Symmetry Invest
Østre Allé 102, 9000 Aalborg
www.symmetry.dk



Naked Wines Plc

Research

Date	Target	Price	Upside
23/04/2020	600 p	318 p	87%

Disclaimer

This report is written by Symmetry Invest A/S. The report is based on research, financial statements, interviews, field research, analyst reports etc. The report includes the opinions of Symmetry Invest A/S. This are our own opinions. Symmetry do no assure for any correctness written in this report as there could be material miscalculations, mistyping's etc. The research is often done on a 6-18-month basis before publishing. This report should in no way be seen as a buy, hold or sell recommendation of the company. Symmetry Invest A/S are an authorized alternative investment firm (FAIF) by Danish regulatory authorities. We are not authorized as an investment advisor and as such this research should in no way be interpreted as investment advice but as journalistic research and our own reasoning for owning the stock. Symmetry are in no way responsible for any losses incurred on investments based on this report. Readers of this report should interpret that Symmetry Invest A/S are holding shares in the company by the time of publishing this report. Symmetry commits not to trade in the stock in 72 hours following publishing (according to the timestamp in the report). After that, Symmetry Invest A/S keeps the right to buy or sell the stock without any further notifications about it. Our target price for the stock could change materially caused by factors either in or out of company control. We are not obligated to issue a new report or any notification should or target price change.

This report is released to the following persons:

- This report is released on our company website to investors in Symmetry Invest A/S
- The report is passed through to fellow fund managers or investment advisors around the world as it is normal for investment managers to share ideas with each other
- The report is sent to subscribers to Symmetrys quarterly newsletter registered on our website.

Symmetry Invest A/S operates under the FAIF regulation and can only do marketing of our fund to Danish FAIF accredited investors. As such, this report should in no way be interpreted as marketing for Symmetry Invest A/S.

In some cases, Symmetry will issue a follow up report on material new information about the company. But are in no way obligated to so.

Investment in stocks includes risk of loss of capital and we always recommend others to consult with an authorized investment advisor before doing investments.

Pictures and other material in this report could be protected by Copyright and cannot be redistributed.

Symmetry are not receiving payments from any company mentioned in this report beside our return on stock ownership in companies mentioned.

About Symmetry Invest A/S

Symmetry Invest A/S is a Danish based investment firm focused on small- and midcap companies globally. It is a long-short fund that tries to take advantage of mispriced assets namely in the small cap space. We use a fundamental view and take a long-term approach. We much prefer to invest with founders that are creating truly unique businesses.

You can learn more about Symmetry Invest A/S at our homepage:

http://www.symmetry.dk/ or follow us on Twitter:

https://twitter.com/Symmetry_Invest

Linkedin:

https://www.linkedin.com/company/48856174/ or Hedgenordic:

https://nhx.hedgenordic.com/Program.aspx?id=18996

Feel free to connect with us at:

aa@symmetry.dk

A huge beneficiary of Covid-19

- **Even before the Covid-19 outbreak we invested in Naked Wines Plc because we believe in the business model long-term.**
- **As we don't know the long-term effect from Covid-19 we have not included any benefit in our model and 600p target. But so far, its clear WINE will get a huge benefit that could boost our price target even further.**
- **WINE has a unique business model that is highly suited for long term profitable growth in the US.**
- **WINE has a strong management team with long tenure in the company and an aligned shareholder base with some high caliber funds recently entering the stock.**
- **After the sale of Majestic, WINE has a clean balance sheet with 20 % of the market cap sitting in cash. This gives them huge opportunity to grow and take market share long term.**
- **The total addressable market is big and expanding**
- **WINE is actively embracing technology and taking care of the customer, to make sure they expand the gap to competitors.**

Ticker	WINE
ISIN	GB00B021F836
Currency	GBP
Target	600
Latest	318
Stocks in issue (mil.)	72,8
Market cap (mil.)	240

Key numbers (2020)

Not really relevant at this point.

NØGLETAL (thousands GBP)	2019	2020	2021	2022
Revenue	174.400	202.090	236.107	276.700
EBITDA	-300	-1.299	922	3.308
EBIT	-2.800	-4.299	-2.228	1
Net Income	-9.400	-3.868	-2.557	-859
EBITDA margin	-0,2 %	-0,6 %	0,4 %	1,2 %
EBIT Margin	-1,6 %	-2,1 %	-0,9 %	0 %

Why is it cheap?

The most important question to ask before investing is. Why is the stock cheap? We see 5 reasons why WINE (Naked Wines) is valued at big discount to what we believe the shares are worth.

1) WINE was originally a retail wine shop in the UK under the Majestic Wine name. In 2015 they bought Naked Wines Plc. In 2019 the company sold of the retail businesses (quite good timing with Covid-19 coming) leaving the Naked Wines businesses as the pure-play online wine retailer. We think this has made the stock much more attractive. But it has also created a huge movement in the shareholder base. Before the shareholder base was a lot of UK institutions that liked the slow growth retail wine businesses and a company paying steady dividends. With the sale of Majestic, the business is now a money losing online crowdfunding businesses for independent winemakers. That stock did not fit well into a lot of the portfolios. We think a lot of legacy shareholders sold the stock. This put selling pressure on the stock between 2017-2019 .

2) The UK economy became more and more sluggish after Brexit. The retail part first and later the online part started to post worse numbers in the UK over 2019. The negative GDP development further depressed margins as most wine in the UK is imported.

3) While the retail business was only UK based the only businesses is more diversified between US, UK and Australia with the US being the biggest market (and by far the biggest opportunity). A listed company in the UK that have the focus in the US somehow discourage some investors.

4) The founder and former CEO Rowan Gormley divided investor opinions. We at Symmetry liked him, but we also talked to other current and former investors in WINE who disliked Roman. He is a quite an entrepreneurial and eccentric person. After Rowan stepped down as CEO late 2019 a lot his “fans” probably sold the shares leaving to further declines in the share price. We think the new CEO Nick Devlin have done a good job building trust with shareholders. As he is living in the US and is a really operational and transparent guy, he has done a good job getting some new US investors in.

5) As the Naked business are in an investment phase and currently loss making the business and operational money is not easy to understand. Even though we like the businesses a lot the unit economics is still not 100 % proven to this date and the company need to show that the business model work at scale in the future.

What is Naked Wines Plc?

As Naked Wines sold its old retail business (Majestic Wines) in the end of 2019 we will focus this report on the Naked Wines business that is the only remaining business in the group.

Naked wines are an online crowdfunding platform for independent winemakers. It is really important to state that Naked is not an online wine-club as we know them. In those wine-clubs subscribers pay a monthly fee to purchase wine at wholesale prices. The Naked model is a lot different (and a lot better in our opinion).

The costumers (called Angels) each month deposit 20 GBP or 40 USD (or a higher amount if desired) into an online account. This is a monthly minimum subscription to be an angel. It is worth noting here that the money paid still belong to the Angel. Its not a fee and can be fully refunded if the customer chooses. The money is paid into “piggy bank account” that the Angel can use to purchase wine later on.

Naked Wines then each month receive monthly payments from all their angels into the bank account (again its not income for Naked as the money belongs to the Angels). Naked then uses this money to fund independent winemakers. Essentially and online crowdfunding solution where the Angels pay upfront and use that to fund winemakers. Once the customer is ready to purchase, they can use the credit built up in their account to buy wine (which is when Naked records revenue).

This model has huge benefits for both parties:

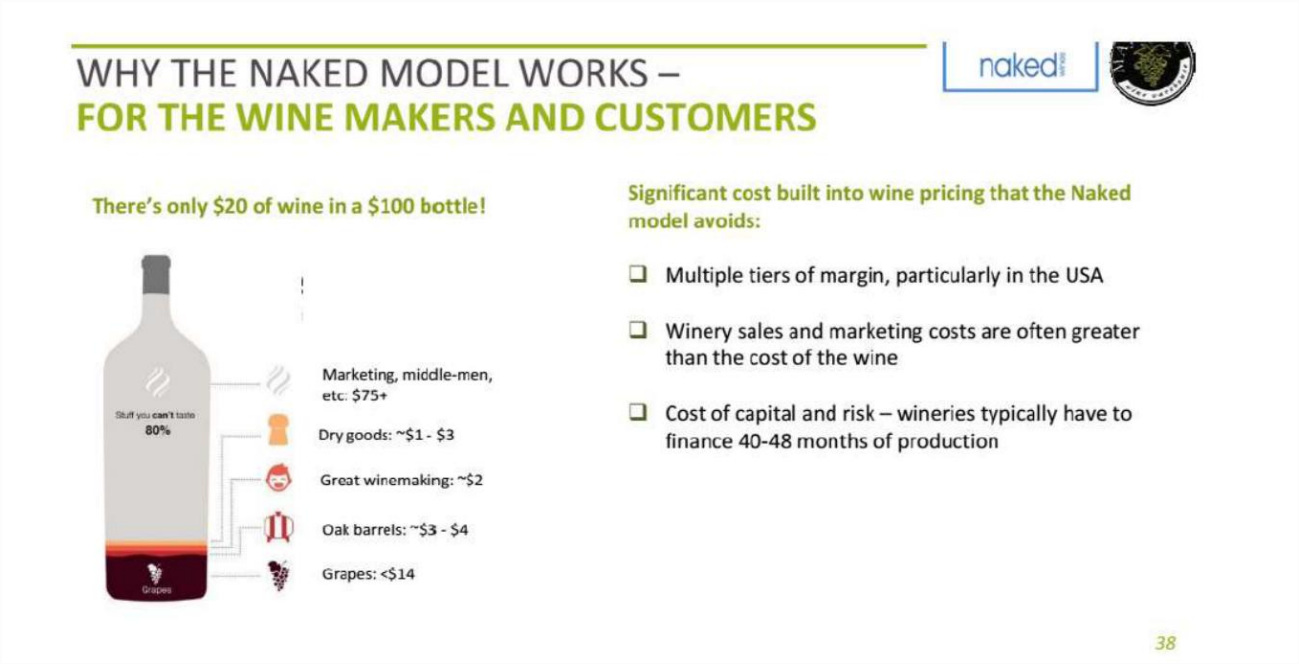
Wine-makers:

1) The wine-makers gets capital upfront from Naked Wine to buy grapes, equipment etc. and produce the Wine (it takes time and capital to produce good wine). 2) By becoming an exclusive wine-maker on the Naked platform they get access to the 500.000+ angels (customers) on the platform where they can be sure to sell their wine. 3) They don’t have to focus on sales and marketing as Naked deliver the customers. They can focus all their time and energy on producing the best wine 4) As they sell directly and ship directly to consumers (with Naked taking a small cut) they can offer far better prices than going through the big distribution system (especially in the US) 5) On the Naked platform they can interact with customers and get feedback on the wine and how to make it even better etc. Naked also organize wine-tasting events etc. where customers can meet the winemakers in person and taste the wine 6) Naked Wines takes care of bottling, labeling, distribution etc. That gives all the winemakers economics of scale and let them focus on what they do best. Produce good wine. 7) As a result of these advantages, Naked has been able to attract a

very strong roster of winemakers (presentation has a slide showing winemakers from Penfolds etc).

