



FY23 Interim Results

Results for the 26 weeks to 31st December 2022



Half year review

1. Half Year Review
2. Highlights
3. Challenges
4. Warehouse Management System (WMS) Implementation
5. Warehouse Managment System (WMS) Progress

Half year review

It's been a challenging first half of the year with an unprecedented set of circumstances

We have continued to focus on the key drivers of our business model in a difficult trading environment:

- One. **Low-cost customer acquisition** delivering high quality recruits
- Two. **Driving membership growth** in our WineBank subscription scheme
- Three. Focus on **maximising DTC gross margins**
- Four. Optimise working capital usage to **maximise free cash flow**
- Five. Maintain our **disciplined approach to costs**

Half year review

There were a number of highlights:

- » Maintained focus on driving low-cost customer acquisition
- » Continued to deliver membership growth in the key WineBank subscription scheme
- » WineBank membership at record high at 142,000 and WineBank customer deposits at an all time seasonal high of £6.5m
- » Delivered expansion in gross profit margin through our DTC repeat sales channels
- » Continued to achieve YOY growth in the B2B Commercial division
- » Managed product cost pressures and maintained quality/value ratios through open source buying model
- » Remained debt free with quality inventory in stock and sizeable cash reserves on the balance sheet

Delivered YOY growth in customers acquired, the WineBank membership and in gross margins to existing customers



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Half year review

And there were a number of challenges:

- » There were extensive issues with the implementation of the new Warehouse Management System (*WMS*) that led to operational inefficiency and exceptional one-off costs
- » Cut off for Christmas delivery was brought forward by a week due to multiple internal and external factors
- » September trading was significantly affected by a brand directive to restrain from normal marketing activity during the two week mourning period following the death of the Queen
- » The post Covid 'unwind' has been more severe than expected when coupled with all time low consumer confidence
- » Significant rises in costs across numerous areas but specifically wine, wages (*NLW*) and waste

A challenging period following exceptional internal and external factors



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Half year review

Warehouse Management System (WMS) implementation

- » Previous WMS in place since March 2000 and in need of upgrading
- » Limitations particularly exposed following expansion into second warehouse following rapid growth over the Covid period
- » 18-month process in terms of selection, operational blueprint, training and implementation
- » 'Go Live' planned for August but pushed to mid-September
- » View from all parties (*external consultants, implementation partner and internal stakeholders*) that the 'go live' was low risk
- » In practice, issues followed around system stability, multiple bugs, stock replenishment processes, system processes being followed all exacerbated by the transition to peak volumes
- » This resulted in lower service standards and significant additional costs in terms of IT resource, management resource and warehouse labour



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Half year review

Progress made during FYQ3 to prove WMS fit for purpose:

- » Full system review carried out with implementation partner
- » Bug fixes actioned and remedial work to rectify stability issues completed
- » Independent consultant hired full time over Feb/March to review warehouse processes
- » Initial focus to ensure customer service levels revert to normal high standards
- » Over 97% of orders ordered pre 4pm despatched the same day over FYQ3 to date
- » Additional training for all members of the warehouse team instigated
- » All processes analysed, optimum layout reviewed and capability gaps identified
- » Overhead contingency identified at half year has been appropriate to cover higher variable cost
- » Cost per case falling but efficiencies still required
- » Stress testing to prove capability at increased volumes planned over FYQ4
- » Confident system will be operating efficiently and allow business to maximise peak trading over November - December '23



Results and margin summary

- 6. Results Summary
- 7. Exceptional one off impacts
- 8. Dry goods and freight costs driving up components of wine cost
- 9. Unique open source buying model
- 10. Continued focus on maximising margin & offsetting inflationary impacts

Results summary

- » H1 FY23 Performance impacted by a number of one off issues
- » Group remains debt free. Cash £14.1m, Group cash £7.6m and Wine Bank deposits £6.5m

	Unaudited 31 Dec 2022 £'000s	Unaudited 31 Dec 2021 £'000s
Revenue	33,627	40,609
Gross profit	9,774	12,630
Underlying operating expenses	(8,368)	(8,760)
Underlying EBITDA	1,406	3,870
Profit before tax	90	3,159
Net Assets	22,235	20,355

Underlying EBITDA is after adding back £616k for exceptional one off costs relating to the WMS implementation

Exceptional one off impacts

A significant feature of H1 trading is the impact of one off factors impacting both revenue and costs.

