Virgin wines

Virgin Wines UK plc

Investor Presentation FY23

FY23 overview

Financial review

The year in detail

Business review/new initiatives

Current trading and outlook

The year in review

A challenging year with an unprecedented set of macro-economic factors:

- Spiralling energy costs
- Ever increasing interest and mortgage rates
- Generationally high levels of inflation
- War in Ukraine

All this contributed to increased pressure on overheads and product margins

It has also had a significant effect on consumer confidence with the lowest ever reported levels in late 2022

The year in review *continued*

We also experienced one-off exceptional issues that had a material effect on our FY23 performance

Most significantly the introduction of a new Warehouse Management System (WMS) caused operational difficulties throughout Q223

This led to:

- A reduction in our normally outstanding customer service levels with longer waiting times for delivery
- Exceptional levels of cost in the warehouse
- A backlog of orders leading to an early cut-off for Christmas delivery
- A reduction in marketing activity due to warehouse pick and pack capacity
    - A poor implementation, not a poor system

Issues now resolved and operational efficiency has returned

The year in review *continued*

There were still numerous positive areas of progress despite the challenging environment, demonstrating the strength of the business' underlying model:

- Discipline maintained around customer acquisition costs
- WineBank Membership increased Year-On-Year (YOY) to highest ever level
- Customers on subscription schemes contributed 87% of DTC revenues
- WineBank cancellation and overall conversion rate trended positively during H223
- Wine buying model continued to deliver commercial advantages, particularly in relation to product margins and inventory levels
- The Commercial channel continues to deliver outstanding solutions in a B2B environment
- Our people remained enthusiastic, dynamic and resilient throughout the year
- Balance sheet remains healthy with the business remaining debt free with £5.5m cash reserves

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Group income statement

- Financial year impacted by a number of one-off issues
- Revenue for the year of £59.0m
- Adjusted EBITDA of £1.8m
- Adjusted PBT of £0.6m
- Statutory loss before tax of £0.7m
- Adjusted EBITDA is calculated after adding back exceptional costs of £1m and share based payments of £0.3m

	Audited FY23 £'m	Audited FY22 £'m
Revenue	59.0	69.2
Gross profit	17.4	21.7
Gross profit %	29.6%	31.4%
Operating expenses	15.7	15.5
Adjusted EBITDA	**1.8**	**6.2**
Exceptional costs*	1.0	0.0
Share based payments	0.3	0.1
Amortisation and depreciation	1.2	0.9
Operating profit/(loss)	(0.7)	5.2
Finance income	0.2	0.0
Finance expense	(0.2)	0.1
Loss/Profit before tax	**(0.7)**	**5.1**
Tax	0.1	0.7
Profit for the period	(0.6)	4.4
Profit before tax and exceptional costs	**0.6**	**5.1**
Basic and diluted (loss)/earnings per share (pence)	**(1.1)**	**7.8**

** Non recurring one-off WMS costs*

Group balance sheet

- A strong balance sheet with no debt
- Net assets virtually like for like with FY22 (£21.9m vs. £22.1m)
- Gross cash of £13.5m with £8m of WineBank deposits and £5.5m net cash
- WineBank deposits not used to fund the business and held in separate ring fenced account

	Audited 30 June 2023 £'m	Audited 1 July 2022 £'m
ASSETS		
Non-current assets		
Intangible assets	11.4	11.1
Property, plant and equipment	0.4	0.4
Right of use assets	2.9	3.3
Deferred tax asset	0.5	0.4
Total Non-current assets	**15.1**	**15.2**
Current assets		
Inventories	8.4	8.7
Trade and other receivables	2.6	2.5
Derivative financial instruments	-	0.0
Cash and cash equivalents	13.5	15.1
Total current assets	**24.5**	**26.2**
Total assets	**39.6**	**41.4**
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	(14.2)	(15.9)
Derivative financial instruments	0.0	-
Lease liability	(0.5)	(0.5)
Total current liabilities	**(14.7)**	**(15.9)**
Non-current liabilities		
Provisions	(0.3)	(0.3)
Lease liability	(2.7)	(3.1)
Total non-current liabilities	**(3.1)**	**(3.4)**
Total liabilities	**(17.8)**	**(19.3)**
Net assets	**21.9**	**22.1**
Equity		
Share capital	0.6	0.6
Share premium	12.0	12.0
Own share reserve	-	(0.0)
Merger reserve	0.1	0.1
Share based payment reserve	0.4	0.1
Retained earnings	8.8	9.4
Total Equity	**21.9**	**22.1**