Angels:

1) Angels get access to better quality wine at lower prices. The value proposition is simply much better.



As can be seen above, in the US there is really only about 20 % of wine in the price of a $100 bottle. Most of it are marketing, middlemen, distribution etc. When Naked Wines cut out all the middlemen, they are able to make sure the Angels can get a significant higher % of wine for the $ they spend = better wine for lower prices.

2) As you can see on the videos later on a lot of wine-drinkers like to know more about the wine. Through naked they can learn about the wine, the winemaker, the story behind it etc. 3) As we have seen with other crowdfunding platforms, customers like to fund and help other entrepreneurs. 4) As all the winemakers sell exclusive on Naked Wines Angels get access to wine that no one else can buy. So, when you have friends over or are hosting a party you can actually serve delicious wine they probably have never tasted before (and can't access without becoming an angel). 5) They get access to the Naked platform where they can interact with both other Angels and the winemakers. The angels rate the wine, comment on it, rank it etc. If you are a wine-lover this a perfect platform to learn about wine and interacting with other wine-lovers.

You can watch some videos about the business model here:

https://www.youtube.com/watch?v=501BIcogjsk&feature=youtu.be
https://www.youtube.com/watch?v=6mF1bDTqUI0

And see some videos form wine tasting events here:

https://www.youtube.com/watch?v=96U42_JFfN8

Removing the 3-ties distribution in the US:

This one is a little complicated but really important to understand. Naked Wines are classified as a winery themselves. This gives them the ability to sell directly to consumers in the US (+90 % of the population). And this gives them the ability to surpass the 3-tier distribution system in the US:



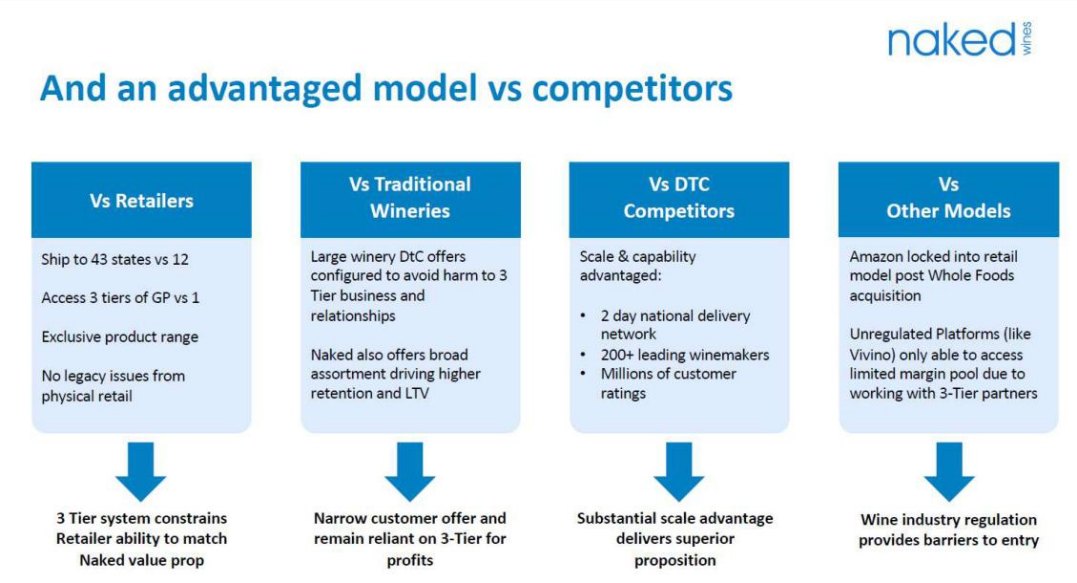
The wine-makers also benefits significantly from this system:

> *The biggest challenge for winemakers these days is twofold, according to Napa-based winemaker Matt Parish. "First, how do I pay for the winemaking process, which takes many years and lots of capital?" he says. "Then, how do I sell it all?"*
>
> *Another Naked Wines partner, Scott Peterson tells Inverse that direct-to-consumer online sales help winemakers profit and customers save money by "cutting the fat in the middle."*
>
> *"The margins are already so slim for the winemakers due to the three-tier system, so partnering with a platform like Naked Wines helps wineries like mine distribute inventory and stay out of debt."*[i]
>
> *"I make more money selling my wine through Naked at $15 a bottle than through the 3-tier system at $50 per bottle." -Daryl Groom*[ii]

How to find new winemakers?

Naked wines have full time employees where the only job is to find and hire new amazing winemakers. This could be existing winemakers that want to get out of the current distribution/agency system and sell directly to consumers.

But a lot of it is also Naked really helping new ones start up.



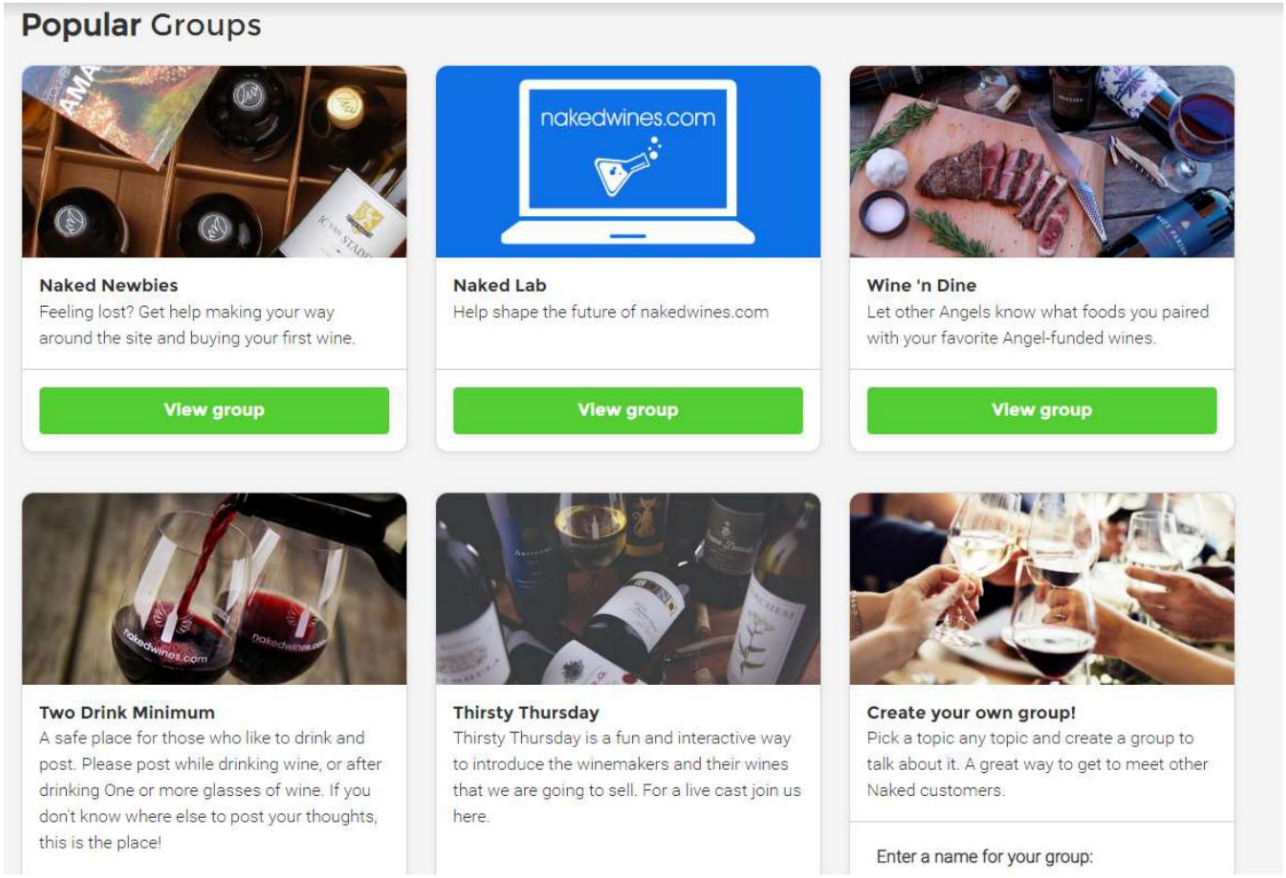
If you are a good winemaker and currently employed at another winery with a dream of making your own wine Naked Wines is a perfect opportunity. Naked gives you money upfront to produce the wine, help you will bottling, administration etc. and have customers ready to buy the wine when its done.