That has fed into what was already a more challenging trading environment

Suspension of marketing activity in September

- » In accordance with Virgin Group guidelines (which we supported) all new marketing activity was cancelled during the mourning period for Queen Elizabeth
- » Year on year September revenues were 41% lower
- » Attributed a prudent 60% of this shortfall directly to the reduction in marketing activity
- » Profit impact calculated using the average net contribution in the month (Gross profit less fulfilment costs)

WMS implementation

- » This had two major impacts with a sharp spike in operating costs and early cut off hitting revenue and contribution
- » Warehouse costs - historically a very predictable cost per case was directly impacted:
 - » Operational downtime
 - » Task duplication to correct errors
 - » Increase in shifts to clear backlogs
- » Early cut off to ensure all orders despatched pre Christmas
 - » Clear order backlog
 - » Reduced carrier capacity due to knock on impacts from Royal Mail strikes

Combined financial impact £000's

	Revenue	EBITDA
Marketing suspension	(1,740)	(480)
Warehouse operating costs	-	(616)
Early cut off	(1,517)	(468)
TOTAL H1 FY23 IMPACT	(3,257)	(1,564)

reflected in underlying EBITDA



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Dry goods and freight costs driving up components of wine cost

- » Challenging backdrop to managing input costs and protecting margins
- » Covid disrupted supply chains and increased freight rates
- » The Russian invasion has driven up the cost of dry good inputs via higher energy costs

Dry goods

- » Using October 2021 as the base point of 100 the cost of dry goods has increased significantly
- » All 3 main dry goods components, glass, cardboard and caps impacted
- » Weighted average basket up 66% in just over 15 months
- » Wine cost and duty remain the 2 main component costs

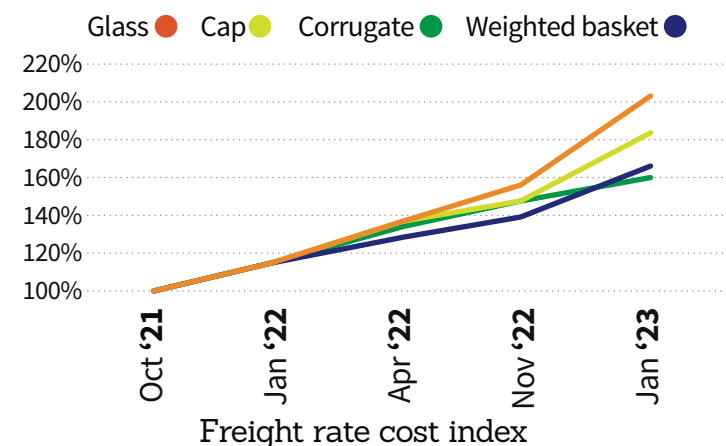
Freight rates

- » Some softening of rates in late 2022 and Q1 2023 but increases due to Covid appear to be cemented into the new rates
- » Chile and Australia the most impacted
- » European the least impact

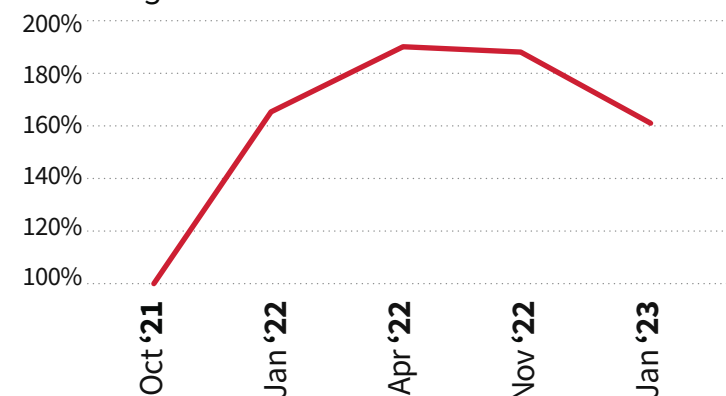
PRN's

- » Waste Levy charges H1 FY23 **£295k**, H1 FY22 **£32k**

Dry goods inflation index



Freight rate cost index



Unique open source buying model

The flexibility and fast paced nature of our buying model has ensured product margins have been maximised in an inflationary environment

- » There have been unprecedented cost increases in the 'non-wine' element of a bottle of wine
- » More important than ever to deliver the most advantageous quality/value ratios from the actual juice
- » Long term partnerships with a global network of wineries gives flexibility of supply
- » No long term commitments to specific wines/producers ensures fast-paced flexibility to drive optimum results
- » Over 90% of volume through exclusive labels drives brand equity and eliminates price comparison
- » This ability to 'cover' an element of the price increases has helped protect margin and price rises to the consumer