Group cash flow

- Capital Expenditure of £0.9m in FY23 (FY22 £1.0m)
- Inventory well managed in H2 following the trading challenges of H1
- Supply chain risks reduced allowing an active approach to reducing inventory
- Stock reduced from a peak of £11m in December to £8.4m at year end (down 24%)
- Trade and other payables reduced in FY23 to £14.2m from £15.4m in FY22 reflecting the slowdown in purchasing in H223

	Audited 30 June 2023 £'m	Audited 1 July 2022 £'m
Profit before taxation	**(0.1)**	**5.1**
Adjustments for:		
Depreciation and amortisation	1.2	1.0
Share based payment expense	0.3	0.1
Net finance costs	0.0	0.1
Decrease/(increase) in trade and other receivables	(0.1)	(0.9)
Increase in inventories	0.3	(1.4)
(Decrease)/increase in trade and other payables	(1.1)	(2.9)
Net cash (used in)/generated from operating activities	**(0.1)**	**(1.0)**
Cash flows from investing activities		
Interest received	0.2	0.0
Purchase of intangible and tangible fixed assets	(0.9)	(1.0)
Net cash used in investing activities	**(0.8)**	**(0.9)**
Cash flows from financing activities		
Payment of lease liabilities	(0.5)	(0.5)
Payment of lease interest	(0.2)	(0.1)
Net cash used in financing activities	**(0.6)**	**(0.6)**
Net (decrease)/increase in cash and cash equivalents	**(1.6)**	**(0.6)**
Cash and cash equivalents at beginning of year	15.0	15.7
Cash and cash equivalents at end of year	**13.5**	**15.1**
	(1.5)	**(0.6)**
Cash and cash equivalents comprise:		
Cash at bank and in hand	13.5	15.1

Margins and costs

- Cost pressures continued throughout the year in a variety of areas:
  - Escalating costs relating to 'dry' goods drove increase in the cost price of wine
  - Wage inflation both through staff retention, cost of living increases and National Living Wage
  - Waste levy
  - Fuel surcharges from couriers and UK bulk transport costs
- On a positive front we are starting to see reductions in global freight costs and positive movements in foreign currency

We have mitigated the cost increases associated with the cost of our wines wherever possible through our buying model and the merchandising of our pre-mixed cases

- Reported gross margin (inc packaging and delivery costs) reduced by 186 bps to 29.6% (FY22: 31.4%)
- Driven through:
  - Increased costs in packaging and fuel
  - Pricing on customer acquisition activity
  - Higher percentage of commercial/B2B in the overall mix
- Product margin on repeat sales through our DTC channels remained robust at 40.5% (FY22: 41%)

FY23 overview

Financial review

The year in detail

Business review/new initiatives

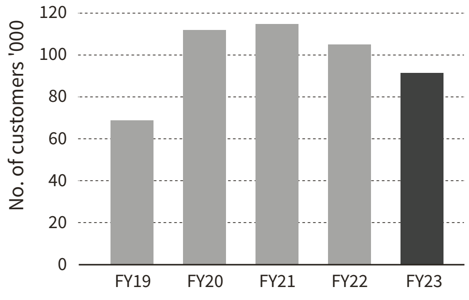
Current trading and outlook

Customer acquisition

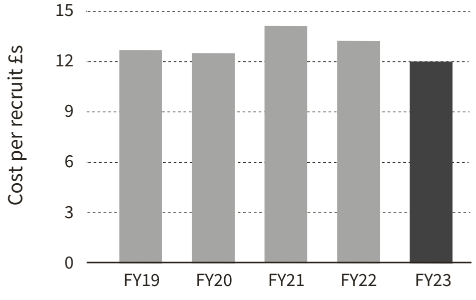
A challenging environment for customer acquisition

- However 91.5k new customers still acquired
- Marketing cost per recruit well controlled at just £11.99, a 9% YOY reduction (FY22: £13.22)
- Pressure on gross margins due to the escalating cost of dry goods (glass, packaging, bottling, etc.) coupled with the need to remain competitive with pricing drove increases in total investment
- This led to fully costed CPA (including margin, marketing CPA and operating costs) increased to £19.91 (FY22: £13.61) exacerbated by increased operating costs over Q2/Q3

