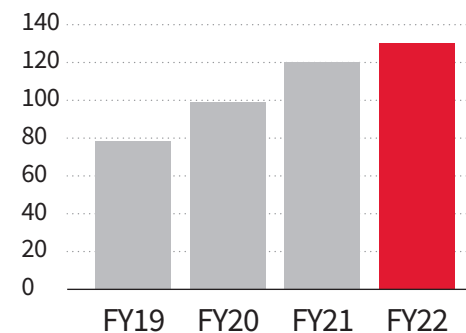
WineBank revenue - £m



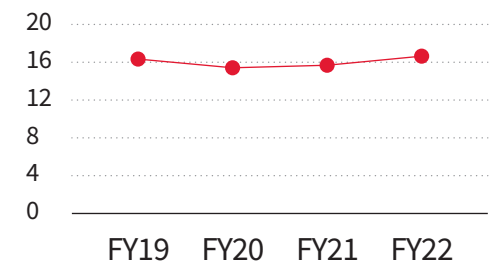
WineBank deposits - £m



Membership total - '000



Membership cancellation rate - %



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DTC sales and subscription schemes

A unique set of consumer propositions

Wine Plan – The hassle-free way to **enjoy a bottle of outstanding wine every week** whilst going on a voyage of discovery

- » Wine Plan always under more pressure in times of lower consumer confidence
- » Despite that revenue through Wine Plan customers fell just 2.3% YOY
- » **Over 22k customers** on a Wine Plan scheme
- » Yield from customers over **FY22 was 67.8%** (FY21 68.2%)

Subscription schemes are vital to the success of the business and they remain **STRONG** and **ROBUST**

- » **152k customers** on one of our subscription schemes
- » **81% of total DTC revenue** coming

Pay As You Go – For customers who just want to dip in and out when it suits without any subscription mechanic

- » Significant volumes of PAYG customers joined during the Covid lockdowns
- » Always the most difficult group to keep engaged
- » Ongoing activity designed to upgrade PAYG customers to WineBank or Wine Plan
- » Acquisition focussed on driving subscription schemes but PAYG still an important option

Wine Advisor – **Over 45k customers** enjoy the benefit of a personal one-to-one service by a member of our Wine Advisor team to look after every aspect of their relationship with Virgin Wines.

- » Revenue through our Wine Advisor team **continues to grow YOY +3.8%**
- » The **highest AOV** of all repeat channels
- » Works across all customer groups – WineBank/Wine Plan/PAYG
- » **Enhances loyalty** with the personal relationship acting as our 3rd subscription scheme

DTC sales and subscription schemes

A unique set of consumer propositions

Beers and Spirits

- » Given the change in the economic climate focus has been on promoting the categories to the existing customer base
- » **BeerSave** and **SpiritSave** propositions launched to reward existing customers on a subscription scheme with preferential pricing
- » Scaled back promoting outside core base due to high current digital costs
- » A full portfolio review carried out to minimise working capital and **focus on driving exclusive products**
- » Still ambitious to drive both categories when there is better ROI on marketing spend

Gifts

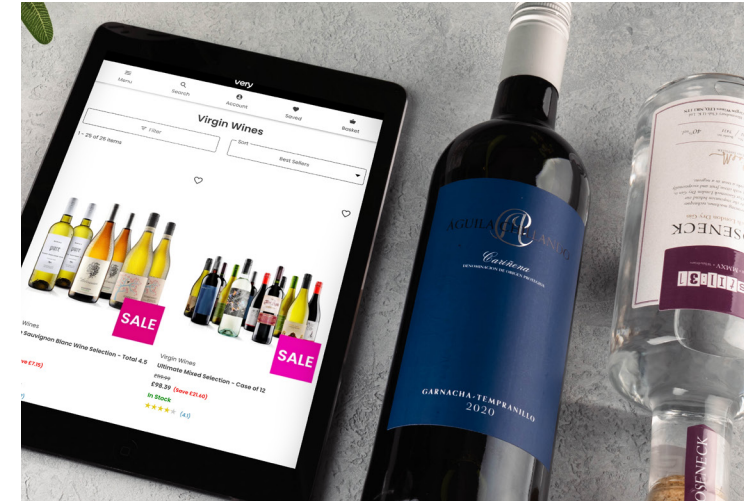
- » The channel most positively affected by the Covid lockdowns
- » **Revenue still 45% up on FY19**
- » Personalised label service launched for Q2 this year
- » From being the first to go to market with a wine advent calendar, the market has become increasingly competitive. **Still a £1m campaign in FY22**



Commercial sales

One of the key areas of focus for **BUSINESS GROWTH** is the opportunity we see for the development of our Commercial channel

- » Continued to drive new partnerships including a **major initiative with Moonpig**
- » Store-in-store concept with '**Virgin Wines at Moonpig**' receiving heavy prominence
- » Over 70 SKU's now listed and **significant growth potential** as we develop the partnership
- » Avanti WestCoast and LNER started to trade again as trains began to operate post Covid
- » Great Western Railway also came on board in January '22
- » The corporate gifting service continues to grow, **+18% YOY**
- » Partnership with Virgin Red has **significant volume potential** as the proposition gains scale
- » Amazon continues to be a key partner as is Shop Direct through Very
- » **Exciting pipeline of potential new partnerships**



Unique open source buying model

The way we source and buy wine is a **KEY COMPONENT** in our business model that helps maintain margins, deliver better value and increase customer loyalty

- » A data driven model that allows us to make **better tasting wine** through customer reviews and ratings
- » A wide network of **many trusted winemaking partners** around that world
- » The ability to make wine every year based on where we can **deliver the best quality/value ratios**
- » **Average rating of 4.2 out of 5** across many thousands of ratings during FY22
- » As we actively take part in the winemaking process **we control the stylistic profiles** of the wines created
- » **93% of the wines sold by volume are exclusive to Virgin Wines**



Unique open source buying model continued

Our unique model means...