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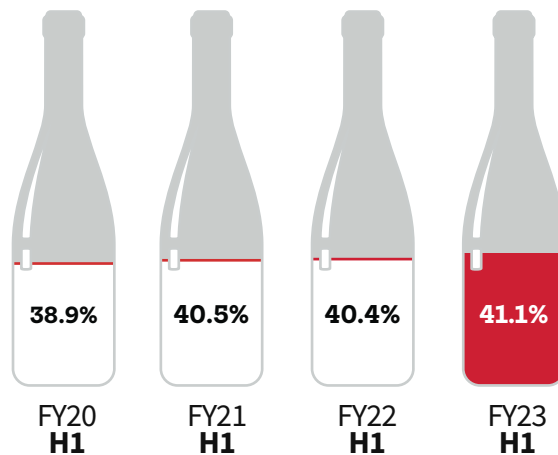
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Continued focus on maximising margin & offsetting inflationary impacts

Product margins

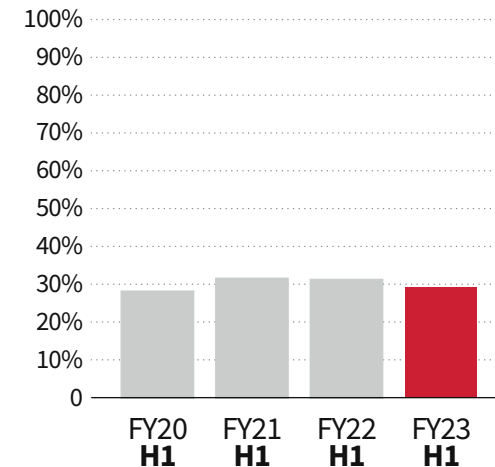
- » Resilient D2C product margins in the face of inflationary input costs
- » Flexible open source purchasing model to find the best value/quality ratio and offset inflationary pressures on dry goods
- » Increased utilisation of UK bottling to ensure quality, minimise non wine costs and reduce carbon footprint
- » D2C up 0.7% from H1 FY22 and 2.2% higher than H1 FY20
- » Commercial up 0.1% from last year and 1% higher than H1 FY20
- » Customer acquisition margins lower due to change in offer profiles and less PAYG activity



Product Margin = Sales - Cost of wine

Statutory margins

- » Sales less cost of wine less packaging and delivery
- » Average fell by 2.0% to 29.1% remains 1% higher than H1 FY20
- » Packaging and delivery element up by 0.8% year on year as a result of increases in energy costs following the Russian invasion of Ukraine
- » Lower new customer acquisition margins
- » Change in sales mix in favour of new and B2B