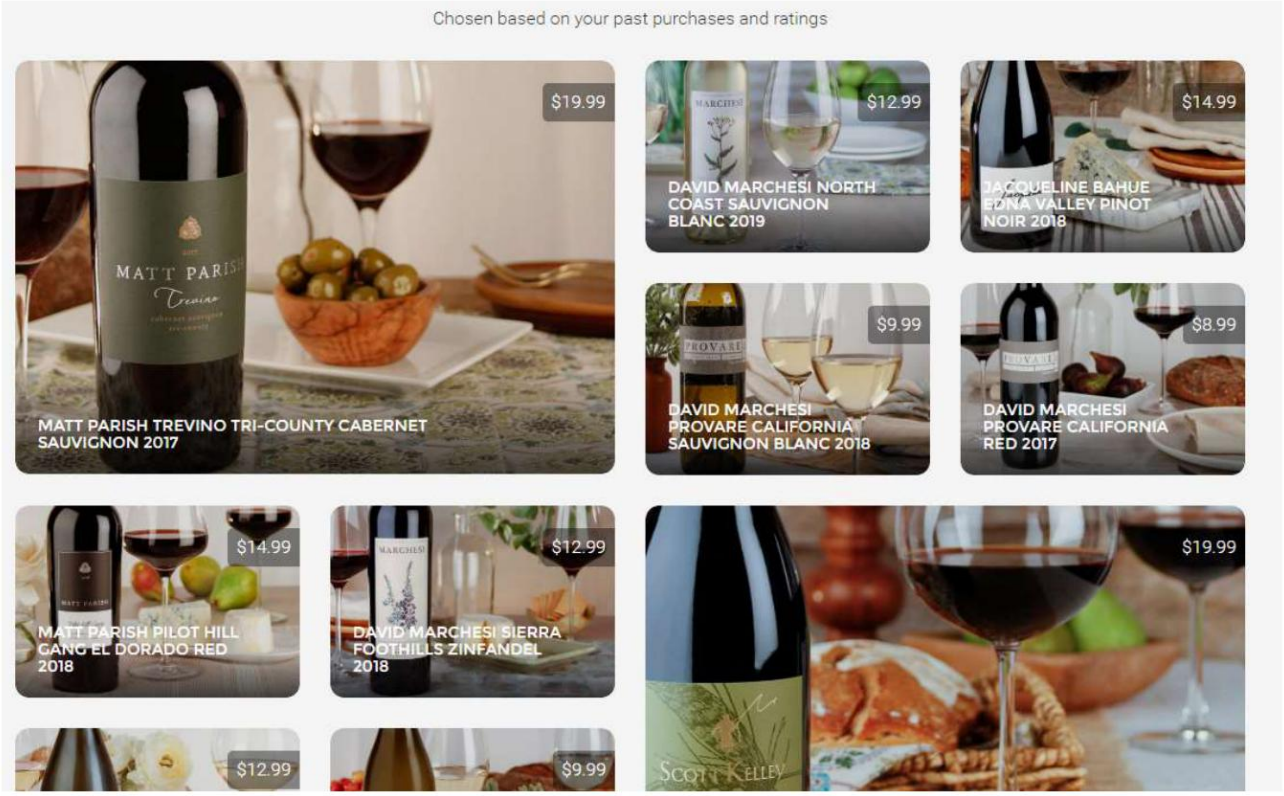
Because of this, WINE has been successful in hiring and seeding credibly winemakers from really all around the world. Wit the disruption in the wine-market from Covid-19 there could be an inflow of new good winemakers to the platform. A lot of good wine are currently sold to restaurants, wine-tastings etc. But as those are closed Naked have an opportunity to get those winemakers on the platform.

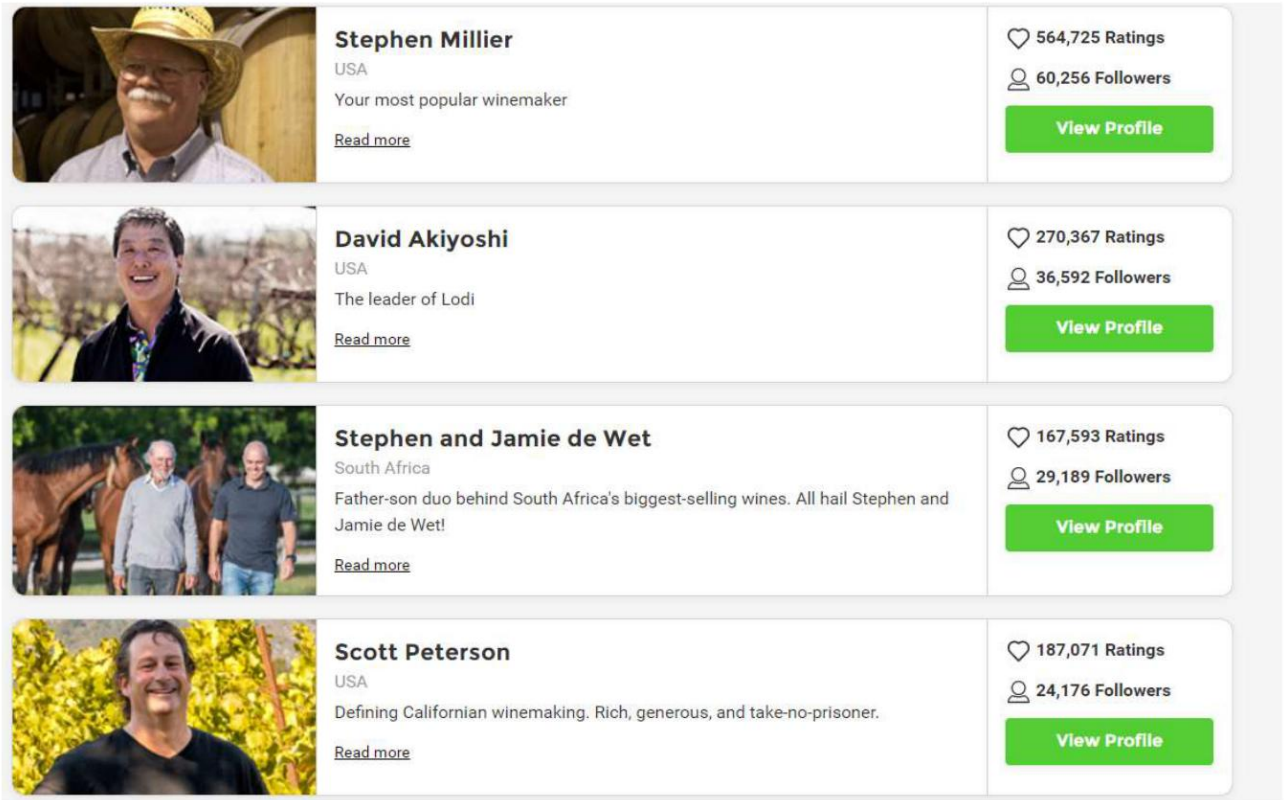
Big data:

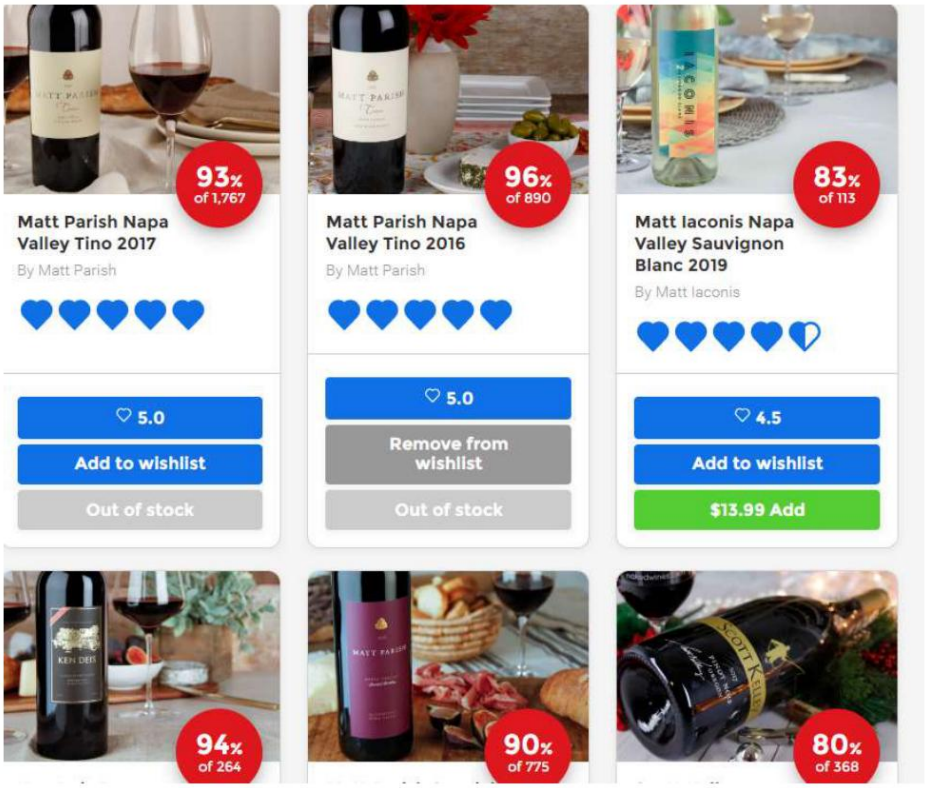
To understand Naked Wines better its important to know that they are not just a middleman or a distributor of Wines. They have created an online platform that is more like a “social network” for wine-lovers.

Below we have showed some pictures from the site to illustrate how it looks like:




Chosen based on your past purchases and ratings
$19.99
MATT PARISH TREVINO TRI-COUNTY CABERNET SAUVIGNON 2017
$12.99
DAVID MARCHESI NORTH COAST SAUVIGNON BLANC 2019
$14.99
JACQUELINE BAHUE EDNA VALLEY PINOT NOIR 2018
$9.99
DAVID MARCHESI PROVARE CALIFORNIA SAUVIGNON BLANC 2018
$8.99
DAVID MARCHESI PROVARE CALIFORNIA RED 2017
$14.99
MATT PARISH PILOT HILL GANG EL DORADO RED 2018
$12.99
DAVID MARCHESI SIERRA FOOTHILLS ZINFANDEL 2018
$19.99
$12.99
$9.99


Stephen Millier
USA
Your most popular winemaker
Read more
564,725 Ratings
60,256 Followers
View Profile
David Akiyoshi
USA
The leader of Lodi
Read more
270,367 Ratings
36,592 Followers
View Profile
Stephen and Jamie de Wet
South Africa
Father-son duo behind South Africa's biggest-selling wines. All hail Stephen and Jamie de Wet!
Read more
167,593 Ratings
29,189 Followers
View Profile
Scott Peterson
USA
Defining Californian winemaking. Rich, generous, and take-no-prisoner.
Read more
187,071 Ratings
24,176 Followers
View Profile



This is a platform that helps all the angels interact with each other, rate the wine, and interact with the winemakers etc. The Angels can study and learn more about the wine, they can create groups, events etc. As we have mentioned before, Naked also holds live events like Wine tastings etc.

Naked knows a lot about their Angels from their prior activity on the platform. There is a constant accumulation of data that Naked uses to improve the product and user experience. Think about how Facebook use your “likes, comments, browsing etc.” to tailormade their Ads to you. Naked Wines can do the same with wine. They know your ratings, comments, what wine you look at, what price points you normally buy, if you prefer red or white etc. They can use all that data to tailormade offers to you and help you find wine you will like.

They can use ratings, comments, behavior to adjust pricing on the wine. In this way they can constantly make sure that the price of the wine is in line with value for money.

Winemakers can use the data to improve the wine, adjust tastes etc. to match customer preferences.