- » Customers come back to us time and again to **re-order the wines they love**
- » We are able to price our wines based on **the quality and value** rather than a market price
- » **We are in control** of the label design, the bottle shape, the name and all other components, as well as the taste profile, to ensure each wine is exactly as we choose

Our model allows us to *DELIVER BETTER TASTING WINE*, with the highest quality/value ratios, that allow us maintain attractive and consistent gross margins whilst increasing customer re-order rates.



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Our people



Social

A fun, supportive and inclusive place where people are proud to work

Diversity and inclusion

- » Launched a project to benchmark and improve how inclusive we are as a company
- » Invited people to anonymously feedback about how inclusive they felt Virgin Wines currently is
- » The feedback results in bespoke training sessions for our teams

Cost of living pay increase

- » Acutely aware of the inflationary landscape we are all living in
- » As a result we gave all employees a 4% increase in their basic pay

Virgin Wines Employee Assistance Programme (EAP)

- » Provides access to information, advice and free counselling sessions
- » Also provides financial wellbeing tools and advice

Training and development

- » Ensuring people thrive in their current and future roles
- » Providing funded access to external courses relevant to employees' career development as well as internal training



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Sustainability



Environmental ambition

Strive to continuously reduce our emissions and operate in an environmentally thoughtful manner

GHG reporting

- » Compiled first Scope 3 emissions report
- » All relevant categories covered including optional extras (*such as homeworking emissions*)
- » Fully aligned with the GHG Protocol standard
- » Now able to identify areas and processes we can change to achieve carbon reductions

We are certified Carbon Neutral

- » Achieved 'PAS 2060 standard' and became first online wine retailer to be certified Carbon Neutral
- » PAS 2060 is an internationally recognised standard
- » Requires our GHG report and premises to be externally audited
- » Plus companies required to reduce their emissions each year, rather than just offsetting
- » Aiming to cut our direct emissions by 25% in FY23

Roadmap and key focus areas

- » Being carbon neutral business is an achievement but also only a step on our sustainability journey
- » Science Based Target initiative (SBTi) have approved our application
- » Set near-term target, to reduce Scope 1 and 2 emissions by at least 42% by 2030
- » We will also be working on introducing a specific Scope 3 target in the coming years

UK bottling

- » This year 28% of wine we bought was bottled in the UK, which saves approximately 40% of the carbon emissions compared to shipping in bottle
- » Partnered with Greencroft Bottling a BRC Grade AA+ rated and a pioneer in sustainable practices, producing its own renewable energy

Long-term, our goal will be for Virgin Wines to achieve Net Zero by 2045



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FY23 strategic priorities

1. Drive customer acquisition through increased strategic partnerships

- » Most productive way to deliver high quality customers at low cost is through partnerships
- » New long-term partnership with Saga to launch in November '22
- » Targeting large-scale partnerships with suitable demographic profiles a continued focus

2. Maximise gross margin through our open source buying model

- » Pressure on cost price of wine due to numerous factors - glass, packaging, freight and FX
- » More important than ever to maximise the value from our sourcing model
- » Increase percentage of wines sourced from areas with the best quality/value ratios
- » Opportunities to drive margins in Australia, South Africa and Spain, amongst others
- » Increase amount of UK bottling

3. Grow the WineBank membership through conversion and retention

- » WineBank scheme currently has 130k members and is the main channel for new recruits
- » Continuous focus on the customer welcome journey, data, technology, personalisation
- » Over-riding aim to maximise conversion and minimise attrition

4. Growth of our Commercial channel

- » Key area for growth
- » Relationship with Moonpig a great template for future initiatives.
- » Focus to drive increased scale in the travel sector, corporate gifting, wholesale, Virgin Group

5. Driving efficiency

- » There is a culture of deriving value from all expenditure
- » Operational excellence is coupled with increased productivity and efficiency
- » Continual focus on marketing and IT investment delivering value or increased efficiency

FY23 outlook

Q1 Trading

- » A positive YOY performance during August was tempered by a softer September
- » Death of the Queen and desisting from marketing over the 10-day period of mourning impacted sales

Current landscape

- » Continued pressure on consumers' disposable income
- » Lower frequency of order and average order values
- » Rising costs, many of which are out of our direct control – waste levy, energy, dry goods etc

But

- » Many customers opting to shift to entertaining at home
- » WineBank is an excellent mechanic to spread costs, budget and receive outstanding value
- » Customers are proving to be loyal – cancellation rates remain low
- » New large-scale partnerships driving low-cost, high-quality customer acquisition

Given all factors, we expect revenue to be resilient with growth broadly flat YOY

We will continue to deliver sector leading EBITDA margins, and are confident we can mitigate a large number of the cost pressures we face

It is impossible to mitigate them all however, so we now expect EBITDA margin at approximately 8% (*previously 9%*)



FY23 outlook

Summary

- » We have great faith in the robust and disciplined nature of our business model
- » We have new partnerships in place to drive customer acquisition and commercial revenue
- » We have a loyal customer base underpinned by the popularity of our WineBank scheme and the relationships developed through our Wine Advisor team
- » We focus on costs, generating value from our marketing investment and efficiency from our operations
- » We have a strong balance sheet that gives us flexibility around capital allocation

Whilst we are acutely aware of the challenging and volatile environment we are operating within, we believe we have a resilient business that is still delivering in tough times and an outstanding team of people who are executing our plans exceptionally well and are fully committed to continuing to do so.



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Thank
you