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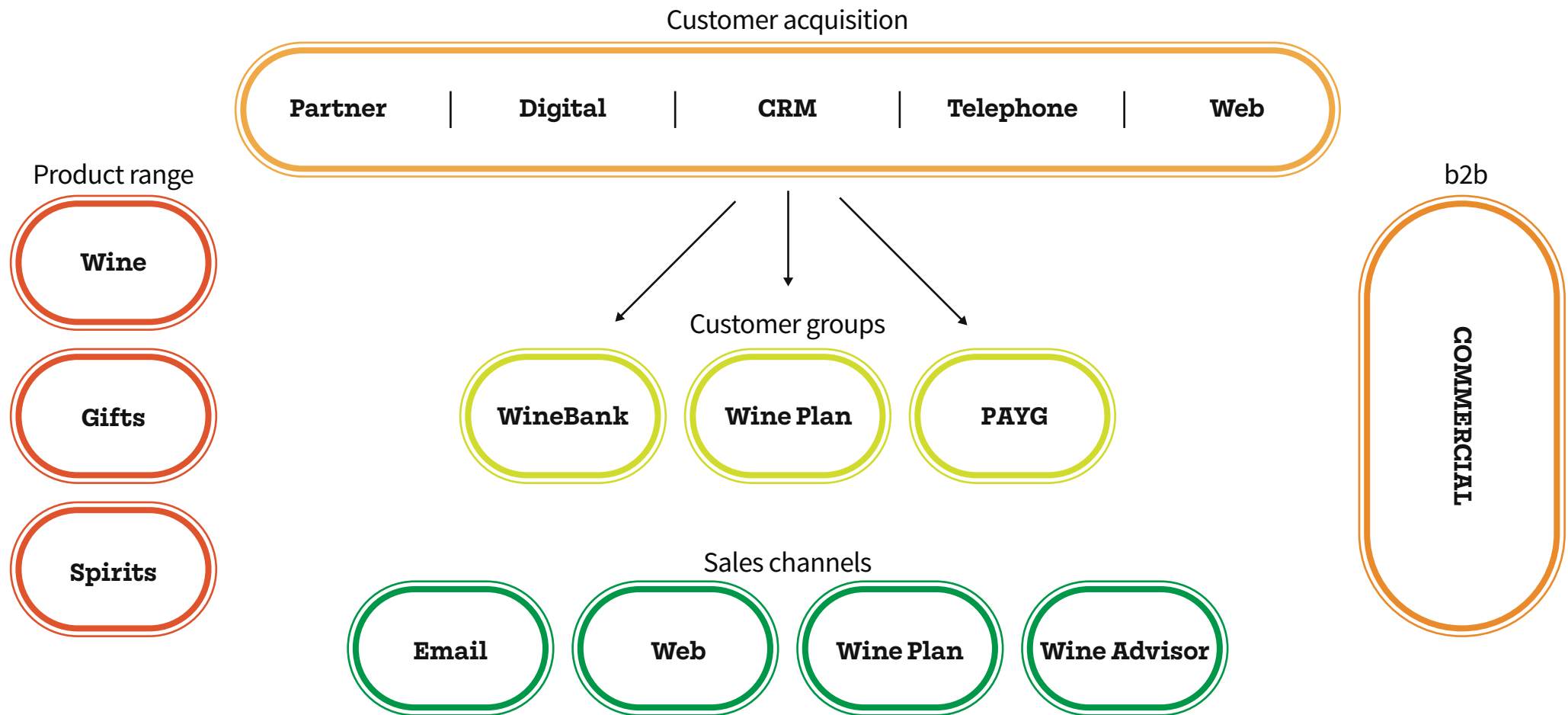
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The Business Model in practice

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- 15. WineBank - A robust, growing membership scheme
- 16. Average order frequency
- 17. Commercial channel
- 18. Gifts, beers and spirits
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Business model in a nutshell



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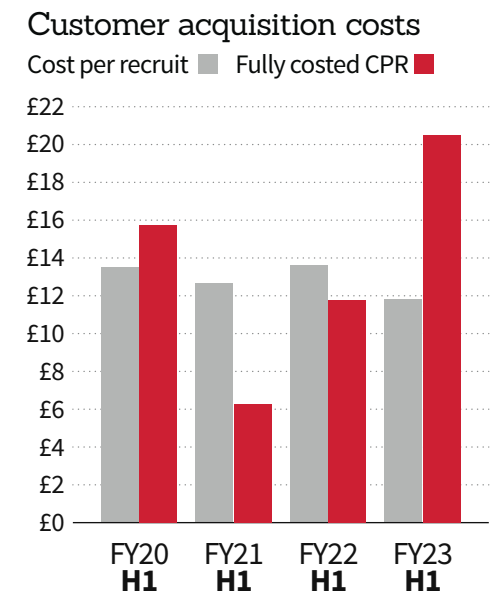
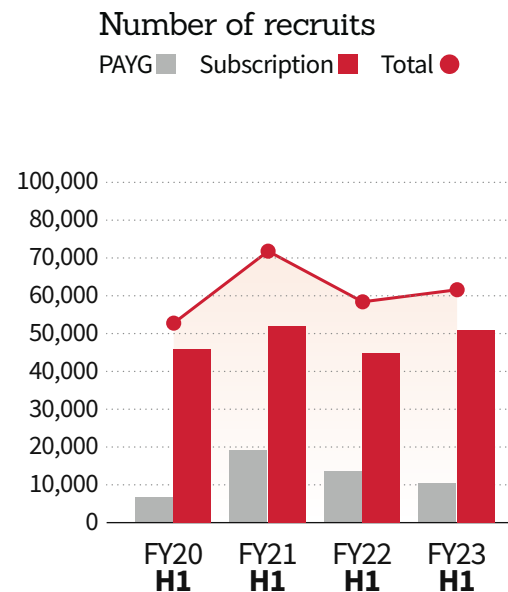
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Customer acquisition

A disciplined focus on low cost acquisition whilst testing price and formats to deliver volume and YOY growth

- » **62k new customer** acquired
- » **42k acquired** on to the **WineBank** scheme
- » **24% YOY increase over Q2**
- » Cost per recruit **£11.82** (last year £13.62)
- » Net investment per recruit **£20.51**
- » **6 bottle cases trialled** due to price sensitive consumer environment