Another thing about data relates to supply and logistics. This article explains a little about how much technology and knowhow it requires to sell and distribute wine in the US: *https://techcrunch.com/2016/08/13/the-story-of-naked-wines/*

How do they get new Angels?

According to Naked their product and value proposition are extremely good for the Angels. The problem for Naked has always been to get people to try it and get short term retention up. From studying their cohort data, they know that after the first 12-18-month churn cohorts get extremely sticky and deliver high lifetime value.

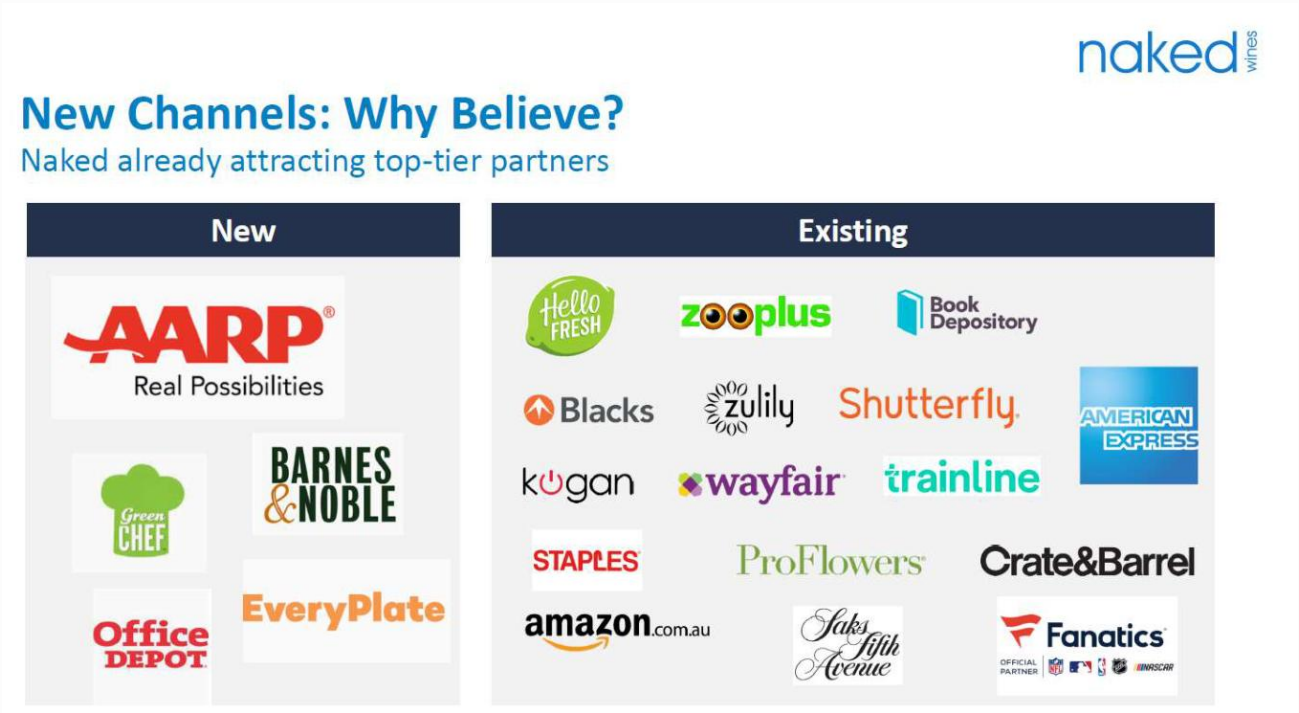
The issue has been how to first get people to try it. And afterwards how to get the short-term retention up.

Naked customers acquisition cost (CAC) is split into two pieces:

1) Cost of marketing (buying ads, paying partners, employees etc.) 2) First order discounts (the discount customers get on their first order)

Naked uses different channels to attract new angels. One is digital ads (Facebook, Instagram, YouTube etc.) where they educate about the Naked model and flash some "discount" to get people to the site. That channel is growing a lot.

The biggest channel is still the partnership channel. Here Naked have a lot of credible partners:



How Naked work with the partners can vary and the payment method can vary. The typical partnership is based in the partner distributing vouchers from Naked. Think about when you order a package from Amazon and you receive a voucher with the package. It will normally be something like "50 % discount on your first order on nakedwines.com" etc.

When a voucher is then used on the website the user automatically subscribes to become an angel and start depositing the monthly payment into their piggy bank. This is the most controversial part about the model. When you read about Naked Wines on Trustpilot etc. the biggest frustrations come from people who use the voucher but do not understand they also sign up to become an angel. When you think you are just using a 50 % discount voucher and Naked suddenly starts taking 40 USD from your account you can feel taken advantage of.

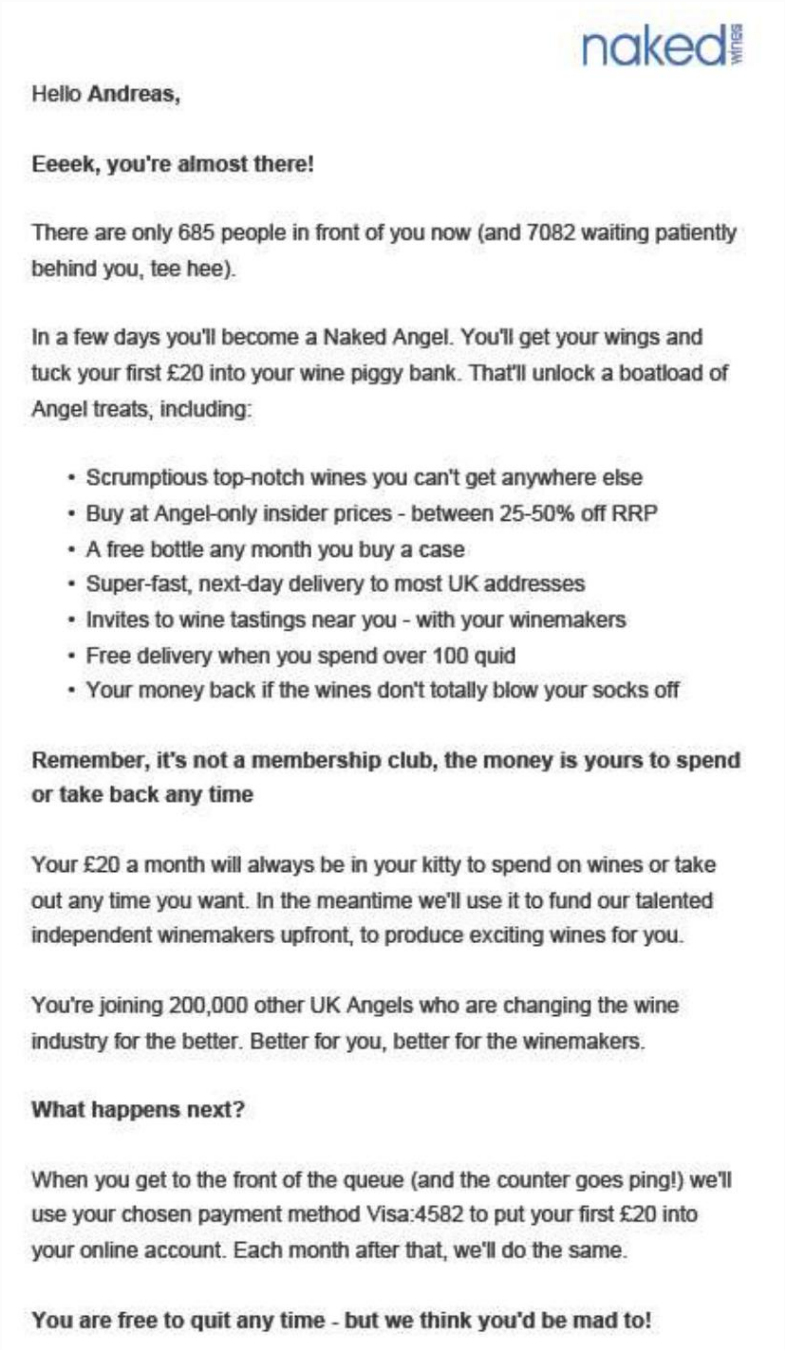
In my opinion Naked do a really good job of telling people how the model works. But to be fair there is a little bit of “forcing the horse to the water” here. Naked knows it is hard to sell a monthly payment to new customers. But they also know the value proposition are amazing and retention good for those who end up becoming an angel. I think the model have been a little like tricking people to become angels with the 50 % voucher and then just accepting that some get angry and leave and some stay. As long as the value of the retained customers remains strong, I believe this model is attractive for Naked. I do think however that Naked have improved over the last few years in this regard. They have become better at telling about the model upfront etc. Naked do not have any interest in giving wine away for free so the retention is important.

Naked also have a money back guarantee. If you use the voucher and do not like the wine, you can get your money back. They can only do this because, so few people complain about the wine quality and demand money back.

Naked proactively interacts with their Angels. They contact them and ask about the wine. Is someone got a Wine they didn’t like Naked will send a replacement bottle etc. The ultimate goal for Naked is to create happy lifetime customers. They know that all this upfront cost to nurse new Angels improve lifetime value and create long term shareholder value.

I will also say a lot of the negative reviews on Trustpilot etc. is because people don’t read the vouchers etc. correct. They just see “50 % discount”, don’t read further and use a fake email to make the purchase. Naked Wines also proactively respond to all negative reviews on Trustpilot etc. an encourage people to contact customer support to get all their money back.

As a little field research, I tried to sign up as an Angel (even though I can't order Wine to Denmark). Below is the welcome email:



naked wines

Hello **Andreas,**

Eeeek, you're almost there!

There are only 685 people in front of you now (and 7082 waiting patiently behind you, tee hee).

In a few days you'll become a Naked Angel. You'll get your wings and tuck your first £20 into your wine piggy bank. That'll unlock a boatload of Angel treats, including:

- Scrumptious top-notch wines you can't get anywhere else
- Buy at Angel-only insider prices - between 25-50% off RRP
- A free bottle any month you buy a case
- Super-fast, next-day delivery to most UK addresses
- Invites to wine tastings near you - with your winemakers
- Free delivery when you spend over 100 quid
- Your money back if the wines don't totally blow your socks off

Remember, it's not a membership club, the money is yours to spend or take back any time

Your £20 a month will always be in your kitty to spend on wines or take out any time you want. In the meantime we'll use it to fund our talented independent winemakers upfront, to produce exciting wines for you.

You're joining 200,000 other UK Angels who are changing the wine industry for the better. Better for you, better for the winemakers.