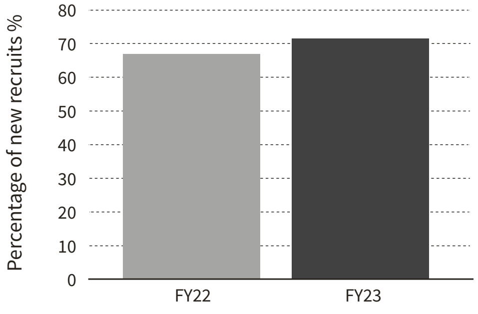
Number of new customers acquired



Cost per recruit



Customers acquired through partnership channel



Customer acquisition *continued*

- We continue to focus on driving the partnership channel to keep the CPA low with 70% of recruits delivered through partners (FY22: 67%)
- Digital acquisition continues to play an important role although search volumes are low, and costs can be high, therefore focus is on optimisation
- We will continue to focus on partnerships moving forwards, while maximising digital and social activity in a controlled manner alongside telemarketing, CRM re-recruitment and Member get Member
- There are also a small number of targeted direct mail tests planned to specific lapsed customer segments
- We refrain from brand advertising given the difficulty in tracking effectiveness coupled with soft consumer demand

70% of recruits acquired through partnerships;

Vintage by SAGA in association with Virgin Wines

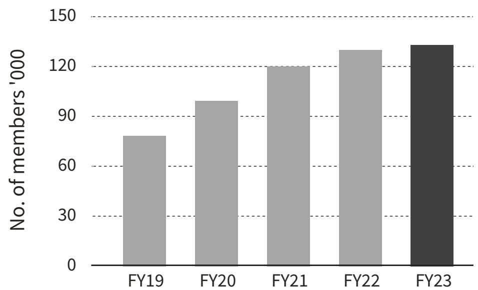
Mail Wine Club in association with Virgin Wines

A customer base driven by WineBank

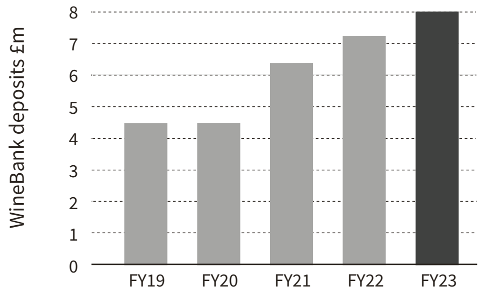
Our WineBank scheme continues to perform robustly with strong underlying trends

- The proposition, which rewards members with 20% interest on their monthly deposits and free delivery, represents outstanding value
- Despite the challenging consumer landscape, we saw strong levels of loyalty from the membership;
    - Membership grew to 133k (FY22: 130k)
    - Cancellation rate only increased a small amount to 17.3% (FY22: 16.7%)
    - WineBank deposits at an all-time seasonal high of £8m
    - Revenue from WineBank customers over £35.3m, +82% from the last pre-Covid period with the membership +52%

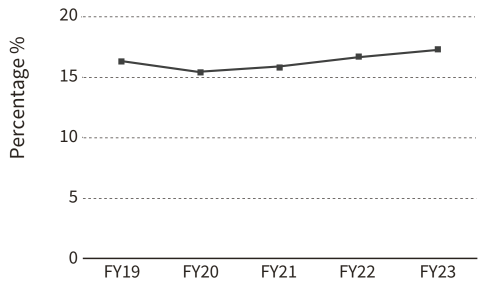
Membership total



WineBank deposits



Membership cancellation rate



A customer base driven by WineBank *continued*

- Order frequency declined during H123 as members saved until their purchases were covered with WineBank deposits, rather than 'topping up' with cash, reducing the average spend per customer
- Signs that this had bottomed out during Q323 and started to move positively over Q423
- We are encouraged that customers have stayed loyal and continue to deposit funds monthly, as opposed to cancelling at a materially higher level
- We focussed less on our Wine Plan schemes during FY23 due to the higher customer churn
- Membership cancellation rate on Wine Plan reduced to 42.9% (FY22: 45.1%)
- Revenue from customers on all subscription schemes accounted for 87% of total DTC revenue