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Customer acquisition continued

The partnership channel continues to be the driver of our highest quality customers at the lowest cost

- » Partnerships continue to be the key driver of new customers
- » Partnership programme still the most cost-effective method
- » Recruits through the partnership channel +42% in Q2 YOY
- » Increase in partner activity directly responsible for YOY reduction in CPR
- » Successful launch with Saga delivering 2k customers in 5 weeks
- » Continued refinement in digital acquisition channels delivered YOY gains
- » Over December digital channels were responsible for a 9% increase in customers acquired YOY with a 39% decrease in CPA

GO
Outdoors



SAGA OnTheMarket

 perkbox

Virgin

currys

Rail Delivery Group

 National Rail



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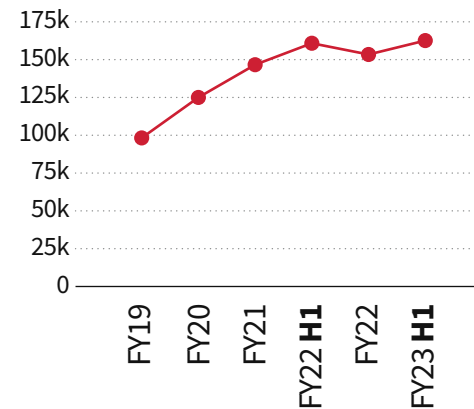


Loyalty of the customer base

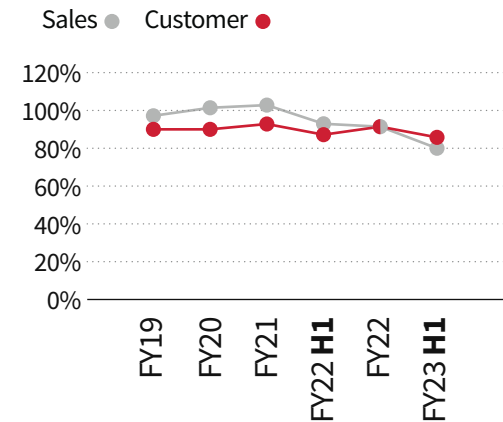
Despite unprecedented pressure on consumers our customers have remained loyal

- » Focus on driving the WineBank membership as most 'recession-proof' scheme
- » Growth in the WineBank membership has been countered by falls in the Wine Plan and PAYG bases
- » Customers on a subscription scheme up 6.3% in previous 6 months – 162k v 152k
- » Although we are seeing slight negative movements in our customer base KPI's they are minimal
- » Trade rate still largely consistent at 68.4% (69.6% H122)
- » Customer retention rate 84% (88% in December 2021)
- » Sales retention rate has declined given H1 revenue issues – 80% from 91% at year end
- » Cancellation rate on Wine Plan has reduced as recruitment focussed on WineBank
- » Cancellation rate on WineBank has ticked up to 17.8% (16.7% at year-end)

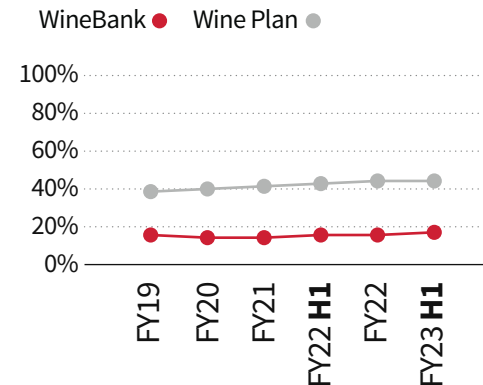
Subscription memberships



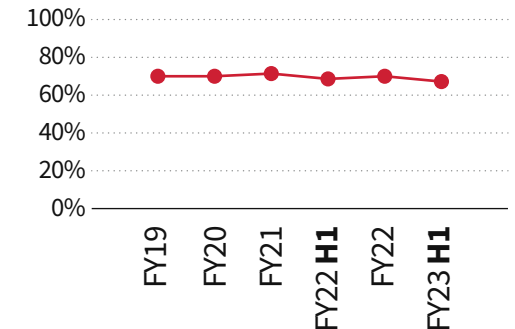
Retention rates



Cancellation rate



Trade rate



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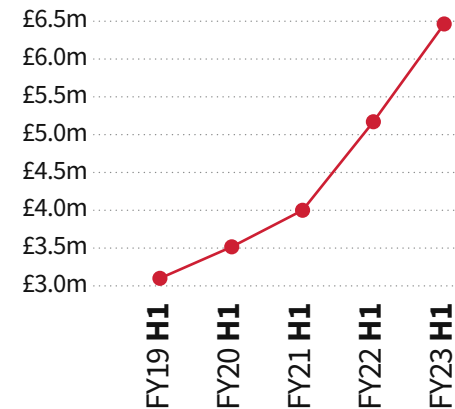