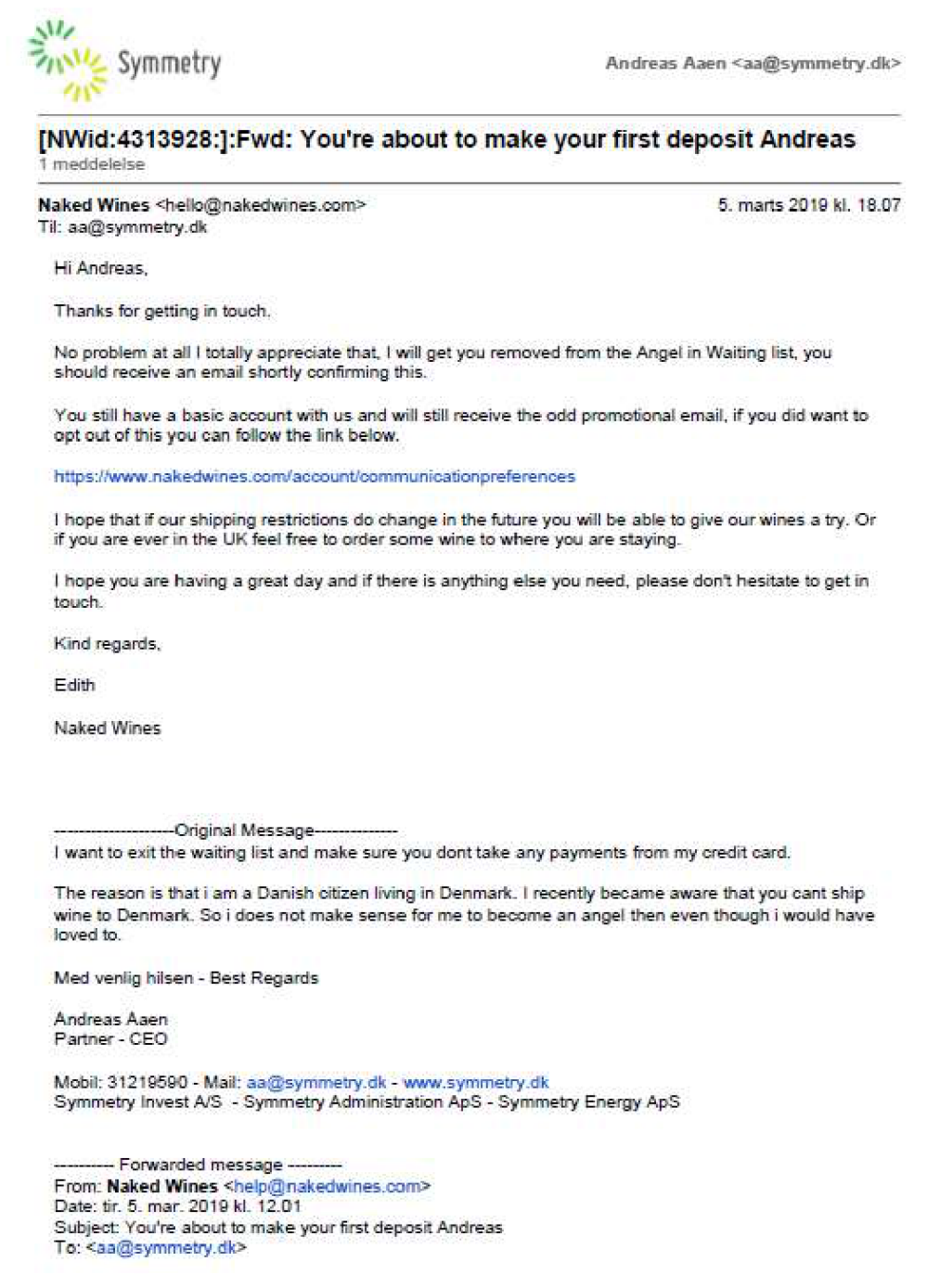
What happens next?

When you get to the front of the queue (and the counter goes ping!) we'll use your chosen payment method Visa:4582 to put your first £20 into your online account. Each month after that, we'll do the same.

You are free to quit any time - but we think you'd be mad to!

I think they quite clearly lay out what will happen with the monthly payment etc. They send you 3-4 mails to "warn you" before they take the first payment from you. But again, if you have used a fake or inactive email when you used the voucher it doesn't help.

I also tested customer support when I wanted to exit the angel list (again I can't order to Denmark). Here is the quick response from them:



Symmetry

Andreas Aaen <aa@symmetry.dk>

[NWid:4313928:]:Fwd: You're about to make your first deposit Andreas

1 meddelelse

Naked Wines <hello@nakedwines.com> 5. marts 2019 kl. 18.07
Til: aa@symmetry.dk

Hi Andreas,

Thanks for getting in touch.

No problem at all I totally appreciate that, I will get you removed from the Angel in Waiting list, you should receive an email shortly confirming this.

You still have a basic account with us and will still receive the odd promotional email, if you did want to opt out of this you can follow the link below.

https://www.nakedwines.com/account/communicationpreferences

I hope that if our shipping restrictions do change in the future you will be able to give our wines a try. Or if you are ever in the UK feel free to order some wine to where you are staying.

I hope you are having a great day and if there is anything else you need, please don't hesitate to get in touch.

Kind regards,

Edith

Naked Wines

----------Original Message----------
I want to exit the waiting list and make sure you dont take any payments from my credit card.

The reason is that i am a Danish citizen living in Denmark. I recently became aware that you cant ship wine to Denmark. So i does not make sense for me to become an angel then even though i would have loved to.

Med venlig hilsen - Best Regards

Andreas Aaen
Partner - CEO

Mobil: 31219590 - Mail: aa@symmetry.dk - www.symmetry.dk
Symmetry Invest A/S - Symmetry Administration ApS - Symmetry Energy ApS

---------- Forwarded message ---------
From: **Naked Wines** <help@nakedwines.com>
Date: tir. 5. mar. 2019 kl. 12.01
Subject: You're about to make your first deposit Andreas
To: <aa@symmetry.dk>

Again. I think its good customer support and service level. In my experience they went a long way to please me, even after they found out they couldn't make money on me.

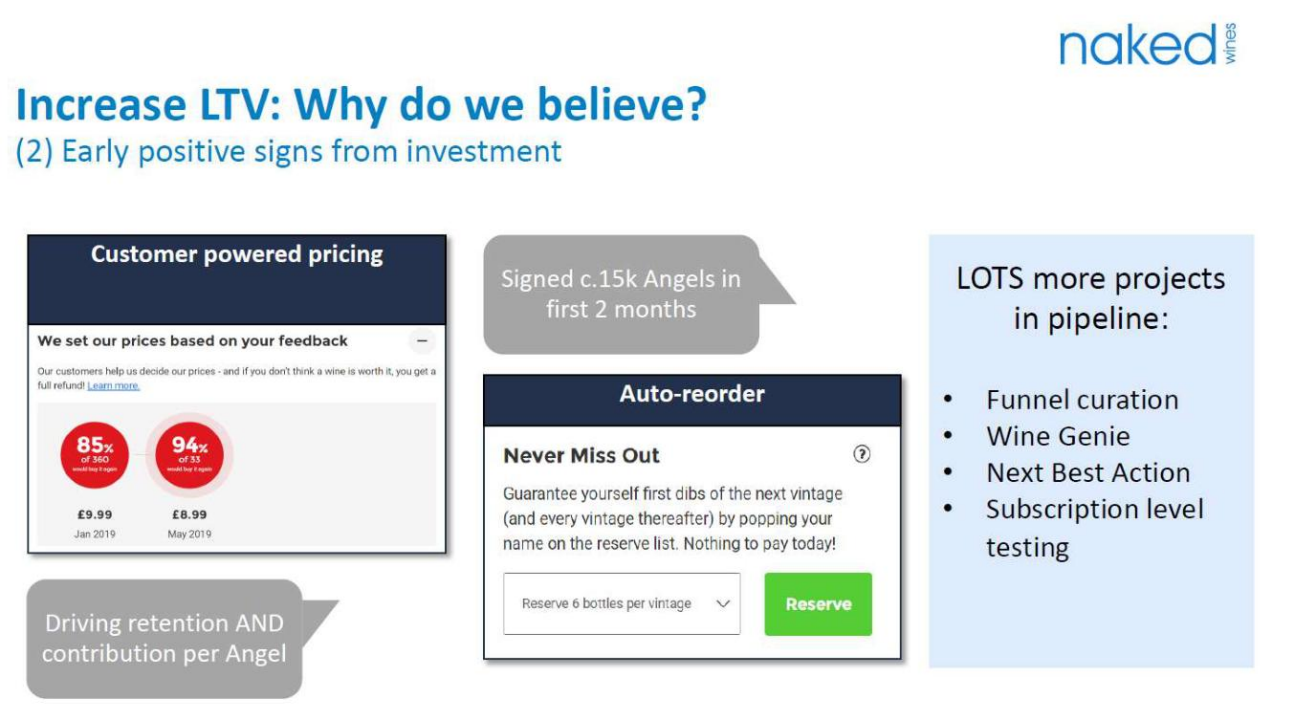
Optimizing LTV:

There is two ways to optimize value in the WINE model. One is to increase the lifetime value (LTV) and the other is to reduce CAC. The CAC is mainly determined by the conversion rates i.e. how many new angels Naked Wines gets on how many ads they displace and voucher they distribute. Also, the price for ads and vouchers is important.

On the other hand, the by fair biggest opportunity is to improve the LTV. The biggest driver of LTV is the retention rates on the angels. The second important driver is the gross margin and order size (ARPU) of Angels.

The way to calculate the LTV for an Angel is the total gross margin dollars less the variable expenses (warehouse, distribution etc.) the angel generates. As with typical subscription businesses Naked see lower retention rates in the first years and higher retention rates as cohorts mature. It makes sense. If you sign up for a new service, you have a higher tendency to leave than if you have been a member in 5 years.

Naked have different tools they can use to optimize LTV:



One of the more successful news tools they have used to auto-reorder. One of the biggest disappointments for some angels has been when they find a wine they really love and when they want to reorder it it's out of stock. Naked have developed a tool they call "auto-reorder". In this

way Angels can make sure they order more wine immediately when their favorite wine gets into inventory again.

Another new invention is active customer refunding. Historically Naked waited for Angels to call them when they wanted money back for “bad wine” etc. Now they are a lot more proactve here. They can use ratings, comments on the site etc. to detect unhapy Angels. Then actively calling them and offer them new wine for free as a substitute for the wine they didn’t like. To some people it can sound like a bad business model to be so proactive in refunding customers.