£4m+
of additional value given to WineBank customers **through interest payments** in FY23

£1.15 per bottle
WineBank customers average saving of **£1.15 on every bottle purchased**

Commercial channel

The Commercial channel continues to be a key area of focus with significant headroom for future growth

- Key partnerships with Moonpig, Avanti, LNER and Great Western Railways have continued through the period
- Commercial revenue increased to 11.6% of total company revenue (FY22: 10%) and is now 105% higher than FY19
- Corporate gifting plays an important role in the overall trading mix, particularly over the peak Christmas period
- Large scale wholesale partners continue to be a target as we look to build upon those already secured
- Relationship with Virgin Red continues to develop as the group loyalty scheme grows
- Sales through our DTC partners have been affected as their volumes vary, however our relationships with Amazon and Shop Direct continue to be valuable
- Our new partnership with WH Smith, supplying their travel hubs, has started well and we look forward to continuing to develop the relationship

We are delighted to work with a range of high profile commercial partners

LNER
LONDON NORTH EASTERN RAILWAY

amazon

GWR

Virgin RED

AVANTI WEST COAST

WHSmith
EST·1792

moonpig

Operations & customer care

Warehouse and Fulfilment

- We operate our own fulfilment centres with over 100k sq ft of fully bonded warehousing space between two sites in Preston and Bolton
- Following the issues experienced with the WMS implementation we have worked tirelessly to rectify the situation and return to operational efficiency
- We are confident those initial teething issues are resolved and we can deliver increased efficiency and productivity moving forwards
- We now also have a Tier 1 WMS that can support our growth ambitions for several years to come

Customer care

- The customer service team performed with the utmost resilience while dealing with the H1 operational challenges
- Delivering outstanding service is at the heart of our brand DNA and we are pleased to be delivering again at the very highest levels
- Following a short term decline the business once again enjoys an '**Excellent**' rating on Trustpilot with a score of 4.4/5 and has received over 1,000 five star ratings over the past 12 months

Trustpilot

16,850+ five star reviews

Operations & customer care *continued*

Wine Advisors

- Our team of 42 wine advisors offer over 50k of our customers a free, one-to-one, personal service and look after their entire relationship with Virgin Wines
- They work across all our customer groups whether they be WineBank, Wine Plan or Pay As You Go
- The team deliver the highest average order of all our channels, +23% vs. email and +9% vs. web
- Average order value in FY23 was +4% YOY representing an all time high
- Product gross margin through the channel also at an unprecedented high of 42%
- Valuable in retaining customers due to high levels of customer engagement

Open-source wine buying

- With the cost pressures seen over the past year our flexible wine buying model has never been more important
- The ability to source from the world's wine regions with the highest quality/value ratios has been key
- Whilst we have a large number of highly valued winemaking partners across the globe, we keep contracted volumes to a minimum
- This allows us to increase or decrease the volume sourced from individual regions every year based on:
  - The quality of the vintage
  - The price of the wines
  - The exchange rate
  - The cost of the dry goods
  - The freight costs
- We have also managed costs by increasing our exclusive range with 96% of wine sold by volume exclusive to Virgin Wines (FY22: 93%)
- In addition, we have increased our UK bottling to 40% of total volume, up from 28% in FY22

ESG

We continue to prioritise the impact our business has on our environment and our people alongside our commercial ambitions. We were delighted to make progress again this year in a number of areas:

- We were certified carbon neutral according to PAS 2060 standards for carbon neutrality
- Reduced our Scope 1, 2 and 3 emissions by 43%
- Continued to use Greencroft Bottling, a BRC Grade AA+ rated facility for all UK bottling
- Committed to a SBTi to reduce our Scope 1 and 2 GHG emissions by 42% by 2030
- Became members of two industry wide organisations committed to driving best practice, the Sustainable Wine Roundtable and Harpers Sustainability Charter

We also continued to prioritise our working environment and the welfare of our people by:

- Providing full access to all employees free of charge to our Employee Assistance Programme
- Championing awareness through a variety of initiatives surrounding diversity and inclusion
- Access to a variety of different internal and external training programmes
- Undertook a culture and engagement study through the Best Employers Eastern Region 2023 to better understand where we are doing well and where we can improve

FY23 overview

Financial review

The year in detail

Business review/new initiatives

Current trading and outlook

New initiatives

New initiatives following Business Review:

With the changing consumer landscape, it is important we adapt accordingly

We have therefore looked at a number of initiatives to help the business grow

1. The launch of a new value brand as a standalone proposition called **Warehouse Wines**
2. A creative review of the Virgin Wines brand to **build on its premium positioning**
3. The development of a premium Australian wine club highlighting our **Five O'clock Somewhere** portfolio
4. Launching our **'Vineyard Collection'** building on our provenance and featuring wines made from Virgin Wines own select vineyard sites

wines

New initiatives: Warehouse Wines

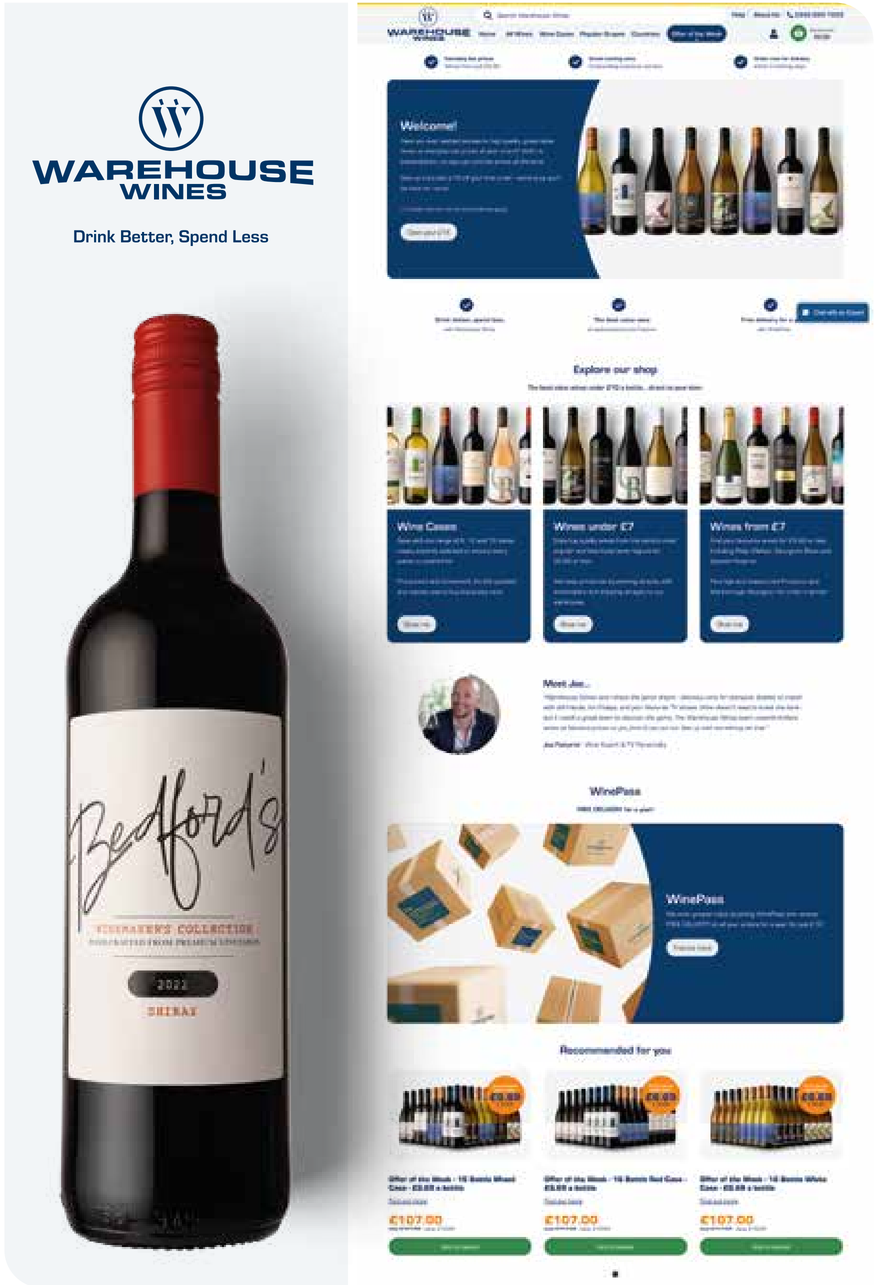
With the popularity of value propositions, we identified a significant market opportunity in the DTC space