WineBank - A robust, growing membership scheme

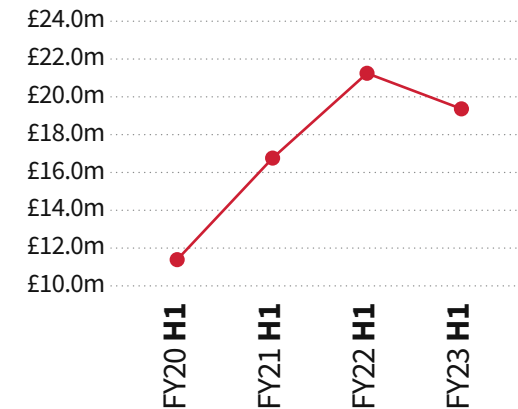
WineBank customers have continued to be loyal and carry on saving and enjoying the benefit of the 20% 'interest' rate

- » Membership grew 9% to 142k in H123
- » Popular as allows customers to budget their wine expenditure as appropriate
- » Helps maintain loyalty and reduce cancellations (17.8% rolling 12-month average)
- » 20% 'interest' on monthly deposits and free delivery are further compelling loyalty mechanics
- » Deposits in WineBank at a record level at the half year at £6.5m +25% YOY
- » Further indicates 'stickiness' of scheme but customers saving rather than spending
- » Significant changes in average order frequency are key driver in revenue shortfall
- » The stability and growth of the base, alongside the record levels of customer deposits, gives confidence that the business will thrive as consumer confidence starts to return