But Naked have already seen increasing sign of better retention from Angels that got an active refund. It makes sense. If Naked help you with new wine and support until you find some wine you like really like, you will be quite loyal after that and keep buying more wine. Even through it cost Naked money upfront to do this the long term value creation of happy customers are quite significant.

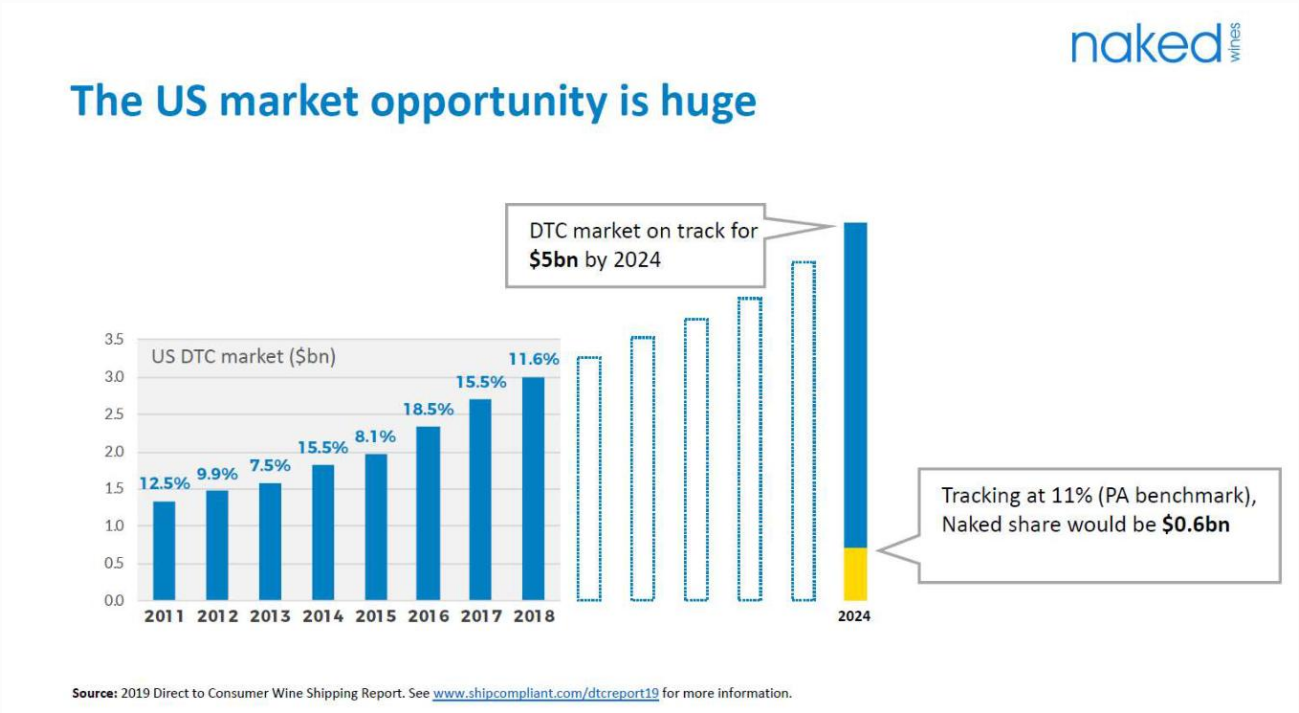


The last thing is more genial investment into product, AI, automation, website optimization etc. As Naked before also owned the Majestic retail business they had to split IT resources etc. with them. Now that management are 100 % focused on the Naked business, they can direct all fixed expenses to this business to help create a better customer experience and improve LTV.

The market opportunity:

The US direct to consumer (DTC) market is growing rapidly. It makes sense as the value proposition are so great when you strip out all the middlemen. You get better wine for less money.

In Pennsylvania (PA) where DTC has been fully embraced, Naked have already become market leader with 11 % of the market.



The US DTC market are structurally growing double digit each year. The market is forecasted to reach 5 billion USD in 2024. If Naked can take a similar market share as in PA (11 %) that would give them a 600 million. USD sales opportunity. Remember they only did around 200 million GBP in 2019/2020, with slightly less than half of that coming from the US.

Naked Wines have 2 long term structural growth drivers going for them:

1) Wine consumption is structurally growing every year and will keep growing forever. This is a 1.000-year trend I don't think will reverse any time soon 2) Online shopping will keep taking share from offline in most consumer buying over time. That of cause also include Wine buying.

Scale advantages:

The biggest thing people misunderstand in Naked Wines is the unit economics. Naked have invested big sums of money upfront to build the distribution, supply chain etc. Also, a lot of IT cost are fixed, and management and plc costs are mostly fixed. When you add all those upfront

investments on top of the upfront customer acquisition you get a business that have a lot of losses upfront but should grow into scale later on.



Naked Wines don't own their warehouses but have instead outsourced that to a third party. It is quite expensive to build warehouses and distribution centers across the US and Naked would be better of investing in new angels instead. Naked have identified several ways to increase margins at scale. The obvious is in grape buying, bottling, labeling, packaging that Naked handles for the winemakers.

The other is in automation where they can get the customer to handle more themselves, having less people directly involved.

It is our believe that a typical customer order is around 100-150 USD per order. If Wine can save around 5 USD per order it will give a direct margin benefit of 5 percentage points.



Despite that Naked don't own the warehouses they have locked in several deals to keep expenses fixed. They will then achieve better margin per bottle of Wine as they grow in the US.

Management and shareholders:

Naked Wines was founded by Rowan Gormley. Rowan was the CEO from 2015 (when Majestic bought Naked) and until the end of 2019 when he stepped down and handed over the CEO role to Nick Devlin. Nick was previously COO at the company and before that he was CEO of the US business where he build that successful business up from nothing.

Besides Nick the company has a credibly CFO in James Crawford. Investors should listen to the last 3 years conference call on the website and judge James from his perspectives and explanations.

The board of director recently got a new chairman in John Walden. John is a US citizen and thereby brings the right US focus to the board as it's in the US the biggest opportunity is.

As written before we have been following Naked Wines for several years but only recently bought a position in the stock. One reason we did not buy sooner was because we didn't like the retail business. After they sold the retail business and the stock declined 50 %, we got really interested. But we still through there was a lot of selling pressure from UK shareholders that liked the old "retail dividend stock". And we wanted to see that selling pressure over. In Q4 2019 and Q1 2020 that shift happened. 3 new US shareholders including T. Rowe Price, Punch Card Capital and JMX

US each bought significant position. This was the trigger to us because it showed Nick Devlin had been successful in convincing US growth focused investors to join.

We think the shareholder base are now much more aligned with the investment case again.

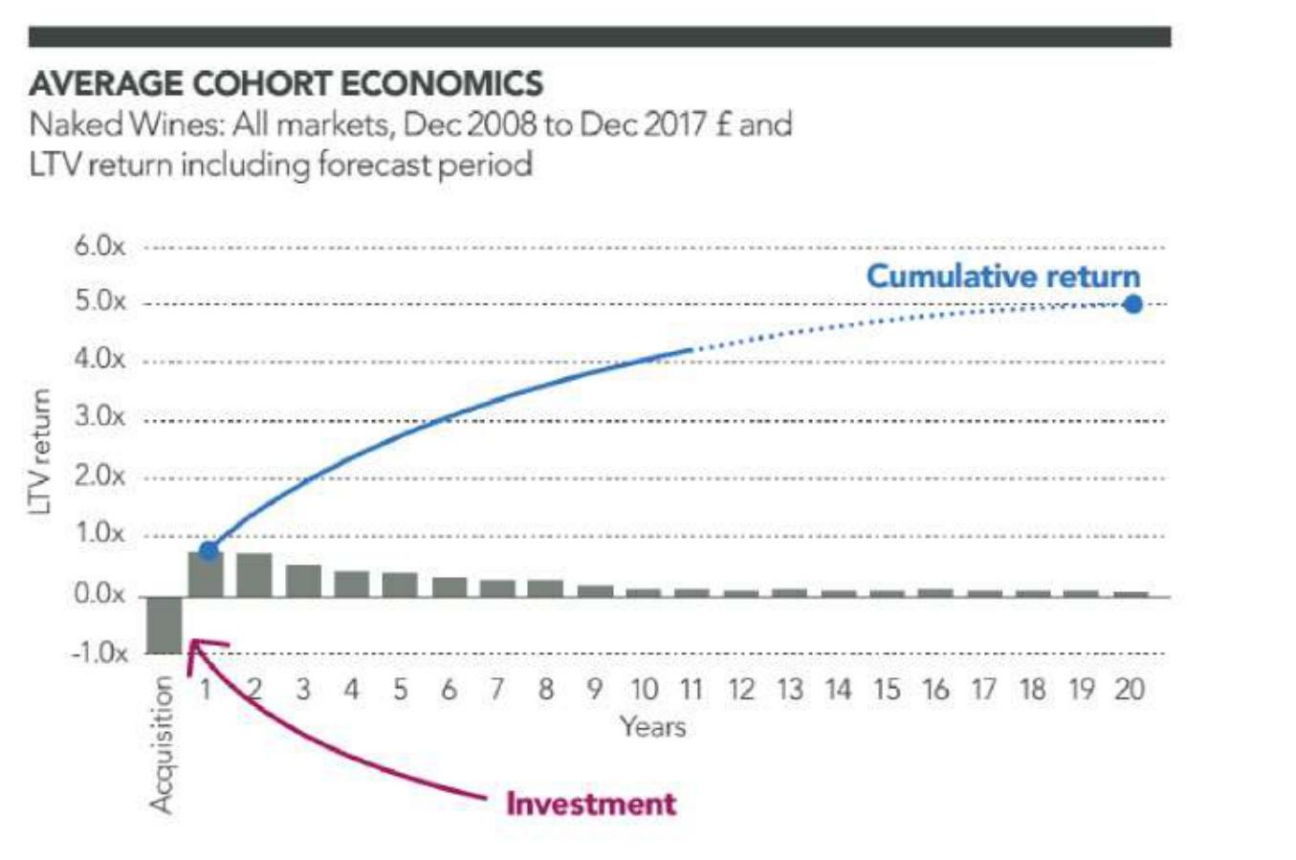
SHAREHOLDER	NUMBER OF ORDINARY SHARES HELD	ORDINARY SHARES AS % OF ISSUED SHARE CAPITAL
Apthorp Family	8,644,364	11.86
Conifer Capital Mgt (New York)	7,158,805	9.82
T Rowe Price International	4,774,010	6.51
JMX Capital	4,606,734	6.32
Punch Card Capital	4,416,386	6.06
Aberdeen Standard Investments (Standard Life)	4,097,742	5.62
Rowan Gormley	3,794,581	5.21
Shareholder Value Mgt	2,725,000	3.74
Pershing Securities	2,685,742	3.69
BofA Securities	2,246,429	3.08

The Apthorp family is the founder of the Majestic retail business. There is no reason to believe they will be a seller currently. The founder of Naked Wines Rowan Gormley still holds +5 % of the shares.