- Virgin Wines is largely selling wines between £10 and £15 a bottle inc vat
- There is a huge market in the UK off trade for wine under £10 a bottle with 70% of wine sold in that space
- Currently no specialist DTC provider of any significant size caters exclusively to that market
- A different demographic of customer to Virgin Wines – Warehouse Wines is targeting the supermarket wine buyer

The proposition is fundamentally different to Virgin Wines:

- Everyday low prices - £6 - £10 a bottle inc Vat
- Quality wines – no compromise on the standard of the wines listed
- An exclusive range unique to Warehouse Wines
- No huge leaps in price from the introductory case
- No subscription schemes

Brand launched in late Oct 2023 with initial customer acquisition tests planned over Nov/Dec 2023



New initiatives: Creative refresh of Virgin Wines brand

We believe Virgin Wines doesn't visually or promotionally represent the quality of the product

- Customer focus groups, both quantitative and qualitative, carried out to examine the current Virgin Wines positioning
- Results gave a clear direction to visually enhance the current positioning
- Desire to add a more premium feel, adding credibility and authenticity to the wine proposition
- Also essential to keep clear differentiation between Virgin Wines and Warehouse Wines
- Significant work carried out with both Virgin Group and an external creative agency to assist in delivering the final results
- The implementation of the creative review set to be rolled out over late Q2 and Q3
- A clear movement of positioning in terms of logo, typeface, imagery and stylistic positioning

New initiatives: Five O'clock Somewhere (5OS) wine club

5OS is a niche brand that is exclusive to Virgin Wines in the UK

- Features renegade winemaking that delivers high quality, small batch wines from Australia
- Range of grape varieties featured that are unusual to the region as well as more traditional varietals
- Beautifully presented with labels often designed from the original artwork of local Adelaide artists
- Due to small batch nature, the wines are in high demand, so a 5OS Wine Club being established to help build the proposition
- Wines available on pre-sell when initially shipped from Australia
- Available to members of the 5OS Wine Club on a first come, first served basis
- Belief that the range and the size of the club can be built over time to something significant and highly desired

New initiatives: Vineyard Collection

A wine range designed to add provenance to the Virgin Wines wine proposition

- Wineries we work with have given Virgin Wines a bespoke plot of vines
- Wines are created by our own team from these exclusive vines
- Currently secured sites in Sussex, Australia, France & South Africa
- Virgin Wines sourcing model involves the direct interaction of our team in the blending of wines to suit the feedback of our customers
- This proposition acts as a 'halo effect' for all the wines we produce building on our wine credibility and authority

FY23 overview

Financial review

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Current trading - Q124

A positive start to FY24 with a number of encouraging signs

- Sales have been in line with our expectations and are 12% ahead YOY
- Sales to existing customers through core repeat channels up 15.5% YOY
- The commercial sales channel also continues to show positive YOY growth, +8% post period end
- Margins are stable despite continued cost pressures
- Operating variables are down 9.4% YOY
- Warehouse fulfilment costs are down 15.5% YOY
- However, customer acquisition continues to be challenging

Total revenue
↑12%
YOY

Core repeat sales
↑15.5%
YOY

Operating variables
↓9.4%
YOY

Warehouse cost per case
↓15.5%
YOY

Focus for FY24

1. A tried and tested model that will drive organic growth

- Retain disciplined approach to customer acquisition in a challenging environment
- Continue to build our WineBank subscription scheme delivering high levels of customer loyalty
- Drive further efficiencies through strict cost controls in operations, overhead, marketing and IT
- Maintain a strong balance sheet driving cash generation

2. Implement the new initiatives highlighted from the Business Review

- Warehouse Wines has now launched and we are keen to see how the proposition resonates
- The refreshed brand creative will be implemented across all channels over the next 6 months
- The initial customer communications driving sign-ups to the 5OS Wine Club will begin pre-Christmas
- The first 7 wines from the Vineyard Collection to be launched to customers in March

3. Continue to look at opportunities for future growth

- We are always open to looking at a range of ways to drive growth in a strategic manner
- We continue to look at M&A opportunities, albeit with a clear set of criteria they must fulfil
- We continue to carry out due diligence on international markets for any potential geographical expansion opportunities that may exist and be appropriate

Thank you