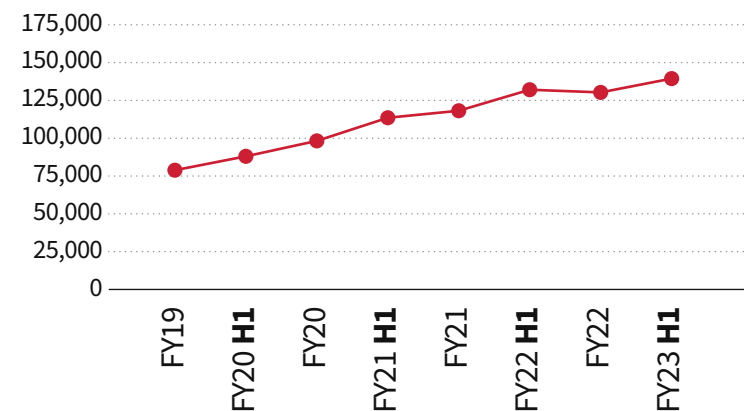
WineBank deposits held



WineBank revenue



Membership growth



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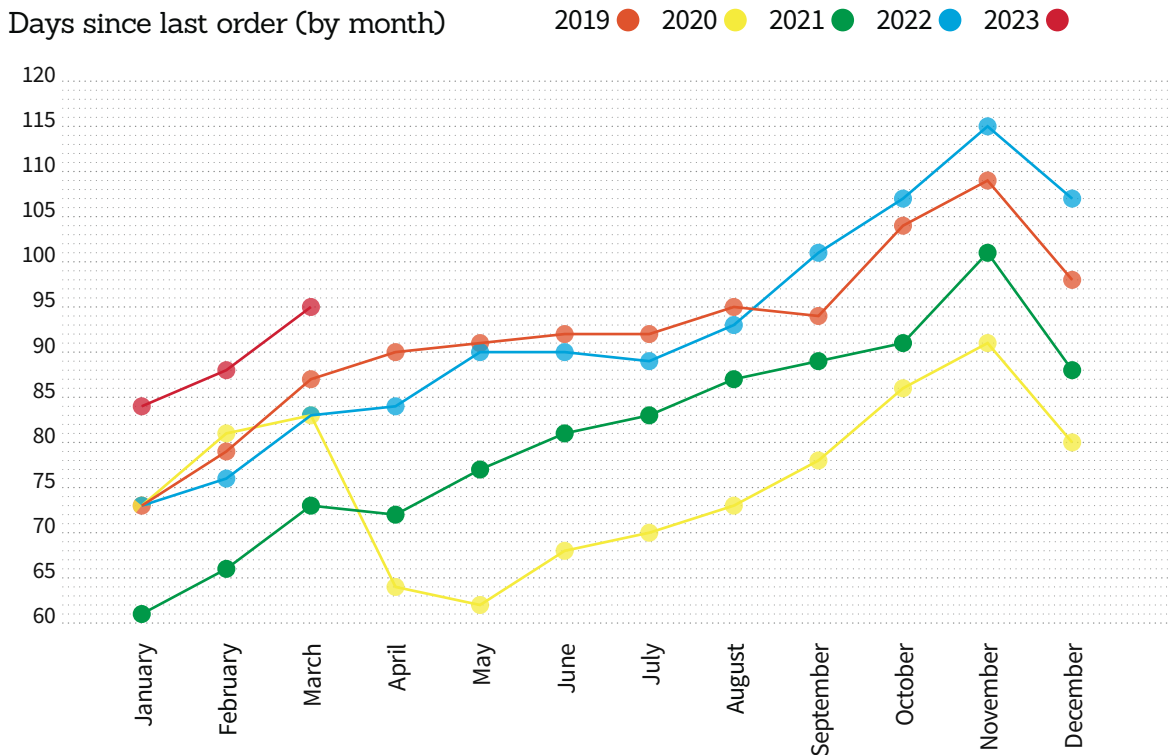


Average order frequency

From record levels of frequency during the Covid period to longer periods now, the average length of days consumers wait between orders is a key indicator of consumer sentiment

- » Single largest factor on revenue is the change in average order frequency (AOF)
- » Macro factors have the most significant impact on AOF
- » Pre Covid the AOF was consistently at circa 90 days
- » During the early days of Covid this dropped to as low as 62 days
- » Current AOF has risen to circa 10% longer than pre Covid
- » Indicates customers are being more prudent with their expenditure
- » However, relatively stable cancellation rates back up customers staying loyal, but waiting longer between orders

Days since last order (by month)



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Commercial channel

We continue to see significant opportunities to drive the B2B channel forward in both corporate gifting and 'wholesale/trade' accounts

- » A story of 'ups' and 'downs' in the Commercial channel
- » Excellent growth in our trade partnerships and our travel partners
- » Moonpig + 283% YOY delivering £670k of revenue. Still significant growth to come
- » The addition of Great Western Railway raised revenue through rail partners by 15% (£93k)
- » Growth through Virgin Red +77% to £431k. A major growth opportunity
- » Online partners that gave growth through 2020/21 reduced considerably
- » Amazon -32% and Shop Direct -31%
- » Also, corporate gifting over Christmas softer as businesses scaled back discretionary costs
- » Commercial a key focus for future growth through all potential avenues



moonpig

AVANTI
WEST COAST

GWR

LNER
LONDON NORTH EASTERN RAILWAY



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Gifting, beers and spirits

A challenging period for gifts, beers and spirits

Gifting

- » A major beneficiary of the Covid period
- » Expenditure on online gifting subsequently reduced
- » Advent calendar campaign successful with over 10k units sold
- » General DTC gifting under pressure
- » Initiatives to review range, focus on key SKU's, reduce complexity and drive margin expansion
- » Still committed to growth in gifting and see medium term opportunities

Beers and Spirits

- » Growth in categories have been slow as marketing investment reduced
- » Review of beer category underway given competitive nature of specialist DTC beer providers
- » AOV and cash margin alongside operating variables make profit generation challenging
- » Spirits as an add-on to wine cases deliver better net contribution and a more natural partner to wine
- » See significant scope to grow spirits revenue to customers purchasing wine



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Looking after our people and our planet

It is a business focus to look after our people during a challenging period and continuing to prioritise our environmental credentials

Our people

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

- » We pride ourselves on the culture and environment that has been created across the business
- » Our people haven't been immune from the effects of the Covid period followed by the cost of living crisis
- » We have supported them with a host of initiatives including free access for all staff to the Employee Assistance Programme
- » Mental health and financial assistance account for 85% of all enquiries
- » Internal culture review, engagement survey and NED listening groups all in place

Sustainability

The first online wine business to be certified carbon neutral

- » We continue to scale our UK bottling which reduces carbon emissions by 40%
- » Scope 3 emissions report compiled with all categories covered
- » Near term target set to reduce Scope 1 and Scope 2 emissions by at least 42% by 2030



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Outlook

Outlook

In the short term we will double down on the areas under our control, making good decisions for the long-term prosperity of the business

We have a clear, proven strategy that we are laser-focused on delivering:

One.