Financials:

1) When investors look at historical financials they should focus on the Naked business as the 3 other businesses (Majestic Retail, Lay & Wheeler and Majestic Commercial) have old be sold.

To understand the financials its important first to understand the unit economics. The reported numbers don't show the value creation in our opinion.



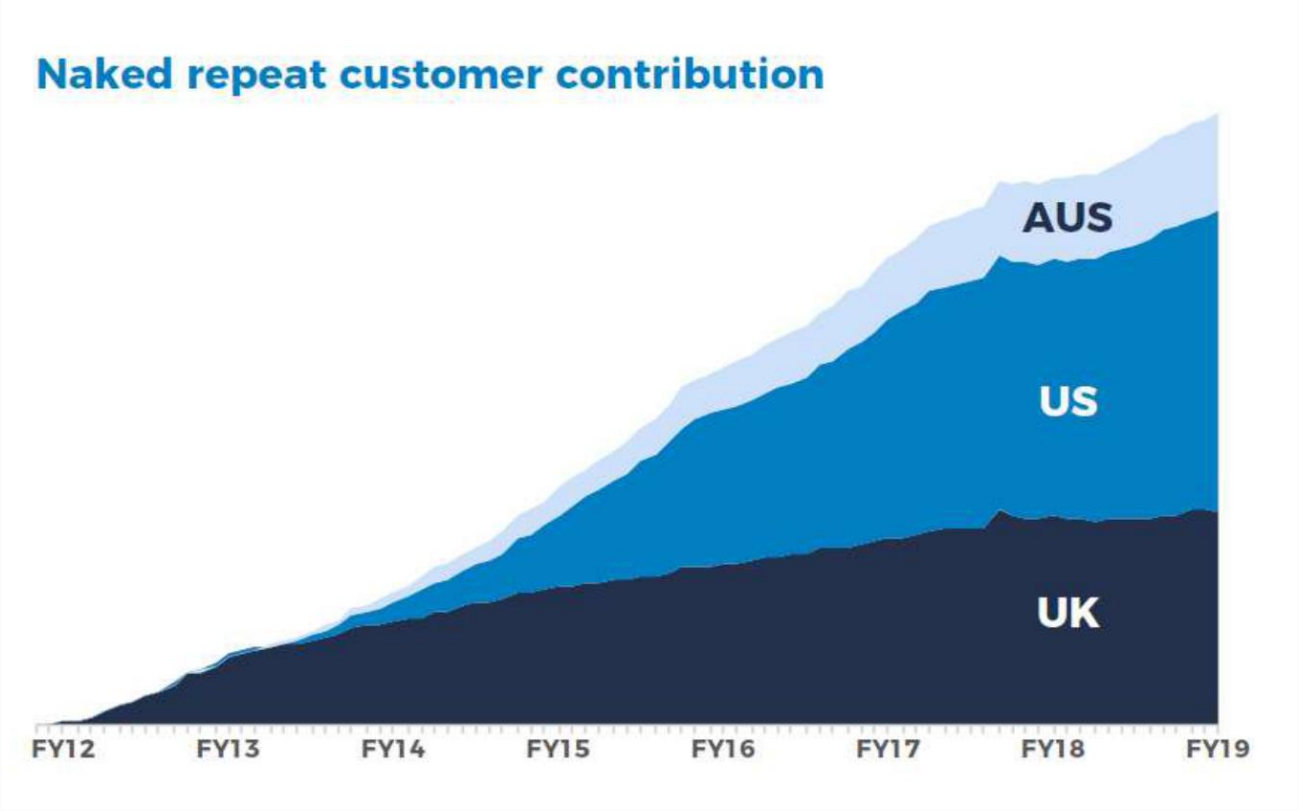
Above Naked have shown the historical payback of their customer cohorts (its not an illustration but true date based on 10 year data from historical cohorts). As we can see below in year 0 there is a loss due to upfront investing on CAC. But then in year 1-2 Wine are already in a profit in that

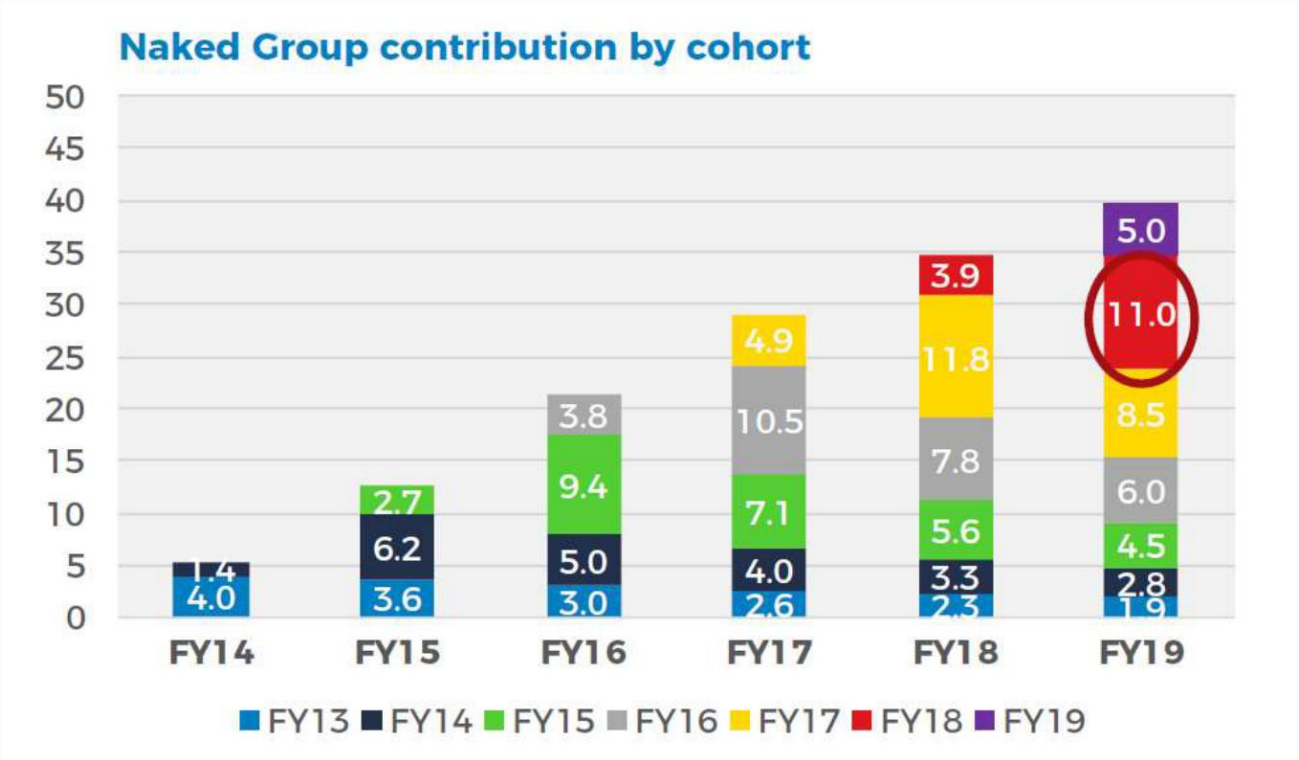
customer cohort. And over the subsequent 20 years they will generate approximately 4-5 x return on the capital they invested upfront.



The chart above illustrates it well. After around 14-15 month they are breakeven in a customer cohort. After that, future purchases from that cohort buys are additional profit to WINE. After 5

year they have earned back the original money 2,5x. If you do a simple IRR calculation you will get to something like 40-50 % internal rate of return on the CAC they spend at those LTV/CAC ratios.





Selling wine online is not like a software as a service business (SAAS) that should have +90 % ARR retention to have good KPI's. And best in class SAAS companies have +100 % ARR retention.

When you sell wine online your customers are of cause not as loyal and sticky with you. Also, their purchases are more lumpy and not a monthly fixed income.

But nevertheless, Naked can with quite good prediction follow their cohort trends and adjust spending on CAC to keep the LTV/CAC in line with their target payback of around 4x.

If we look take the revenue numbers from the different cohorts we can calculate the retention rates for each cohort:

	FY15	FY16	FY17	FY18	FY19
FY17					72,0%
FY16				74,3%	76,9%
FY15			75,5%	78,9%	80,4%
FY14		80,6%	80,0%	82,5%	84,8%
FY13	90,0%	83,3%	86,7%	88,5%	82,6%

As we can see, retention is mostly in the 72-78 range the first year and then trending upwards.

We can then look at the seqeuential development for the margin over time for the cohorts.

Delta	FY15	FY16	FY17	FY18	FY19
FY17					
FY16					2,6%
FY15				3,3%	1,5%
FY14			-0,6%	2,5%	2,3%
FY13		-6,7%	3,3%	1,8%	-5,9%

Out of 10 datapoints the 7 of them are positive, which means the retention rate are picking up as the cohort matures.

Naked Wines have seen good revenue growth from most geographies over time. In the year ended March 31 2019 we can see the US became the biggest market.

	Underlying		
	FY19 £m	FY18 £m	YoY %
UK	71.8	66.5	8%
US	75.6	62.6	21%
Australia	31.0	26.8	16%
Total revenue	**178.4**	**155.9**	**15%**

The trend in FY20 have continued with the US growing to become a bigger share.

Naked Wines estimate the long-term EBIT margin to be +10 % when they reach more scale. At the current revenue of 200 million GBP this indicate around 20 million GBP in EBIT. At a 190 mio. GBP enterprise value it corresponds to an EV/EBIT of 9,5.

We can also calculate the current stand-still EBIT and the current standstill margin:

	FY20
Repeat sales	172.000
Repeat margin	26%
Repeat contribution	44.720
Retention	83%
Attrition	-7.602
Year 1 payback	78%
Spend need to replenish	-9.746
Fixed Cost	-23.500
Stand still EBIT	**11.474**
Stand still EBIT margin	**5,5%**

Here we use the repeat EBIT of 45 mio. GBP. Then we calculate the amount they need to spend on marketing to keep revenue flat. That number end at 9,7 GBP. After the fixed cost and plc cost the current standstill EBIT is 11,5 mio or a 5,5 % margin. At the current enterprise value of 190 mio. GBP the share trade at 16,5 x multiple.

How do we see the future then?

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
New sales	30.090	36.108	42.607	49.425	56.838	64.227	71.935	79.847	87.832	94.859
Repeat sales	172.000	199.999	234.814	278.470	330.799	392.491	461.175	537.061	617.522	702.015
New margin	-77,0%	-75,0%	-75,0%	-75,0%	-75,0%	-75,0%	-75,0%	-75,0%	-75,0%	-75,0%
Repeat margin	26,0%	26,0%	26,0%	26,0%	26,0%	26,0%	26,0%	26,0%	26,0%	26,0%
New EBIT	-23.169	-27.081	-31.956	-37.068	-42.629	-48.170	-53.951	-59.886	-65.874	-71.144
Repeat EBIT	44.720	52.000	61.052	72.402	86.008	102.048	119.906	139.636	160.556	182.524
Actual retention	81,0%	81,0%	81,0%	82,0%	83,0%	84,0%	84,5%	85,0%	85,0%	85,0%
New Growth	18,0%	20,0%	18,0%	16,0%	15,0%	13,0%	12,0%	11,0%	10,0%	8,0%
Repeat growth	12,5%	16,3%	17,4%	18,6%	18,8%	18,6%	17,5%	16,5%	15,0%	13,7%
Naked fixed cost	-25.850	-28.952	-32.079	-35.158	-38.323	-41.312	-44.286	-47.209	-50.042	-52.444
Fixed % revenue	-12,8%	-12,3%	-11,6%	-10,7%	-9,9%	-9,0%	-8,3%	-7,7%	-7,1%	-6,6%
Naked total EBIT	-4.299	-4.033	-2.983	175	5.056	12.565	21.668	32.541	44.640	58.936
EBIT Growth	53,5%	-6,2%	-26,0%		2785,2%	148,5%	72,4%	50,2%	37,2%	32,0%
Ebit margin	-2,1%	-1,7%	-1,1%	0,1%	1,3%	2,8%	4,1%	5,3%	6,3%	7,4%

Here we assume flat margins of both repeat and new margins. We have retention at the lower range of their forecast at 81 % and then trending upwards over time as the investment in new growth slows. The EBIT margin will then trend up from around 0 to 7,4 %.

When we put those numbers into our DCF model and use a 10 % WACC our fair value gets to 630p. We use a 600p price target so far.

Covid-19 impact:

As we said before we have tried to value Naked Wines without adding any Covid-19 impact to the results. At the current stage its hard to calculate both the magnitude and longevity of the impact. However, there clearly is a huge positive short-term benefit to Naked Wines. If they can use this short-term impact to gain long term value the benefit could be significant.

We follow the newsflow close for all our companies recently. Here is the recent developments/news from Naked Wines since the Covid-19 outbreak. The first one is from 19. March.

> Naked Wines announced earlier this week that it would not be taking any more orders for the time being due to a spike in demand.[1] [1]

[1] https://www.thedrinksbusiness.com/2020/03/naked-wines-suspends-orders-but-indies-carry-on/

Here Naked Wines disclose they can't take more orders in the UK due to surging demand after the UK lockdown. Both repeat and new costumers are buying all their stock available for sale in the UK (this was solved early April with plenty of supply now available).

The next update was in early April when Naked gave a trading update for the full year ending 31 March 2020. Wine says the results will be ahead of analyst projections (that already was up going into the update). Wine said FY sales would be above 200 mio. GBP. Analyst were projecting around 198 before the update:

> Online wines retailer **Naked Wines (WINE:AIM)** saw its share price rally more than 12% to 306.5p after revealing a surge in demand during the coronavirus lockdown. The company now expects to beat its previous 2020 sales forecast.

[2] [2]

Its hard to know how much of this was due to Covid-19. But its important to remember that UK was only in lockdown around 15 days in the FY. Wine on average due around 4 mio. GBP per week in sales. If it's the last two weeks of march that have added around 3-4 mio. GBP additional sales to the FY numbers we are seeing a 40-50 % growth rate over the last 2 weeks.

For now its hard to know for sure how much sales have spiked. The company will post FY results in late may or early June. Hopefully they can give a little clarity into what have happened.

The next news in early April was that Naked Wines was hiring a lot of people due to increased demand. The news article mentioned 80 new positions. As the company only had around 200 people before it tells a lot about the current demand when you hire that much people. I should mention some if the hires are to the distribution centre etc. that are owned by third parties.



[3] [3]

[2] https://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/WINE/14497583.html
[3] https://www.prnewswire.com/news-releases/nakedwinescom-accelerates-hiring-as-demand-for-wine-delivery- soars-301042244.html

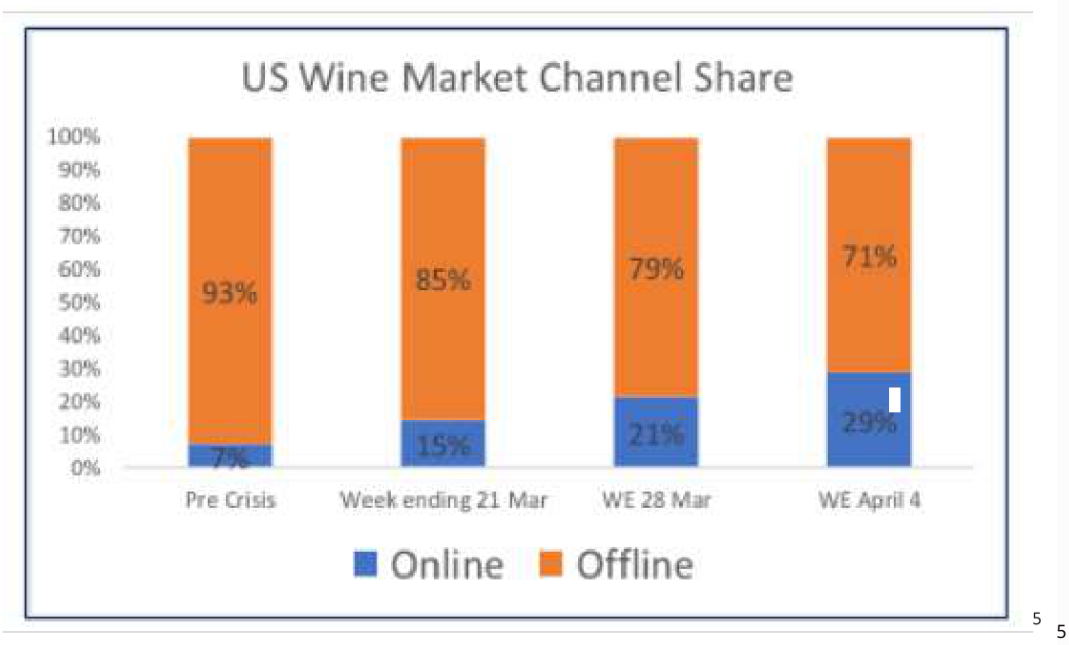
The recent news is a 5 mio. $ program where Naked will buy inventory from good winemakers that can't get rid of their good wine because of closed restaurants etc.

> NEW YORK, April 23, 2020 /PRNewswire/ -- Nakedwines.com, the largest direct-to-consumer (DtC) wine business in the US with over 500,000 Angel customers worldwide, today announces a $5M support fund for winemakers affected by COVID-19 disruption.
>
> The fund, which is immediately available and will be deployed to purchase stock that was previously destined for channels such as restaurants, tasting rooms and traditional retail stores, is available to independent winemakers all over the world.

[4] [4]

In my opinion this is extremely smart.

1) You get access to more high-quality inventory at a time when your demand has never been better 2) You show a lot of quality wine-producers the benefit of the Naked platform. A lot of those will hopefully cut out the middlemen in the future and become exclusive to Naked Its hard to know what impact Covid-19 will have. But it could be substantial. The most important for the company is to deliver extremely good service to everyone and have a high retention after the short-term impact are gone.



[5] [5]

[4] https://www.prnewswire.com/news-releases/nakedwinescom-launches-5m-support-fund-for-winemakers- disrupted-by-covid-19-301046181.html

[5] Nielsen reserach

The research from Nelsen above illustrates how much market share have moved online in the US since the Covid outbreak. Just to be clear- online sales have not gone up 400 % from 7 to 29 %. The bigger share is probably mostly due to offline sales dropping a lot.

As Naked Wines CEO Nick Devlin said on his Linkedin account: A lot of people will not experience with online delivery for their first time. If Naked Wines do a good job of making that experience good, it can lead to a lot of additional long-term customers.

What is possibly going on is that the LTV is lover because they get a lot of new customers and the 1-3 year churn will be higher. But on the other side the CAC is also decreasing a lot due to lover Ad rates, higher conversion rates etc. The LTV/CAC will probably stay really good despite them getting in a big amount of new customers.

The other thing is the new demand help them achieve scale economics much faster. As I mentioned earlier Naked have a lot of fixed expenses in IT, Corporate, Platform development, logistics, supply chain etc. With a big increase in revenue they can leverage those fixed expenses much faster than in my model.

If they can keep a high inflow of new customers and a high retention afterwards Covid-19 could make this a +1.000p stock in a few years.

The fair value is probably somewhere between our 600p base case and +1.000p Covid-19 view.

Risk and conclusion:

The biggest risk to achieving the target is that the unit economics don't work at scale. Naked have scaled from 50 to 200 mio. GBP in less than 10 years and they have increased customer acquisitions spend by 400 % over the last few years. But in the short term it has also pushed down the LTV/CAC ratio. Even through we are confident it will work its not proven that the business model can scale and deliver positive free cash flow.

The other risk is that Nick Devlin is new at the CEO position. I take comfort that he is an internal hire having spend several years at Naked before becoming the CEO. But so far, we can't judge him on his leadership skills.

Another risk is regulatory changes. One of the huge benefits for Naked is because they are classified as a winery and can sell direct to consumers in the US. If that regulation changed and Amazon etc. could start to sell wine directly it could change the competitive landscape. But so far Naked have still done well in the UK where such regulation doesn't exist. It is also important to note that regulatory change in the US would have to occur on a state-by-state basis and so would take a long time to implement.