Delivering high-quality, low-cost recruits

Two.

Driving membership growth in our key WineBank subscription scheme

Three.

Focusing on maximising DTC gross margins

Four.

Optimising working capital usage to maximise free cash flow

Five.

Maintaining our disciplined approach to costs

- » January and February are slow months, but sales have been broadly in line with expectations
- » We continue to see increased periods of customer inactivity when tracking average order frequency
- » We don't expect the macro trading environment to improve in the short term but are hopeful that there will be an easing of current consumer sentiment over FY24
- » Gross margins continue to be strong through DTC repeat sales channels despite inflationary pressures



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Outlook continued

We are well positioned to take advantage of any upturn in consumer behaviour

One.

Our WineBank membership and deposit balance is at all-time seasonal high

Two.

Partnerships for both our customer acquisition and commercial channels continue to gather momentum

Three.

Our commercial channel has a buoyant pipeline of new opportunities

Four.

Despite teething issues, we have an upgraded warehouse management system that can accommodate significantly increased scale and operate multiple warehouse sites

Five.

We know average order frequency is the key driver in current revenue softness from existing customers and have continuously seen that move in line with macro factors

Business review

- » We have also initiated the process of a Business Review to identify growth opportunities in a continuously changing consumer landscape
- » Despite the current climate we still believe there are significant growth opportunities for our business and we intend to come back and present these before the end of this financial year



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Appendix.

Group Income Statement

	Unaudited 31 Dec 2022 £'000s	Unaudited 31 Dec 2021 £'000s
Revenue	33,627	40,609
Cost of sales	(23,853)	(27,979)
Gross profit	9,774	12,630
Operating expenses	(9,647)	(9,401)
Operating profit	127	3,229
Finance income	52	
Finance costs	(89)	(70)
Profit before tax	90	3,159
Taxation	(17)	(608)
Profit for the financial period and total comprehensive income	73	2,551
Basic earnings per share (pence)	0.1	4.6
Diluted earnings per share (pence)	0.1	4.6



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Group Balance Sheet

	Unaudited 31 Dec 2022 £'000s	Unaudited 31 Dec 2021 £'000s	Audited 1 July 2022 £'000s
ASSETS			
Non-current assets			
Intangible assets	11,424	11,027	11,113
Property, plant and equipment	487	288	400
Right of use assets	3,007	2,656	3,262
Deferred tax asset	411	492	428
Total Non-current assets	15,329	14,463	15,203
Current assets			
Inventories	11,046	10,176	8,653
Trade and other receivables	2,484	1,930	2,477
Derivative financial instruments	26	16	16
Cash and cash equivalents	14,128	18,799	15,070
Total current assets	27,684	30,921	26,216
Total assets	43,013	45,384	41,419
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	(17,074)	(21,754)	(15,451)
Lease liability	(527)	(506)	(456)
Total current liabilities	(17,601)	(22,260)	(15,907)
Non-current liabilities			
Provisions	(313)	(267)	(290)
Lease liability	(2,864)	(2,502)	(3,149)
Total non-current liabilities	(3,177)	(2,769)	(3,439)
Total liabilities	(20,778)	(25,029)	(19,346)
Net assets	22,235	20,355	22,073



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Group Cash Flow

	Unaudited 31 Dec 2022 £'000s	Unaudited 31 Dec 2021 £'000s
Profit before taxation	90	3,159
Adjustments for:		
Depreciation and amortisation	573	464
Net finance costs	37	70
Share based payment	89	177
Decrease/(increase) in trade and other receivables	(17)	(394)
Increase in inventories	(2,393)	(2,938)
(Decrease)/increase in trade and other payables	1,647	3,426
Net cash (used in)/generated from operating activities	26	3,964
Cash flows from investing activities		
Interest received	52	-
Purchase of intangible and tangible fixed assets	(716)	(561)
Net cash used in investing activities	(664)	(561)
Cash flows from financing activities		
Payment of lease liabilities	(215)	(194)
Payment of lease interest	(89)	(70)
Net cash used in financing activities	(304)	(264)
Net (decrease)/increase in cash and cash equivalents	(942)	3,139
Cash and cash equivalents at beginning of period	15,070	15,660
Cash and cash equivalents at end of period	14,128	18,799
	(942)	3,139



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